

# Coming to the rescue



THE PROFILE AND WORK OF CHARITY BANK IS SET TO INCREASE IN AN AGE OF AUSTERITY, REPORTS **GRAHAM BUCK**.

**O**n 17 October 2002 Charity Bank was officially launched by Gordon Brown, then Chancellor of the Exchequer, and made its first loans with an opening balance sheet of £6.4m. However, the bank's origins go back 10 years earlier when the Charities Aid Foundation (CAF), a non-profit organisation with the remit of creating greater value for charities, began researching the concept of a bank specifically for them and approached regulators to ascertain their views. By 1995 a special trust, Investors in Society, had been formed as a pilot loan and guarantee fund within CAF, which provided £500,000 in funding. Its first loan was made to the Planning Exchange, a Glasgow-based environmental planning charitable consultancy in 1996.

Investors in Society was the predecessor of Charity Bank, which took over its portfolio after further discussions with regulators secured the green light for setting up a bank specifically for lending to charities.

In November 2001, Charity Bank was incorporated; it registered as a charity with the Charity Commission soon afterwards and was authorised as a bank by the Financial Services Authority.

**ESTABLISHED INSTITUTION** Today, Charity Bank is an established financial institution that describes its remit as providing financial support and guidance to charities, social enterprises and community organisations. Its financial backing is derived from charities, foundations and companies that wish to use their money to

help these entities in their efforts to change lives. Charity Bank also has around 2,500 individual depositors.

Among the bank's milestones in recent years were loan enquiries exceeding the £100m level for the first time (in 2006) and the launch of the first charity ISA in 2008.

The latter became the first tax-free savings account where 100% of the funds (including the deposit in addition to the interest) are used for a charitable purpose. In 2009 it launched a community bond, which aims to encourage consumers to invest their money in charities.

Charity Bank is also one of two banks (the other is Triodos) offering a Community Investment Tax Relief Account (CITRA) – a deposit account attracting 5% per year tax relief provided the money remains in the account for at least five years.

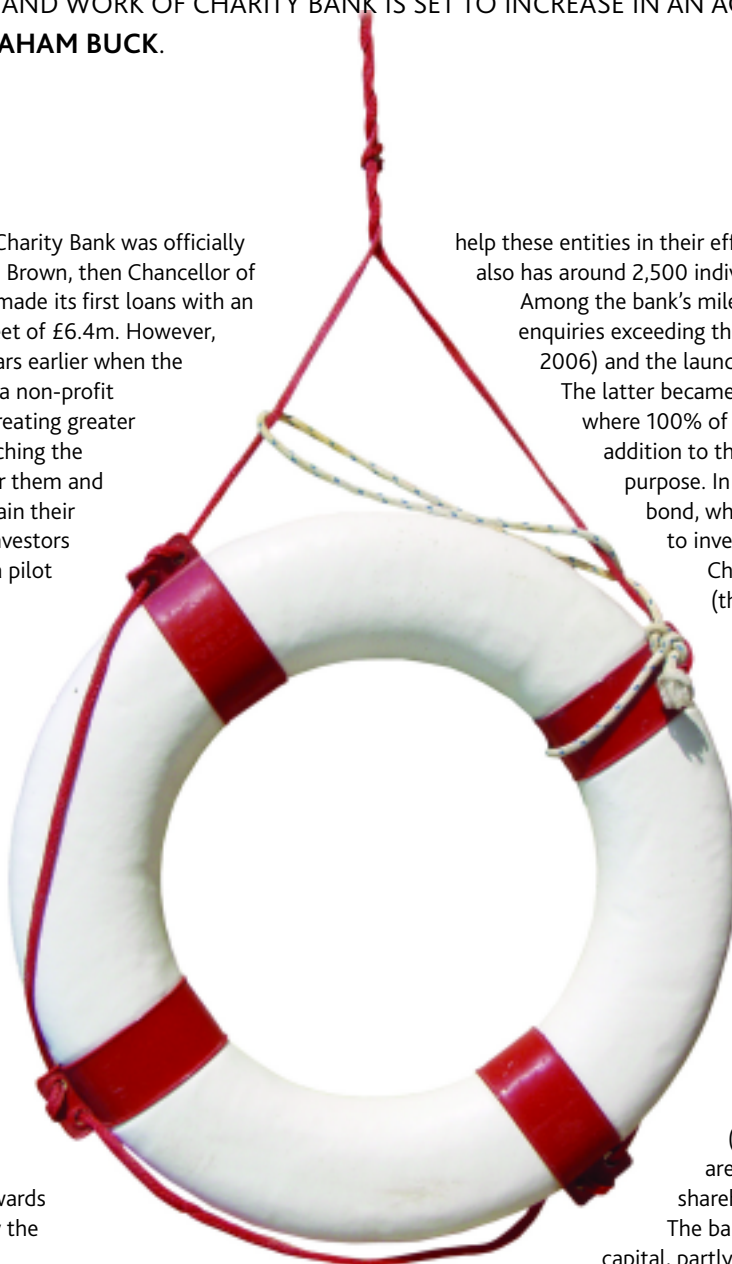
Charity Bank's main shareholders are Barclays and Deutsche Bank, the Charities Aid Foundation, major grant-making trusts such as Esmée Fairbairn and Tudor, corporate trusts such as Vodafone, and charitable trusts and foundations

including the National Council for Voluntary Organisations (NCVO). In each case the shares are held not for the profit of the shareholder but in trust for charity.

The bank plans to raise a further £20m in capital, partly through its first charity bond issue for £10m, which is scheduled for early this year and is

aimed at corporate treasurers with some influence on their organisation's investment policy.

The charity bond and other initiatives will enable Charity Bank to leverage a wider pool of funds and access a regular stream of sustainable finance for the voluntary sector. So treasurers ready to



volunteer their financial services to charities might also be interested in Charity Bank as a suitable home for their spare cash.

One possibility that companies with an annual budget for charitable donations might like to consider is depositing that budget with the bank at the start of the year. The companies can then call their funds back when they want to use them but in the meantime the money can be put to immediate use through Charity Bank recycling it via loans to other charities. A company's charity budget can therefore work twice over.

**RISING ENQUIRIES** The bank's founding chief executive, Malcolm Hayday, confirms that the apparent reluctance of the high-street banks to offer reasonably priced loans to smaller enterprises has been reflected in a sharp increase in the value of loans that have been sought over the past 12 months. Charity Bank recorded as many deals in the first six months of 2010 as it did for the whole of 2009, although more recently the rate of take-up has been easing.

"There tends to be a lag of around 18 months between developments in the general economy and the third sector," Hayday points out, "so trustees are uncertain as to what the future holds in the light of last autumn's Comprehensive Spending Review and the money that will be available from 2011 onwards. So they are being very prudent. What we do expect to see is a switch from asset financing, with the emphasis more on working capital needs."

Since its inception Charity Bank has measured applicants by turnover and these have ranged from small-scale charities and social enterprises to organisations with annual revenues of up to £5m.

"But we're now getting some quite well-known names approach us, as they're receiving some very mixed messages from the clearing banks," says Hayday. "Many also feel more comfortable working with a bank that, like them, is in the not-for-profit sector."

The high-street banks have the ability to take on the larger deals, however, he is concerned at the prospect of conditions getting even tougher for smaller players. "The banks have recently been talking about having to make greater provisions for the SME sector and it's clear that some organisations have probably come to the end of their useful life."

**WIDER SKILLS BASE** Although the potential demise of some organisations will set up opportunities for others, he stresses that benefitting from those opportunities will require a more focused management and a wider skill base than many charities and social enterprises currently enjoy.

"For example, if your organisation is trading, particularly if it is a cash business, you need a good understanding of the tax system. The talent is there – and organisations that currently lack it should be able to obtain it – but financial and marketing skills are a fairly new requirement that many organisations haven't really needed before now," suggests Hayday. "Some of the most disadvantaged communities have lost their most skilled individuals, so we're a believer in and supporter of mentoring, which helps to revive these talents."

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**WORKING IN TOUGH TIMES** The new age of austerity has not yet been reflected by any noticeable deterioration in Charity Bank's loan portfolio, but Hayday admits the bank is keeping a close watch on it.

"We work with our borrowers to check on their 'Plan B', assuming of course that they have one. While many organisations are remarkably resilient, there are a number that still have their head in the sand.

"The past five years has seen a major boom in social enterprises, which means there is a number of organisations without previous experience of dealing with a recession and conserving cash."

A signal of harder times ahead has already come from cuts in discretionary spending from local authorities, with ring-fencing removed from many budgets. Hayday believes that too often they fail to recognise that cutting grants to charities and social enterprises can be a false economy. "Many charities and social enterprises are now doing the things and providing the services that are needed by society, often by stepping in and assuming a role that has been abandoned by that same local authority." He cites as an example the recent report that Somerset Council is to cut all its direct grants to arts organisations.

"I doubt whether policies such as this are properly thought through, or how the impact will vary from one organisation to another. I rather fear that the marginalised communities that lack a powerful voice will suffer disproportionately from the cuts.

"The whole approach to reducing the size of the public sector also creates interesting opportunities for charities and social enterprises. The question is whether they are big enough to rise to that challenge – in many cases they don't have the cash to mobilise their forces quickly enough."

Charity Bank has responded to the problem by promoting the concepts used in construction finance – advanced payment guarantees and performance bonds – so that projects can get started. Alternatively, consider a charity raising donations for a new project; securing a loan commitment from Charity Bank enables it to start work before it has received all of what it needs in donations. In many cases the bank loan is never drawn because the remaining donations stream in as the project demonstrates visible progress.

Another positive development has been the non-profit sector gradually abandoning its traditional suspicion of individuals who move over from the business world, and are instead welcoming their previous experience.

"I anticipate that we're embarking on an era of many more partnerships between charities/social enterprises and the public sector, where the involvement of treasurers will be very valuable," says Hayday. "Many charities are now ready to pool resources with others working in the same or a similar field. But obstacles remain. Some charities still find it difficult to join up with others – particularly when emotions surround the reasons for their being founded, such as the death of a particular person."

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