

LLOYDS BANKING GROUP HAS “DISOWNED ITS HERITAGE” SAYS CHARITY CHIEF AS GROUP CUTS TIES TO SCOTTISH FOUNDATION

Lloyds TSB Foundation for Scotland has announced that Lloyds Banking Group in London has served notice to terminate its Covenant with the Foundation, thus ending the relationship that has existed between the two since 1985. The Foundation, an independent organisation and one of the leading charitable funders in Scotland, is now in a nine year notice period before the termination takes effect.

In a parallel move that is seen by the Foundation as an ongoing attempt by the Group to interfere with its independence, Lloyds Banking Group is refusing to approve Trustees' unanimous vote to reappoint the Foundation's Chairman for another year. Trustees are continuing to press the Group for its reasons why and, until those are forthcoming, Christine Lenihan will continue to act as Chairman.

The notice to terminate follows a recent meeting between the two parties in an attempt by the Foundation to seek an amicable resolution to an ongoing dispute over future funding of the Foundation. Notice was served before Trustees had responded formally to the proposal presented to them by the Group at that meeting.

This proposed that in return for short term funding, the covenanted income would be halved with immediate effect, with Scotland receiving a share of only 0.5% of pre-tax profits instead of 1% as at present. In addition, the proposal would have led to a loss of independence for the Foundation, as the Group would determine where a significant portion of monies went by aligning funds to its Corporate Giving priorities. However, the letter accompanying the notice also stated that the Group would withdraw the termination notice but only if the Foundation signed up to the proposal.

Mary Craig OBE, Chief Executive of the Lloyds TSB Foundation for Scotland, said in making the announcement:

“We are extremely sad to announce that, in what can only be described as an act of determined vandalism, Lloyds Banking Group has served notice to the Foundation that will break its Covenant with us, which was set up over 25 years ago.

“In breaking the Covenant now, Lloyds Banking Group has disowned its heritage and is choosing to ignore the role Scottish communities and their savings played in it being where it is today. 200 years ago this year, Rev Henry Duncan, who established the first Savings Bank on which Lloyds Banking Group is founded, did so in Scotland to do something of real and lasting value for the under-privileged. He must be turning in his grave to see how the Group has treated that dignified cause, which the Foundation has tried to follow in the last 25 years.

“In addition, in what can only be seen as an act of bad faith, the Group has also taken the opportunity to step up its campaign to undermine the independence of the Foundation by withholding their approval of the Chairman Christine Lenihan's reappointment as unanimously agreed by Trustees. This is the first time in the Foundation's history that this has happened and, although we have asked, the Group has refused to give us its reasons.

“Whilst they are legally within their rights to do both, morally it is hard to see either action as anything other than a vindictive attempt to punish us for not agreeing to their proposal to cut our funding and reduce our independence. Regrettably, it is in keeping with the bullying and aggressive behaviour displayed by the Group's representatives at each stage of this process.”

Explaining why the Foundation had rejected the Group's proposal, Mary said:

"At the end of 2008, when the Group first made us aware of the potential difficulties they were facing and the implications for our funding in the short term, we did not go looking for a hand out. They came to us with a proposal that actually offered more money than we might have expected through the Covenant to get us through the next few years.

"But the unacceptable strings attached quickly made it clear that this was not a genuine gesture of support on their part. Instead, it was an obvious attempt to use our situation to their advantage.

"Having taken legal and financial advice, the Foundation's Trustees could not accept the proposal, then or now, as it was not in the best interests of the Foundation or the charities we support. We have told the Group this on several occasions. But for all their noises of concern about our situation and fine words praising our work, at no point did the Group alter its proposal over the course of the last year to reflect our genuine concerns.

"An alternative no-cost proposal put forward by the Foundation, which would have allowed us to continue our programmes until the Group returns to profit, has been repeatedly dismissed without substantive explanation. At our last meeting with the Group, which was supposedly open to discuss all available options, there was a point blank refusal to discuss it with us at all.

"It was never in Lloyds Banking Group's gift to cut the terms of the Covenant simply because, as they told us, they believed they were paying us "too much". We have a legal entitlement to that money and they are legally obliged to pay it, nor is it a donation as they insist on claiming. However, that hasn't stopped them pushing on to achieve their stated aim of paying less, claiming that they need to balance the interests of shareholders and society. But they seem to have forgotten we are representatives of both."

Throughout this period of upheaval, Trustees have remained focused on how best the Foundation can continue its work within disadvantaged communities in the short term, albeit on a smaller scale.

Whilst they are working on the details, to be announced in the Spring, plans include continuing the campaign launched in November to raise £12m over the next two years; restarting a new programme of grants in the second quarter of the year, that will target smaller and harder to fund charities and community groups; revised criteria for applications to ensure that the money is targeted to key groups; and the deployment of Foundation staff to support charities through knowledge sharing and secondments until the full programme restarts. The Foundation also hopes to be in a position to continue its work with the Scottish Government in the successful Partnership Drugs Initiative in 2010.

But Mary Craig warned that the risk to the Foundation's future from Lloyds Banking Group is not over yet:

"The ongoing threat to the Foundation's independence is real, especially in the months that lie ahead. Attempting to remove the head of any organisation is usually a cynical move to destabilise or frighten people into doing what the aggressor wants. If the Group chooses to, it could continue to undermine the Foundation by refusing to approve any of the Trustee appointments or by attempting to remove the Board, making it difficult in governance terms going forward.

"We can only hope that someone in the Group realises that this behaviour with an independent organisation has gone too far. We have made our decision and we should now be allowed to get on with the job in hand.

“Despite the best efforts of Lloyds Banking Group, this won’t be the end of the Foundation. After the nine year notice period, the 15.7 million limited voting shares the Foundation owns will revert to ordinary shares, providing an income in the longer term. It is our intention to continue working for Scottish charities for the next 25 years and beyond.”

Notes to Editors

1. The Covenant

As a shareholder, instead of receiving dividends, the Foundation receives a share of 1% of pre- tax profits through the legally binding Covenant. Scotland’s share is 19.46% of that.

This agreement was reached in 1985 when the Trustee Savings Bank floated on the Stock Market. At that time, it was agreed savers should be compensated for losing ownership of the Bank. Instead of giving shares to individuals, four Foundations, including one in Scotland, were established to hold the shares and distribute the monies from the Covenant back to communities. There was no upper limit on what could be paid out as the intention was that if the Group did well, communities would also benefit.

This Covenant has remained unchanged by takeovers and mergers to the present day.

2. The two proposals

The Foundation has a short term funding gap as a direct result of the expected losses made by Lloyds Banking Group because of its takeover of HBOS. The Banking Group’s proposal stated that, in return for short term funding to cover the next four years, the existing covenant would be immediately reduced from 1% to 0.5% of pre tax profits, half of what is currently provided. The offer also required the Foundation to align a significant part of its funding to the Group’s corporate objectives. This offer would result in the loss of the Foundation’s independence, with awards distributed dependant on whether the charity aligned to the Banking Group’s objectives, rather than purely on community need, as at present. The Foundation calculated that accepting this offer would lose them at least £20m over the next nine years. On legal and financial advice, it was first formally declined in November 2009 and again in February 2010.

The Foundation tabled an alternative proposal in September 2009 that was cost-neutral to the Group. A cash advance to cover the next few years, in the form of a loan, would be repaid once the Group returned to profit and the Foundation’s income was restored. This proposal would allow the Foundation to retain its independence and ensure grants made to charities were made on merit and need. However, this proposal has been rejected without a substantive explanation and a point blank refusal to discuss it face-to-face.

3. Timeline

Lloyds Banking Group first drew the potential difficulties it was facing to the Foundation’s attention at the end of 2008. A series of meetings and contacts followed over 2009 between the Banking Group and the Foundation. In October 2009, the Foundation announced it was suspending its grant making programme indefinitely due to uncertainties around interim funding. (For further information on the timeline, please contact Rhiannon Griffiths on 0131 556 1230.)

4. The Lloyds Banking Group’s role in Trustee and Chairman appointments

The Foundation is a wholly independent organisation with an independent Board of Trustees. Through the covenant, the Foundation has a legal right to monies from the Banking Group; the Group is not a ‘donor’ to the Foundation.

The Banking Group has the right to appoint three Trustees to the Foundation's Board of Trustees; it has the final approval over the appointment of all Trustees; and approves Trustees' selection of their Chairman.

5. Lloyds TSB Foundation for Scotland facts

- Since 1985, the Foundation has awarded almost £85m to charities across Scotland in over 12000 awards
- Since 1997, the Foundation has allocated around £30m to support salaries – and therefore jobs - in the charitable sector.
- The Partnership Drugs Initiative (PDI) has been running since 2000 and is funded by the Foundation and the Scottish Government. PDI works with children and young people around issues of drug and alcohol misuse and has awarded over £14 million to voluntary organisations across Scotland.

For further information, please contact Rhiannon Griffiths or Jacqui Low at Indigo on 0131 554 1230.

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