



INSPIRING  
FINANCIAL  
LEADERSHIP

# **CFG Annual Conference**

## **New sources of funding for charities**

18 May 2017

Dan Hird – Head of Corporate Finance

Triodos  Bank



INSPIRING  
FINANCIAL  
LEADERSHIP

# What is social investment?

**Risk finance** motivated by a requirement for a social and a financial return?

Some characteristics of social investment:

- **Strong Government support**
  - ❑ Supply of capital - Big Society Capital & various social investment funds
  - ❑ Grant funds for investment and impact readiness
  - ❑ Public sector transformation agenda – promotion of SIBs
  - ❑ Social Investment Tax Relief (SITR)
  - ❑ Innovative Finance ISA (IFISA)
- **Sector is still small and evolving**
- **Social investment can unlock access to fantastic high impact projects and initiatives**

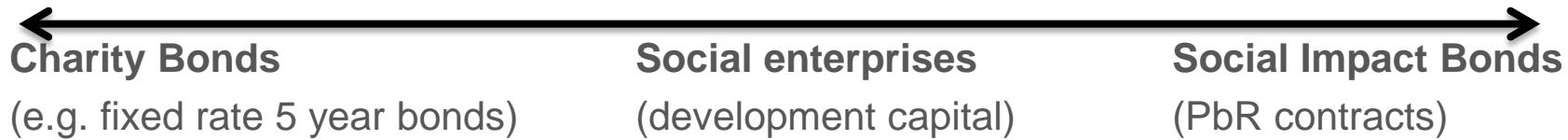
# A range of different types and risk profiles

Transactions have a range of risk profiles

LOW

MEDIUM

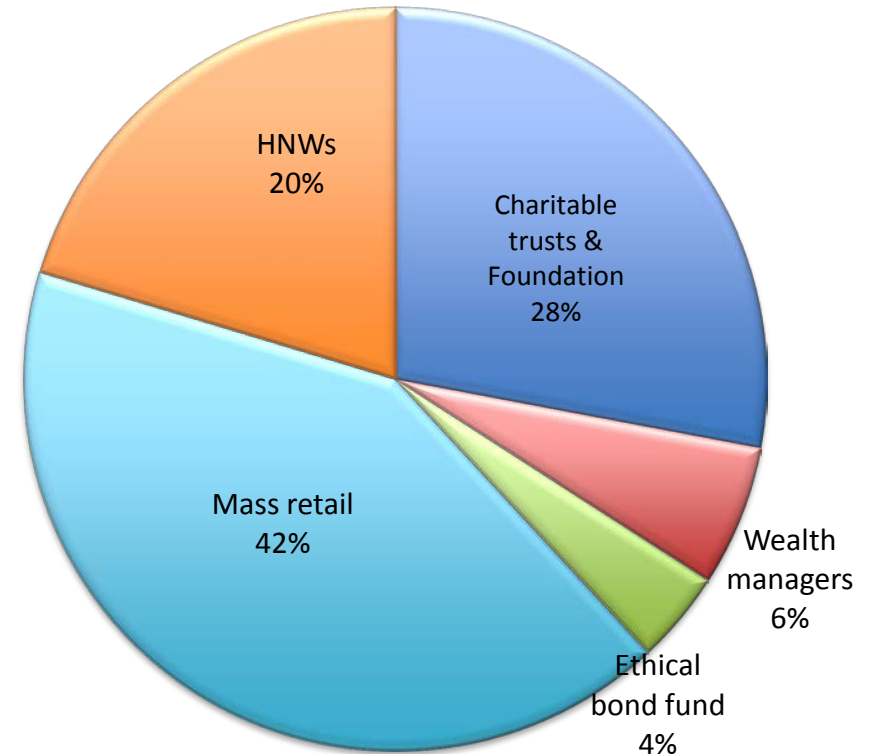
HIGH



# Charity Bond example: Golden Lane Housing

- **Amount raised** – £10m bond issue
- **Client** – Housing arm subsidiary of major national charity - Mencap
- **Impact** – provision of 50 properties to house people with a learning disability leading to independence and better quality of life
- **Investor proposition** – 5 year unsecured unlisted bond paying 4% p.a.
- **Risk profile** – quite low as established charity with strong brand and balance sheet, investment into freehold property
- **Investors** – 800 in total (see mix opposite)

GLH 2013 £10m bond - Investor type



# Charity Bonds – pros and cons

## **Benefits and opportunities of charity bonds**

- Unlocks a source of new finance if bank debt is unavailable
- Cost of finance could be low (c.5%) – given current interest rate environment
- Opportunity for charity to significantly raise profile and engage new and existing supporters
- High demand from retail investors for a “blended” social and financial return

## **Risks (for the charity)**

- Term is typically – 5 – 7 years so repayment of capital must be carefully planned
- Typically issued unsecured from charity balance sheet – so ultimate repayment risk rests with charity.
- Will typically require more senior management time than a bank loan.
- Need to engage trustees – who take legal responsibility for the financial promotion to investors.

# Social enterprise example: SCDA

- **Amount raised** – £1.3m funding
- **Client** – a **long established** community organisation in South Bristol
- **Project** – acquire and develop a second freehold nursery site in locality
- **Impact** – provision of community hub and services to vulnerable groups in a disadvantaged area of Bristol
- **Investor proposition** – variety of different funding sources envisaged
- **Risk profile** – varies but generally matched against returns
- **Investors** – a mix (see opposite)



## Southville Community Development Association

£'000	Investor	Instrument
175	Bank	20 year secured bank loan - first charge
280	SITR Match Fund (BSC facility)	4% pari passu
280	Individual community investors	4% bond issue with SITR
196	SCDA	charity equity
300	Power to Change	grant
74	City Council	grant

1,305

Total **blended** cost of funding c.2.5%

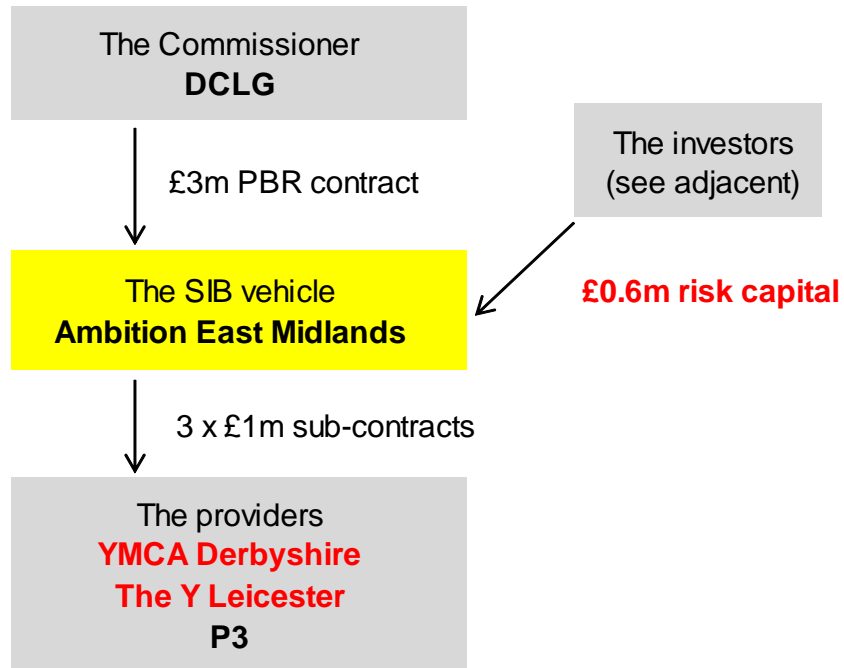
# Social Impact Bond example: Ambition East Midlands

- **Commissioner** – DCLG
- **Programme** – Fair Chance Fund
- **Contract** - £2.7m over 3 years
- **Delivery body** – “Ambition East Midlands Ltd” – a consortium of three charities in East Midlands (including 2 x YMCAs)
- **Impact** – very high - helping 340 young homeless people secure accommodation, education, training and employment
- **Investment needed** – £600k risk capital
- **Risk profile** – high - 100% PbR
- **Added feature** – first UK SIB to access Social Investment Tax Relief



# Ambition East Midlands SIB – financing mechanism

## The Ambition East Midlands SIB structure



## Ambition East Midlands - funding mechanism

£'000	Investor	Instrument
280	Big Issue Invest	7% loan + bonus
150	Key Fund	7% loan + bonus
50	5 x Individuals	7% loan with SITR
40	YMCA Derbyshire equity	
40	The Y Leicester equity	
40	P3 equity	
<b>600</b>		



# Social investment – some leaving thoughts

- Charity bonds popular with retail investors
- Charity bonds eligible for IFISA (bond in a tax free wrapper)\*
- SITR can be a powerful tool to raise finance – both for charities and SIBs
- Innovation in financing (blending) can be a key to unlocking projects
  - Use of grants
  - Accessing retail investment and use of tax reliefs (SITR and IFISA) to bring costs down
  - Some skin in the game from charities
  - Use of investment readiness grants, underwriting and match funding in the market

\*

The IFISA was introduced for unlisted debt securities from 1 November 2016



INSPIRING  
FINANCIAL  
LEADERSHIP

## Contact details

Thank you!

**Dan Hird**

0117 980 9588

[dan.hird@triodos.co.uk](mailto:dan.hird@triodos.co.uk)