

In the spotlight – interest grows in the business charity account sector

With a total of four Bank of England Base Rate (BoE) increases since our last annual survey of business deposit accounts, we would expect to see a healthy rise in the interest available to SMEs. Business Moneyfacts Editor, Lee Tillcock scrutinises the ‘average rate’ change compared with last year’s survey, and takes a look at what’s happening in the world of charity banking.

It is worth noting that when we looked at this sector last year we were a little disappointed to find that average rates had beaten the BoE, unfortunately in the wrong direction! With a definite increase in the activity and interest surrounding competition in the SME current account sector, will its deposit counterparts follow suit?

A safe and secure home for an organisation’s investment funds in the short or long term will be the simple desirable aim of a charity deposit account in a sector that has seen an increase from £134 million in 1997 to £750 million in 2007 flowing towards it. The last few months have seen some fairly sombre news being released concerning the charity banking sector. The Chancellor’s recent decision to reduce the basic rate of income tax resulted in a drop in the amount of money able to be reclaimed through gift aid of around £70 million. This was followed soon after by the closure of the National Savings and Investments (NS&I) Treasurer’s Account.

According to the Charity Finance Banking Survey 2007, just over 50 per cent of charities take advantage of high interest deposit accounts, with a staggering 33 per cent having been with their current banks for 20 years or more, and 25 per cent admitting that they had never reviewed their banking provider; a captive audience indeed. By taking a look at the no notice charity investment accounts, we have compared the average rate with those available to companies and firms. By looking at the table we can see that on the tiers up to and including £10K, charities fare better, but from £25K the tide turns and their advantage is lost.

It is difficult to find data on the average amount of money held on deposit by charities, but what is clear is that CCLA and its COIF charities deposit Fund take the plaudits for charities that may have only relatively small sums of money. With origins going back over 40 years to a partnership between the Church of England, the Charity Commission and Local Authority Associations they continue to upkeep their good name. Alongside Alliance & Leicester Commercial Bank they are the only institution joining the companies and firms representatives in this new list.

In an ideal world the interest rates paid to charities would be higher than to those for companies and firms. Perhaps if they provided a more lucrative additional potential in the form of ‘other services’ to institutions this may be the case. The revisions to the JMLSG (Joint Money Laundering Steering Group) regulations in the last year have meant institutions have reviewed their anti money-laundering processes and incorporated a more risk based approach to opening accounts for charities. It is worth

remembering that any possible current account fees and charges can add considerable amounts to the banking costs to charities, in some cases taking away the benefit of deposit interest earned; even more reason to shop around and to break the 20-year habit.