Do well from doing good

IN AN ERA OF LOW INTEREST RATES, COMPANIES CAN STILL EARN DECENT RETURNS AT THE SAME TIME AS HELPING DEPRIVED COMMUNITIES, WRITES **MIKE SCOTT**.

The current combination of low interest rates and rising inflation, however temporary, has highlighted how difficult it is for businesses to earn a decent return on their surplus cash. Yet there is a way to earn decent returns, fulfil your corporate social responsibility (CSR) objectives, generate positive media coverage and help deprived communities: the little-known government scheme called community investment tax relief (CITR).

CITR is an incentive to encourage companies to invest, via community development finance institutions (CDFIs), in deprived communities. CDFIs are government-accredited bodies that provide finance to organisations that cannot raise money from the high street banks. CDFIs have to make 75% of their loans to organisations in the most deprived (as measured by the Index of Multiple Deprivation) 25% of wards and boroughs in the country.

Companies investing in CDFIs can deduct 5% of the loan amount from their corporation tax bill each year, equivalent to a pre-tax return on investment of 7.14%, says Mike Baker, chief executive of The Social Enterprise Loan Fund (TSELF), one of 68 CDFIs around the country. Founded in 1994, TSELF has lent £8.1m to 168 charities and social enterprises since it started up.

DOUBLE BOTTOM LINE Harry Glavan, policy and research manager for the Community Development Finance Association, an umbrella organisation for CDFIs, says: "With interest rates at a historic low there has never been a better time to invest through CITR. A CDFI is typically looking for individual CITR investments of between £50,000 and £500,000, and the tax relief available means there is a good prospect of a better rate of return than can be got for bank deposits at the moment. Plus, the investment is used to create jobs, improve public services and create a better quality of life in our most deprived communities. This 'double bottom line' makes investing through CITR a good way of meeting CSR targets and philanthropic goals."

TSELF's investments range from Get Hooked, a fishing club in the North East that has had astonishing results in combating anti-social behaviour in young people, to providing a preschool centre in Hampshire with the funds to build its own premises.

Option C, a car club aiming to reduce car usage in Newcastle and Durham, was another recipient of funds from TSELF. "The support we received from TSELF was fundamental," says founder Paul Balmont. "Without it, we'd never have got the finance we needed to start up."

Another big player in the sector is Big Issue Invest – founded by Nigel Kershaw, chairman of the Big Issue magazine – which has funded organisations ranging from Jamie Oliver's Fifteen Foundation to Mow & Grow, a gardening business that trains and employs people whose backgrounds mean they have struggled to hold down long-term jobs.

Money lent under CITR must be lent for five years, and there are no repayments for the first two years. If required, the CDFI can repay 25% of the money at the end of years two, three, four and five. The tax relief is applicable to the outstanding amount of the loan.

An obvious question is how safe investments are. Baker says: "CDFIs do not have the financial strength of a major bank and all of their clients have been refused finance by a mainstream lender. An investor in a CDFI needs to accept there is some risk and to balance that with the positive impact achieved in very deprived communities and the very attractive tax relief."

However, he points to TSELF's 16-year track record and that the organisations it lends to – at commercial interest rates – also receive significant grant funding that helps mitigate the risk of bad debts.

The CSR and marketing benefits can also be significant, says Baker. TSELF is happy to highlight funding from its lenders and to direct it towards particular projects that are relevant to the lender, either because they are near company operations or because they relate to its core business.

Mike Scott is a freelance writer.

For more information, go to any of the following websites:
www.cdfa.org.uk
www.tself.org.uk
www.bigissueinvest.com