Future Funding for the not for profit care sector

NCF Partner, Allia C&C is an FCA regulated financial services company owned by Cambridge based charity, Allia. Over the next few articles we will consider different sources of funding and how to encourage more banks and investors into the sector.

Raising long term funding for investment in charitable care homes is always challenging.

While government has stepped in to underwrite some of the extra costs of COVID, those charities who had embarked upon projects to grow and improve their portfolios have found fund raising even more difficult over the last year. A number of banks appear to have limited exposure to the sector while institutional investors seem to fall into two groups – the established ethical funds who have continued to invest and others, who while keen to invest in Environmental, Social and Governance aligned projects, still find credit committees unwilling to lend to care projects despite the obvious impact and need.

This is at a time borrowing should be easier to access: the government has pumped liquidity into banks and institutions, interest rates are at all-time lows, and lending margins in other high impact sectors such as social housing and higher education are tight. Moreover, care homes are long-term, essential assets - a good match for pension funds looking to match assets with long-term liabilities.

So why in such a favourable environment has it become so hard to borrow?

Care is a much more operationally challenging sector and reputational risk is often cited as a reason not to invest. There are one or two other differences between the care sector and the others – firstly they will usually have a more stable funding regime; and they have regulators who are more focussed on financial viability.

In the case of the Regulator of Social Housing, it publishes its judgements on the financial viability and governance standards of most housing associations. These judgements are based on regular engagement, financial reporting and in depth assessments by the regulator. This on-going monitoring gives lender and investors considerable comfort regarding the financial and operational performance of borrowers and has resulted in the sector being one of the largest borrowers in the UK banking and bond markets.

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