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Bond issue considerations

Financial and commercial considerations

- Comparison with alternative sources of finance (e.g. equity or bank debt)
- Organisational debt capacity
- Cost of finance – will it be earnings enhancing?

Other considerations

- Management time
- Governance – trustees responsibilities
- Marketing approach – what type of investor are you looking for?

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Issuer – pros and cons of a bond issue

Pros....

- Opportunity to raise capital where issuer doesn't have assets to secure a bank loan
- Normally issued unsecured – ranking behind any secured bank debt
- Can be lower cost than equivalent bank loan finance
- Opportunity to engage a new audience – future supporters/customers
- Opportunity to "frontload" new social project initiatives

Cons, challenges...

- Repayment obligation (shorter term than bank loan)
- Management time – recognition of "all in cost" including advisory, marketing, registrar costs
- Timescale – longer than raising bank debt
- Drawdown arrangements – tends to be bullet

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Investor – pros and cons of a bond issue

Pros....

- Support a business generating positive social or environmental impact
- Can achieve an attractive fixed investment return – higher than a savings product
- Ancillary benefits of being a bondholder...
- Tax relief a possibility (SITR, CITR)

Cons....

- Illiquidity – may not be able to cash in before the end of the term
- Risk – social enterprises generally don't have credit rating

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Community Investment Tax Relief (CITR)

CITR

- Investors can be individuals or limited companies
- Investee must be an accredited CDFI
- Tax relief worth up to 25% of the value of an investment in an accredited CDFI
- Relief is spread over 5 years – given as a 5% p.a. reduction in income or corporation tax liability
- CITR is really intended to support lending intermediaries – banks, credit unions
- Must be for eligible loan activities only (i.e. not secured freehold property)
- At least 25% of funds must be allocated in year 1, 50% by year 2 etc

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CITR example – Midlands Together CIC

We raised £3m for Midlands Together CIC – a business established to offer construction work experience to young ex-offenders through a sustainable property development and refurbishment model

- Series A Bonds – raised £2.5m through a 4% first secured 5 year bond
- Series B Bonds – raised £0.5m through a 6% CITR second secured 5 year bond

How it works:

- Series A bonds acquire the freehold properties
- Series B bonds are unsecured loans to Midlands based social enterprises which allows them to supply a workforce (ex-offenders) to refurbish the properties
- Invoices raised by the social enterprises repay the unsecured loans
- Series B bonds – aimed at corporates and HNWs – min subscription £20k
- A 45% taxpayer is getting a **15.1% gross yield on an investment in the Series B CITR bonds**

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SITR example – Fair Chance Fund client

Successful Fair Chance Fund bid – structured as a Social Impact Bond (SIB)

- Successful FCF bid - £3m payment by results contract
- Intervention to work with 350 young homeless people – accommodation and EET outcomes
- Working capital funding requirement £600,000
    - Providers £120,000 equity
    - Institutions £430,000 7% secured loan plus profit share
    - SITR investors £50,000 7% unsecured SITR loan
- Use of a limited company - using the specific SITR SIB exemption

Two types of approval required:

- HMRC - SITR clearance (advance assurance pre-completion)
- Cabinet Office accreditation of the limited company as a SIB

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Contact details

Thank you

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