CLINKS CASE STUDY

TOGETHER SOCIAL BUSINESS GROUP CIC

A social investment case study

Paul Humphries | 22nd January 2018

Background

Clinks conducted research into social investment and the voluntary sector to assess awareness, understanding and use of social investment. The majority of respondents wanted more information including case studies. This is one of the case studies published in response.

About the organisation

Name: Together Social Business Group CIC

Income: In 2016 Consolidated Turnover was £2.3million

Main area of work: Job creation for people with convictions in the property construction sector

The idea behind the Together model is straightforward: it is a commercially sustainable social enterprise which creates full-time jobs for people with convictions by bringing empty properties back into use, or building new homes, in the communities where these individuals live.

Once the properties are constructed, renovated or restored, they are sold on the open market and the original capital, plus any profits, is re-invested back in the business to finance further purchases and job creation.

The properties can be:

- New homes: acquiring land plots and constructing timber-framed housing for sale to the private market and housing associations
- Existing homes: buying, refurbishing and restoring empty or sub-standard residential properties prior to sale
- Repurpose developments: for example, commercial to residential development
- Renovations/ repairs of existing property, typically on behalf of a third party owner

At the beginning of 2018, Together consisted of three Regional Operating Companies (ROCs) – in Bristol, Birmingham and Glasgow. The intention is to add more ROCs over time so as to scale-up the business on a modular approach over time.

Each ROC is a separate community interest company (CIC) with a local board and management, which works in its local community. Creating job opportunities within local communities is a critical component of the Together programme. The business typically employs people with convictions close to where they live, and works with a wide range of local community, government and commercial partners to deliver services, reflecting the local needs of that community.

Social Investment

In order to acquire and develop each property, Together requires capital. Historically, the Together business has been financed through a series of fixed term, fixed interest bonds[1]. To date, bonds have been arranged directly between each ROC and groups of investors.

Subscribers to these bonds have been both institutions and individuals who have committed to investing their funds for a five year period in return for a biannual interest payment of 4%-7%, with the promise of capital being returned in full to investors at the end of the investment period.

Together did not, at that stage, possess the required skills to undertake sophisticated capital raising and so engaged with Triodos, the social investment bank, to support it. Triodos provided specialist advice and guidance, compiled the necessary investment memoranda for investors and led on the investor engagement process. Together also engaged with lawyers to generate the required investment contracts and other documentation.

Separate capital raising exercises were organised by Triodos for each of the ROCs, and investors were given the choice of two options – a Series A investment, typically with the lower rate of interest but with security on the company assets, or a Series B investment with a higher interest rate and the ability to participate in the Community Interest Tax Relief scheme (CITR), but unsecured.

Bristol Together initially raised £600,000 in September 2011 in the form of a bond to carry out a pilot project on two properties and employing 16 people with convictions. In early 2012 Bristol Together raised a further £1m in the form of a bond to scale-up its model. In 2017, Bristol Together repaid some of its investors when the bond period came to an end. Others reinvested for a further 12 months and at the same time some new investors were taken on. The net effect of these actions was to bring the total amount of debt under the bond arrangements and other loans to £1.4m. Bristol Together interest payments have been made in full up to point of writing.

Midlands Together raised £3m in the form of Series A and Series B bonds in 2013. Investors received interest payments and were able to claim CITR up to the end of 2016, and were partially repaid their capital sum in early 2018 when the business was closed.

Glasgow Together raised £2m in the form of a bond in 2015. This is due for repayment to investors in 2020, but the business has the right to make an early repayment in full on 31st October 2018 should it wish to do this. Interest payments have been made in full up to point of writing.

In all cases the bonds include a bi-annual interest payment of between 4% and 7% depending upon the ROC and type of bond. Over the course of the five year bond term, a total of ten interest payments are, therefore payable. Interest payments are made out of profits generated by the company.

The social investment raised by Together Group has created a significant impact. Since it started in 2011, Together has provided full-time, living wage jobs for around 100 recently released prisoners through its job creation programme. In the course of doing this, the business has completed the development of around 80 properties, mainly in Bristol, but also in the West Midlands and Glasgow.

Going forward, Together aims to raise further social capital through a blend of finance to optimise flexibility, resilience and cost. Whilst the details of the new capital raising are still to be fully worked out, it is likely that the new arrangements will be on the basis of a mix of:

- Quasi Equity[2]
- Revolving Credit Facility or case by case project finance[3]

This approach is being taken as a result of the lessons learned from the last five years of trading. Whilst the fixed term, fixed interest bonds have proved invaluable in enabling the business to establish itself and prove its concept, there is now a need for greater flexibility in the financing instruments used by the business as it seeks to scale-up.

ENDS

NOTES

[1]Fixed interest bonds: When companies or other entities need to raise money to finance new projects, maintain ongoing operations, or refinance existing debts, they may issue bonds directly to investors instead of obtaining loans from a bank. The indebted entity (issuer) issues a bond that contractually states the interest rate that will be paid and the time at which the loaned funds (bond principal) must be returned (maturity date). From Investopedia

[2]Equity is the money raised through the issue of shares. Quasi-equity fills the gap between debt and equity and aims to reflect some of the characteristics of both. Quasi-equity, also known as revenue participation investment, is usually structured as investments where the financial return is calculated as a percentage of the investee's future revenue streams. A quasi-equity investment can be a useful source of finance when debt financing is inappropriate or too onerous for charities or social enterprises, or where share capital may not be possible due to the investee's legal structure. Unlike a loan, this investment is dependent on the financial performance of the organisation. From KnowHowNonProfit

[3]: Revolving Credit Facility is a line of credit where the customer pays a commitment fee to a financial institution to borrow money, and is then allowed to use the funds when needed. It usually is used for operating purposes and the amount drawn can fluctuate each month depending on the customer's current cash flow needs. Revolving lines of credit can be taken out by corporations or individuals. From Investopedia

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