Stewardship

Active generosity

Is risk management right for churches?

Stephen Mathews

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About Stewardship

Stewardship helps Christians be the best stewards of the resources God gives them.

We have been working with generous Christians and the ministries they support for over a century. Today, we help over 30,000 donors discover the joy of generosity as they give more than £110 million every year to over 12,000 church, charity and individual partners. Our professional services also equip, grow and strengthen those partners so they can create more impact for God's Kingdom.

Introduction

1.1 Risk is all around us

Risk management has become one of those areas that is talked about a lot in managing any organisation, especially charities. So much so that it can become the 'nightmare topic' for many trustees! But risk is nothing new. Risk is part and parcel of everyday life. Risk, and our assessment and management of it, exists even in the most basic actions.

For example, there is risk every time we cross a road. We assess that risk before we step into the road. Is the road clear? Has the traffic seen me? Will the vehicle stop in time?

Without even consciously considering it, these assessments, and more, go through our head before we choose to step out. Dozens of times a day, we:

- identify the risks
- assess them
- do what we can to reduce them (for example, walk to a pedestrian crossing)

and, once satisfied, we accept what risk remains and step out into the road.

In essence, we undertake an intuitive risk management cycle every time we cross a road. Not a formal box ticking ‘we have covered our backside’ sort of risk assessment, but an assessment which helps us fulfil our plan to reach the other side of the road safely. Some risk remains as the only way that we can completely eliminate the risk of crossing the road is to stay on our own side. A somewhat limiting prospect!

Similarly, organisations (whether businesses, charities or churches) face risks which may hinder them achieving their own plans. Much like crossing the road, they will assess those risks (sometimes more formally and sometimes less so) and seek ways to reduce them before moving forward.

For a church, moving forward recklessly, without giving thought to the risks involved, can mean that:

- the church faces problems that it doesn’t need to
- the church, and the name of God, is brought into disrepute
- charitable objectives and plans are not achieved
- in some cases, the church closes altogether

Whilst none of these outcomes is good, it does not mean that all risk is to be avoided. Good risk assessment is not necessarily about playing it safe.

1.2 Faith, action and risk

The book of Acts hardly shows a church that did not take risks as they embarked on the adventure which God put before them. For some present-day churches however, risk, and the fear of its consequences, has become so powerful that hiding away in the church building becomes the preferred option – an approach which does not seem to resemble the dynamic early Christian church pictured in Acts.

However, effective planning and risk management should be part of the culture of any organisation seeking to be effective in achieving its plans. That includes faith-based churches, where faith plays a crucial element in decision making and direction setting. For churches and Christian charities, planning and risk management needs to flow through the organisation, not as a straightjacket (or else we will always remain on our side of the road) but rather as a means of giving the church the best chance possible of achieving its objectives, and plans.

There is a tension in churches between faith, action and risk **–** a tension that can be seen in the book of proverbs.

Proverbs 3:5 reminds us to: **'trust in the LORD with all your heart and lean not on your own understanding.'**

Whilst Proverbs 11:14 suggests: **'for lack of guidance a nation falls, but victory is won through many advisers.'**

We believe that this tension is a good thing. We see effective and successful churches as those not unduly dominated by unconsidered actions (those taken on a wing and a prayer) but at the same time, not dominated by excessive risk reduction. The tricky part is to get the balance right, remembering that in any group of leaders we would not expect everyone to be in agreement.

Each person in a leadership team will hold a position on risk. Some will be risk averse, wanting to play it safer, others may be more relaxed about risk. It is important to work together as a group and reach a balanced consensus, not allowing any single voice, of whatever persuasion, to dominate the outcome. In our next section we encourage churches not to become paralysed by the fear of risk; not to always play it so safe that they never step into the road.

Thereafter, the paper looks at what the Charity Commission has to say about risk and what risk assessment might look like for churches as we seek to identify, assess, reduce or transfer risk before deciding when to take that step off the kerb.

2 There comes a time to step off the kerb

We cannot remove all of life's risks but probably wouldn't want to in any case. Without some risk and uncertainty, life would become dull and predictable.

Accepting risk in the right environment is biblical and can be positive, exciting and necessary as we seek to move forward in God's will, growing His kingdom. We are less likely to make much kingdom impact by choosing never to step into the road. Mark Twain is often attributed to have said: "Twenty years from now you will be more disappointed by the things you didn't do than by the ones you did. So

throw off the bowlines, sail away from the safe harbour, catch the trade winds in your sails. Explore; dream; discover."

And what of the fishermen that Jesus met (Matthew 4)? If they had considered the risk and decided that it was safer to remain in their jobs than to answer Jesus' call to leave their nets and to follow him, what a journey they would have missed out on! Accepting some risk and so choosing when to step off the kerb can be right, liberating and effective.

2.1 You don't achieve your calling by always playing it safe

In Numbers 13, we read the story of the generation of the exodus. The people were led by Moses and prepared in the wilderness to be the generation of conquest, claiming the promised land. As they got close to crossing over, they sent out spies to check on the land and the consensus on their return was that it was all going to be far too difficult. The people in these lands had fortified cities! They were giants! Any attempt to take the land would be folly, resulting in their own children perishing! In short, the risk was considered to be too great. As a result, the dream of the promised land was never realised for that generation.

The Israelites chose not to step off the kerb and, for forty years, remained on their side of the road in the wilderness, because the risk of stepping out was considered too great. Contrast that to the story of Queen Esther who, in order to save her family and her people (who were to be annihilated by royal decree), had to go against the law and petition the king. She assesses the risk, does what she can to reduce it, and finally accepts what risk remains, concluding that '…if I perish, I perish.' – Esther 4:16.

The king granted her request and Esther 8:11 explains that a new decree was issued in the name of the king safeguarding the Jews. Esther's actions had saved a nation! As our present-day churches seek to fulfil God's plans for us, there will be times when we might be asked to weigh the risk and move forward. Not recklessly, but boldly in the sure knowledge that we serve a mighty and powerful God.

2.2 Great and often otherwise unforeseen opportunities come from taking risk

In 1 Samuel 17, had David assessed the risk of fighting Goliath to be too great and returned to being a shepherd, what would have happened to the nation of Israel and would David himself have had the same opportunities that came his way in later life? Similarly, in Acts 9, had Ananias assessed the risk of accepting Paul as a true convert and believer to be too great, would we have many of the letters of the New Testament?

Sometimes you have to cross that road, just to see what opportunities exist unseen on the other side.

2.3 Sometimes by taking a risk you break free from the safety net

In the parable of the talents (Matthew 25: 14-30), the men who were commended were those who had taken the talents, invested them and made a return. The man who was chastised was the one who took no risk but made no return.

> "There are times that we need to take a risk to break through those self-imposed limits and see what God will do through us."

In Matthew 14:29 we read the story of Peter being called from the boat by Jesus to come to him walking across the water. Peter knew that he could not do that in his own strength and relying on his own abilities, but by trusting in God and taking that risk he could break through his own limitations. All too often as churches we do not exercise real faith and limit what we are able to do by playing everything very safe. There are times that we need to take a risk to break through those self-imposed limits and see what God will do through us.

3 Having said that...we should not accept risk recklessly

Accepting risk does not mean that we do so haphazardly or recklessly. Going back to our analogy, there are several assessments that we make before we step into the road. We do not step out into traffic simply expecting our faith in God will protect us from the onrushing vehicles.

In Acts 19:23-41, there was the potential for a riot to take place in Ephesus because of the impact which Paul's teaching was having on the local hand-made 'gods' business. In verse 30 we read that Paul wanted to speak to the crowd, but the other disciples assessed that the risk of this action was too great and so did not let him, allowing the local officials to quieten the crowd and diffuse the situation.

> "A church is far more likely to better achieve its strategic goals and plans if it has assessed the risks that it faces and has taken sensible steps to reduce or offset them wherever possible."

A church is far more likely to better achieve its strategic goals and plans if it has assessed the risks that it faces and has taken sensible steps to reduce or offset them wherever possible. Churches which, by removing the risk assessment element, and in so doing breaking the three-way-tension of faith, risk and action mentioned earlier, are more likely to run into choppy waters and so fail to achieve their plans than those churches which have addressed risk.

Example

For example, we are aware of a church plant which was set up under the leadership of a locally well known and gifted evangelist. No assessment was made regarding the leadership qualities and competency of the evangelist and no assessment was made regarding the suitability of the people 'sent' to populate the plant. As such, and within four years, the church plant failed with many of the congregation drifting away from church completely.

3.1 Charity law, regulation and best practice

Furthermore, in 2 Corinthians 8 and in the context of handling money well, the church is instructed to do things properly: '…for we are taking pains to do what is right, not only in the eyes of the Lord but also in the eyes of man'. In this passage, Paul assessed the actual and the perceived reputational risk of the church receiving and handling money.

As a result, Titus and another brother 'praised by all the churches' were sent to receive the offering in order to demonstrate that the church wanted to do things well and properly. A modern-day situation that we see in some churches is where the finance function is dominated by a single person bringing with it an actual risk of funds being stolen and a perception risk that 'all is not right' in the church. Sadly, in extreme cases, we are aware of treasurers being sent to jail. Generally speaking, churches are established as charities and as such operate in a world of charity law and regulation.

Next Steps

Next we will move on to look at what the Charity Commission has to say about risk, and then in the rest of this paper we will consider how risk management can be applied in a church context, freeing up churches to embark on and enjoy the adventures laid before them.

4 What does the Charity Commission say about risk?

As part of their general guidance to trustees, the Charity Commission state that: 'Trustees must… avoid undertaking activities that might place the charity's endowment, funds, assets or reputation at undue risk'.

The size of the charity is not important with the Commission stating in its more detailed guidance on risk: '…no matter what size they are, charities should take a systematic approach to the consideration and management of risk'.

They comment further that: 'Risk management should not be seen purely as a compliance issue or as being solely focused on the prevention of disaster. The process will enable the trustees to focus on the mitigation of risk that would prevent the charity achieving its strategic objectives. In so doing, charities will be able to take opportunities and develop with an understanding of the risks faced, and with confidence that reasonable steps have been taken to mitigate them.'

> "...no matter what size they are, charities should take a systematic approach to the consideration and management of risk."

Even before the negative publicity brought about by the failure of some high-profile charities, and the failure of high-profile leaders, the management of risk by charity trustees was considered by the Commission to be an important foundation for charity trustees to put in place and as such should be taken seriously by church leaders.

4.1 Why do some churches dislike risk assessment?

Despite the importance placed on risk assessment by the Charity Commission and the example of 2 Corinthians, some churches still dislike the whole risk assessment process. For some this is because they do not know where to start or having completed the risk identification stage are overwhelmed by the size of the task. For others, risk assessment is seen as a business technique not best suited for churches and anyway God will protect us so why bother.

Finally, most churches would rather be doing something (anything?) else than thinking about risk, and so risk assessment ranks low down in their list of priorities.

5 What does risk management look like for churches?

Risk management for churches is not really any different from that of any other organisation and can be boiled down to three stages.

1. Identification of risks
2. Risk assessment
3. A plan of action

5.1 Identification of risk

There is no single definition of risk, but for the purposes of this paper we will use the following working definition:

Risk is any event or action that may adversely affect an organisation's ability to achieve its charitable objectives and execute its strategies.

We believe that the assessment and management of risk is not about crises but is a positive action designed to help your church to better meet its objectives. So among the type of risks which we are seeking to identify are those which will either stop a church from stepping off the kerb (for example, starting a new initiative or ministry), or those that are likely to trip a church up once it is in the middle of the road. These include:

- **Strategic** - Risks which impede the church from planning properly to meet its objectives.
- **Operational** - Risks which impede the day-to-day running of the church.
- **Financial** - Risks which negatively impact on the church's finances or other assets.
- **Regulatory** - Risks which result in a breach of law or other regulation.
- **Reputational** - Risks which negatively impact the reputation of the church or its leadership.

Perhaps the greatest risk we see is a lack of unity amongst church leaders. Churches which have a leadership sharing a consistent and God-filled vision appear able to manage risk effectively. Risk comes in all shapes and sizes (uncertain outcomes, missed opportunities, limiting factors, and so on) and covers most aspects of church life.

The risk areas that a church may consider include:

- safeguarding
- strategic and leadership
- employment
- legal and governance
- communication and publicity
- financial
- insurance
- buildings and property

- counselling and pastoral
- catering
- data protection

While 11 risk areas may at first seem overwhelming, churches which have an active commitment to their local community may find themselves managing more areas of risk than perhaps first imagined.

5.2 Assessing the risk

When assessing risk, the method of assessment is far less important than its relevance and usefulness to the organisation. There is little point assessing theoretical risks which are highly unlikely to surface. Churches and charities should focus on risks that are relevant to the way that they operate, providing a practical path forward. If the church has not seriously looked at this recently it may be best to simply start looking at what the church does each week, month and periodically and list out what are thought to be 'the main risks'. This is often best done by a small group, who then ask themselves (or others) to note down what is already in place to reduce the risks of something going wrong (for example, pre-planning, briefing, training, oversight, specialist advice, feedback, insurance and so on). Avoid making it such a big exercise it is never started. A planned but un-started review is the worst type of all!

Most risk assessments come in two stages:

First, an understanding of the risk, its likelihood to occur and the potential impact that it may have.

Second, the impact that existing or planned controls have in reducing either the likelihood that the risk will occur or that lessen its impact.

In appendix 1, we set out a couple of different methods which churches might wish to consider when undertaking an assessment.

5.3 A plan of action

An assessment process is of little or no value if it stops there. Having completed the assessment and identified those risks which are considered to be of higher priority (see risk register in section 7), a church or charity must decide what action to take. So what might that action be?

6 What actions might a church or charity take?

6.1 Accept the risk

Church or charity leaders and trustees may feel that the level of residual risk (that is the risk remaining after all controls have been taken into account) is something which they are prepared to accept and so may choose to continue (or start up) an initiative, project, ministry or activity accepting the risk involved. Generally this will mean that the accepted residual risk is thought to be quite low, but even where it is higher, churches may still decide to move forward slowly and tentatively, feeling their way and being prepared to stop or change direction if things do not work out.

This approach will require monitoring and may result in a sense of discomfort among the leaders as different people are prepared to accept different levels of risk. Where residual risk is still considered to be high, church leaders need to consider very carefully whether to proceed, unless better controls or safeguards can be introduced which can further reduce the level of risk. It is important to prioritise risks and, once accepted, to keep those more important risks in focus; at least annually but often more frequently. Better still, can they be 'closed' so that the risk is removed or significantly reduced?

6.2 Avoid the risk

At the other end of the spectrum, after undertaking a risk assessment, church or charity leaders and trustees may consider that a risk is simply too great and that little can be done to reduce it. They may therefore decide that it should be avoided. In such cases, the proposed ministry or activity should be stopped (or not started). Returning to our earlier analogy, this is in effect stepping back from the middle of the road, or choosing not to step into the road at all. Arriving at this decision may be difficult for the reasons set out in Section 2, but there will be times when trustees and other leaders must be prepared to act decisively when risks are simply considered to be too great.

6.3 Better reduce the risk

Church or charity leaders and trustees may be able to identify safeguards or additional controls or procedures that could be introduced or improved which would have the effect of reducing the risk to an acceptable level.

Additional controls may include:

- the introduction of better financial control procedures
- the introduction of new or amended policies and training, for example, in child welfare
- considering a plan ’b’ in the event that things start to go wrong

6.4 Transferring or sharing the risk

Insurance cover is the standard way of transferring risk. However, whilst this may be an efficient way to transfer some of the financial element of a risk, not all aspects of risk (for example, reputational risk) can be transferred. Working in partnership with another church and pooling skills and resources may be a way that risks can be shared and reduced to acceptable levels. However, the reverse may be true and, by losing control of certain aspects of the project, the risk level may even increase!

7 Risk register

A risk register allows you to record, track and monitor risks, especially where actions have been identified that need to be followed through. There is no specified format for a register, but as with so much in life, the simpler the better. Once identified, risks should be recorded in the register together with a simple plan of action, a person responsible for that action, and a time frame in which the action is to be completed.

This register should be reviewed regularly by the leadership team and updated as appropriate. Reviews should be evidenced in the minutes of trustees' meetings. Risks should not be allowed to sit on a register indefinitely and should be removed once appropriate action has been taken.

8 Trustees reporting

For larger charities, that is those with turnover greater than £500,000 per annum, the Charity SORP requires the following disclosure as part of the trustees report:

'A description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks'.

Whilst similar reporting is not mandatory for smaller charities, we would encourage all trustees' reports to include a section where significant and notable risks have been identified.

9 In summary

Done well, risk assessment and risk management is a liberating experience for churches, often allowing them to move forward in areas where they may have previously been reluctant.

So what in our view are the really big risks for church leadership teams?

- Not thinking about risk management at all.
- Not starting new projects, fearful of the associated risk.
- Parking new initiatives because they are not able to manage different levels of risk acceptance from within the team.
- Spending a lot of time listing out perceived risks and then doing nothing with this Information.

10 Further help

Charity Commission guidance publications:

- CC26 – charities and risk management
- CC3 – the essential trustee

Contact us

For further help or information, please contact us on

020 8502 5600 or email hello@stewardship.org.uk.

You can also visit our website at stewardship.org.uk.

Appendix 1: Risk assessment methodology: an example

Assessment of risk

Having identified the risks that the church faces, it is time to move on to the assessment phase. This appendix looks at one assessment method which churches can use, recognising that there are other methods available.

As was said in the main section of the paper, undertaking the assessment is the important part of the exercise, the methodology used far less so. Risk assessment is not an exact science and involves a significant level of judgement.

As such, there is considerable merit in establishing a small team to help with the work and to provide a sense check.

There are normally three criteria used to assess risk:

Impact

What would the impact be on the church's ability to meet its strategic objectives in the event that the identified risk was to happen? Some churches might score this on a scale (say 1 – 4), others may categorise it as high/medium/low.

Likelihood

What is the likelihood that, without any form of controls or internal procedures, the risk will happen? Again some sort of scoring or rating system is normally applied, the higher the likelihood, the higher the rating.

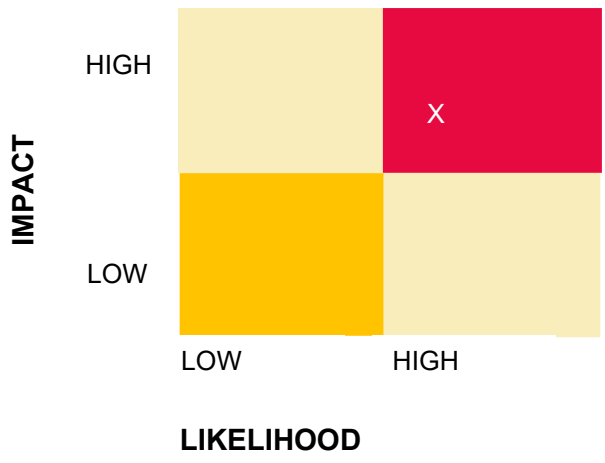
Controls

What controls are currently in place that would help reduce or prevent the risk from occurring, or which would reduce its impact? We can apply this to an example risk as follows:

Identified Risk		The parents of young people within the church are concerned about safety issues when special youth events are held at an outdoor adventure centre. Some of the parents are considering not letting their children attend. The church sees these events as an important part of their youth work and a good opportunity to work with the young people.
Impact	Score 3 (on a 1 – 4 scale) or medium/high	If parents are concerned about safety, they are less likely to allow children to attend these events which may see the church not achieving its strategic aim of providing a rounded youth outreach and discipleship programme.
Likelihood	Score 3 or medium/high (before any controls are considered)	Without assurance, parents are quite likely to stop their children from attending such events.

Impact (3) x likelihood (3) = risk (before controls) score 9 (3 x 3). This score indicates the severity or importance of the assessed risk. Where a scale of 1 – 4 is used for both impact and likelihood, the result could range from 1 at the very low end to 16 (4 x 4) at the very high end.

If the results were represented using a grid system, the risk (before any controls were considered) would sit around here, firmly within the high red quadrant.



To complete the assessment and to arrive at residual risk (that is the risk remaining after controls have been identified), the effectiveness of the current controls in relation to the risk are considered.

Continuing our example from above, the residual risk may be reduced if:

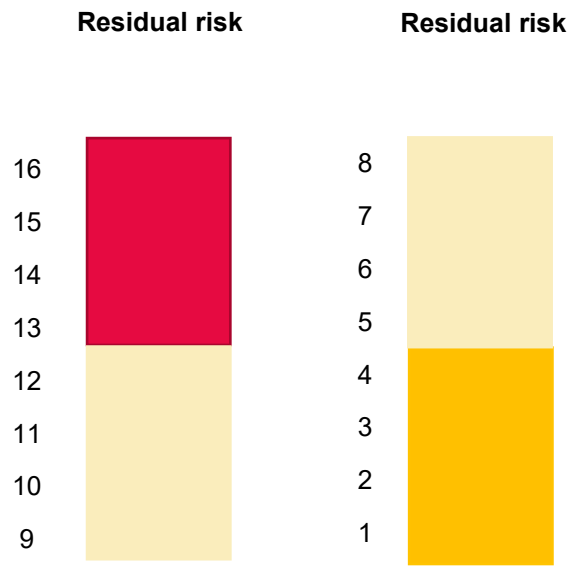
- safety guidelines issued by the adventure centre can be distributed beforehand
- youth leaders are prepared to meet with concerned parents
- the church can demonstrate that the centre has a good safety record

By completing these actions, and perhaps by introducing other controls, it is more likely that parents will allow children to attend and so the residual risk will be reduced.

In some cases, where churches or other organisations can demonstrate very strong controls, the control score could match the impact score multiplied by the likelihood score, thereby eliminating the risk completely (3 x 3 – 9 = 0). However, being able to completely eliminate a risk is rare. Normally good controls would be expected to reduce the risk to a greater or lesser extent and so in this example a ‘controls’ score of between 1 and 8 would be anticipated.

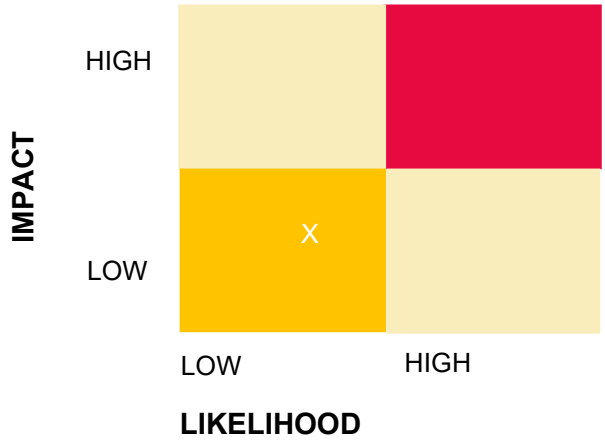
The weight applied to the ‘controls’ score is a matter of judgement and those carrying out the assessment should be careful not to assess the controls too highly. This is where having another person involved can add real value. In our example, let us assume that the church is able to demonstrate all of the actions and controls listed earlier perhaps collectively being judged to score a 6. The residual risk would be reduced to a score of 3 (3 x 3 – 6 = 3).

Trustees should then prioritise risk perhaps using a table similar to the one shown here. Those risks falling into the red area (residual risk of 13 – 16) would be very high priority with those falling into the amber (residual risk of 9 – 12) still high, but less so than those in the red.



In our example, the residual risk score has been reduced to 3, placing it in the yellow area which is likely to be perceived below a level of immediate concern. This does not mean that the risk can be dismissed for ever, but does suggest that the controls currently in place are considered to be adequate.

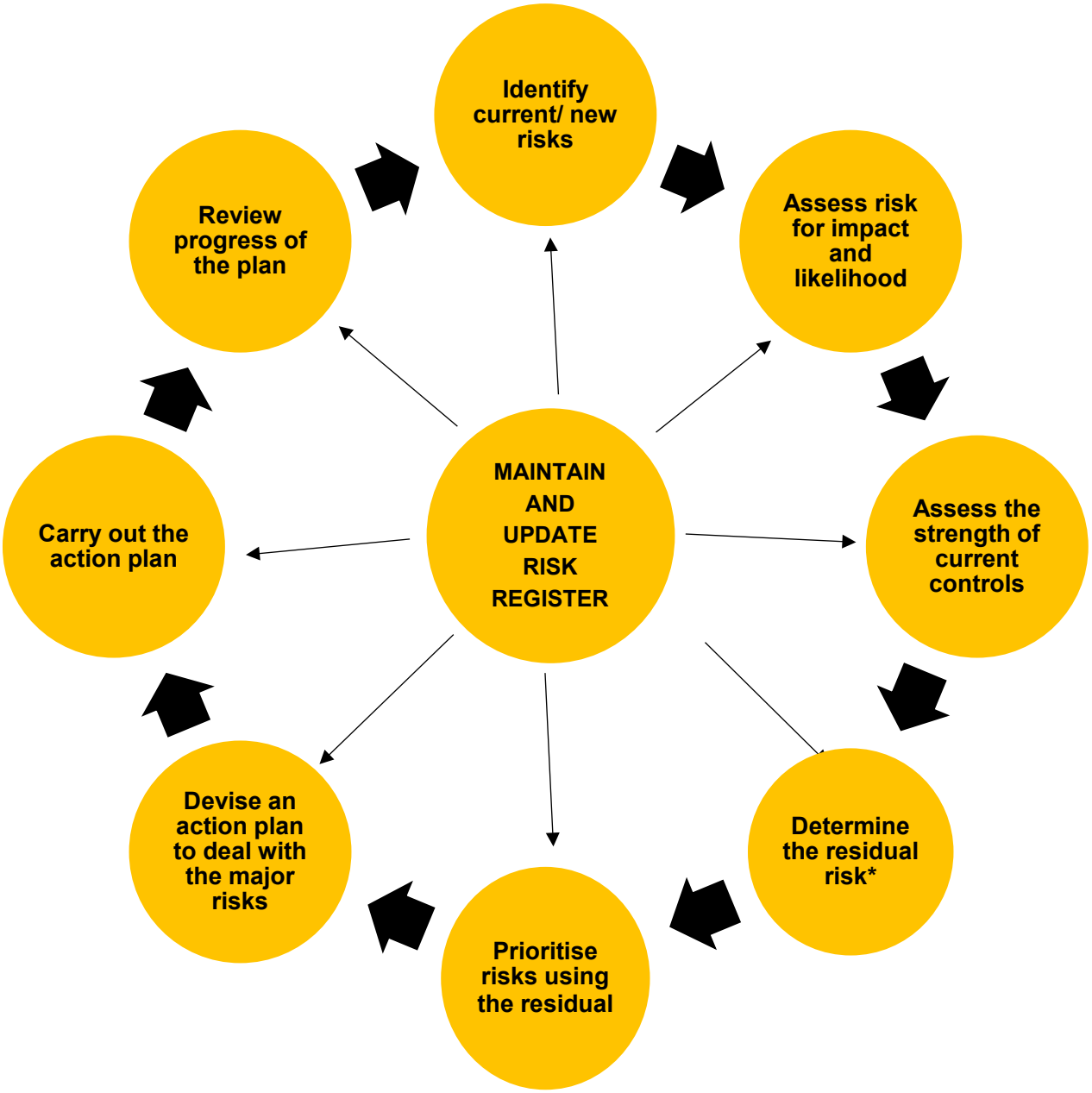
Using the high/medium/low grid system, the risk may now be classified here, again in an area outside of the trustees' areas of immediate concern.



A plan of action

Having identified and assessed the risks, the church must then determine a plan of action. Normally, the risks with the highest residual scores or which remain in the red quadrant will be tackled first. This is perhaps where the risk register comes into its own, allowing risks and actions plans to be recorded and monitored. The types of actions available to the church are covered as part of the main paper.

Appendix 2: Risk management cycle



*the risk remaining after controls and safeguards have been taken into account.