

Diocesan Policy on Loans to a PCC or deanery related entity e.g. CIC or CIO



Status

This policy updates the Diocesan Policy on Loans to PCCs which was last updated on 17 July 2017.

Introduction

The diocese is approached from time to time by PCCs wishing to undertake capital or missional projects for which they require a loan to provide the necessary liquidity to enable the project to go ahead. With more emphasis being focused on deanery-led activities, a range of related entities such as Community Interest Companies (CICs) and Community Interest Organisations (CIOs) are being formed to finance and manage those activities.

Examples of situations where loans may be appropriate are:

- Where the VAT on a project will ultimately be recoverable under the listed place of worship scheme, but the work must be paid for first, so the loan is to cover the VAT element until the grant is received.
- Where planning permission is required for the sale of some land or a church hall, with the loan being to fund the application for planning, which will then be repaid from the sale of the asset.
- Where a PCC is looking for partial funding for a renewable energy project, and seeks a loan for the balance of funds, to be repaid over time from the income generated by the scheme, such as through the Smart Export Guarantee (SEG) or the Clean Heat Grant (also known as the Boiler Upgrade Scheme).
- A missional project has received external grant funding, but the grant is only paid on submission of paid invoices. The loan therefore provides the liquidity to allow the project to proceed and is repaid from the grant income.

The presumption is that such loans will be repaid from the funds generated or VAT repaid from the project. The diocese will not normally consider loans to PCCs without such an identifiable source of repayment.

Limitations of loans

The diocese has limited funds available to lend to PCCs and deanery related entities. The following table sets out the amounts and maximum duration of any loans:

| Loans from | to | Maximum period (months) |
|------------|----------|-------------------------|
| £1 | £25,000 | 60 |
| £25,001 | £50,000 | 48 |
| £50,001 | £75,000 | 36 |
| £75,001 | £100,000 | 24 |
| £100,001 | £150,000 | 12 |

The Bishop's Diocesan Council (BDC) will annually approve the maximum amount of total loans in issue at any one time as part of the budgeting process and the limit will be included in the diocesan reserves policy for that year. Loans will be made to approved applicants on a first-come first-served basis and will be approved by the Finance and Assets Committee (FAR). Any individual loan request outside of the terms of this policy will have to be approved by the BDC, following consideration and recommendation (or otherwise) by FAR.

Interest

Loans within these limits will be provided without interest, provided the applicant complies with the terms of the loan. In the event that the applicant does not comply with the terms of the repayments, then the whole amount of the loan becomes repayable with immediate effect, and interest will usually be charged at the rate of 5% per annum above the Bank of England Base Rate (both before and after judgment) on the amount owed.

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Where a request falls outside the limits set out above, and is to be considered by the BDC, then the BDC may decide that interest should be payable on the loan, as part of its approval. The rate of any such interest will be based on the amount of the loan requested, the duration of the loan, the existence or otherwise of any collateral, and the degree of risk perceived.

It should be emphasised that any loans outside the limits set out above would be exceptional. Applicants for substantial and / or long-term loans will usually be expected to seek loans from commercial lenders rather than the diocese.

Repayments

Unless agreed otherwise, repayments will be quarterly and designed to ensure that the loan is repaid by the due date. Quarterly payments will be due on or before the quarter end dates of 31 March, 30 June, 30 September, and 31 December. Given weekends and bank holidays, it is recommended that the entity ensures that cleared funds are received into the diocesan bank account by those days.

Where the loan will be repaid from a single source of money, such as the sale of a property or receipt of grant money, then a single repayment may be made by the repayment date, and within 30 days of the receipt of the funds.

Link to MMF and reserves

One of the main risks to the diocese is that the PCC or other entity repays the loan at the expense of not paying the deanery's or PCC's MMF call. The application form requires information on last year's MMF payment history, whether they pay MMF monthly, and confirmation that they intend to pay the current year's MMF in full. These, and other factors, such as reserve balances, will be considered by FAR (and BDC if appropriate) in deciding whether to approve a loan.

Loan application

If a PCC requests a loan, then the application form must be completed on behalf of the PCC and include confirmation that the PCC has formally approved the application. The application form must be signed by the incumbent or chair of the PCC and by the PCC treasurer or church warden.

For loan requests by a CIC or CIO the application must be completed on behalf of the entity and include confirmation that the board trustees or directors has formally approved the application. The chair of the entity and another trustee / board member must sign the application form. For loans related to deanery activities, the rural dean (or archdeacon in the absence of the rural dean) should also sign the form or submit a separate letter or email in support of the application.

Loan agreement

A legally binding loan agreement will be signed on behalf of the entity by two trustees or directors, usually to include the chair. The diocesan secretary or the chair of the Board of Finance will sign the agreement on behalf of the diocese.

Individual PCC members, trustees or directors of the entity are not required to provide personal guarantees.

Regular reporting to the diocese

The entity must submit a written report on a quarterly basis to arrive with the diocese by the end of the quarter dates set out in the repayments section of the policy. That report should include a brief summary of the progress of the project to date, and the future prospects including repayment prospects.

Should the entity believe that the project will not be completed and so the loan not repaid by the due date, then it should notify the diocese as soon as it becomes aware of this to see if the loan can be extended.

Once the loan is fully repaid, no further reports will be required, although we are always interested in hearing how projects develop.

Approval

This policy was approved by the Bishop's Diocesan Council at its meeting on 13 December 2023.