

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 20 NOVEMBER 2012**

JOINT REPORT **CHIEF EXECUTIVE AND HEAD OF FINANCE**
BY:

SUBJECT: **FLINTSHIRE COMMUNITY ENDOWMENT FUND**

1.00 PURPOSE OF REPORT

1.01 Approve the closedown and transfer of existing moribund and ineffective education trust funds to a newly established Flintshire Community Endowment Fund to be managed and administered by the Community Foundation in Wales, subject to the absolute agreement of the Charity Commission for England and Wales.

2.00 BACKGROUND

2.01 The Council holds a number of funds in trust (as sole trustee) following various bequests. In some cases the fund may have originated from the proceeds of selling property and land originally owned by respective trust funds. A piece of work began in 2009 which is ongoing, to transfer trust funds where possible to the administration of an appropriate body. In the main this has been school governing bodies. A number of funds remain which have become moribund or ineffective as the original intentions or objects stated within the governing documents of the funds are now out of date.

2.02 The Charity Commission is keen to see the release of the many moribund and ineffective trust funds locked into Local Authorities around the country, and the Commission particularly supports the release of these funds to leading charitable bodies.

3.00 CONSIDERATIONS

3.01 Flintshire is currently responsible for 16 educational trust funds which are moribund or ineffective. Five of the trust funds have been registered with the Charity Commission and eleven are unregistered trust funds. Assets total £202,973 to date and are held in the form of cash.

3.02 From the background information available it would appear that all the original donors established a trust fund with the requirement that the capital sum donated be held in perpetuity to generate annual income

that would be used to support prize giving or grant applications to young people. Action needs to be taken to make these trust funds effective once again. These funds are not Council funds and cannot be absorbed into mainstream budgets.

- 3.03 Following formal consultation with the Charity Commission, it is apparent that the most effective use of these moribund and ineffective funds is to close down the existing funds and to transfer them to a single fund administered by a body who will act as trustee and manage the funds with their assets being held in perpetuity, with annual income used to support a new small grants scheme (working title: the 'Flintshire Community Endowment Fund') for charitable distribution to eligible individuals and organisations across the County, broadly in line with the trust funds' original objectives.
- 3.04 The Community Foundation in Wales has been identified as a possible organisation to manage these funds on behalf of the Council. Based on a model of philanthropic giving started in the USA nearly 100 years ago, Community Foundations are now well established and a recognised part of the UK Voluntary Sector. They have been established to cover specific geographical areas and to support their local communities at grassroots level. They are set up as charitable trusts to enable many donors to collaborate in creating a permanent capital fund for the benefit of defined local areas. This will generate income for grant making that will be available for the long term, responding to local needs and issues.
- 3.05 The Foundation is a respected national charity which operates and is effective across Wales. Board members include senior representatives from the business, law and charitable sectors. Trefor Jones CBE, HM Lord Lieutenant of Clwyd is appointed Vice President. The Foundation is an administrator and distributor of charitable funds and manages a number of corporate and statutory grant programmes which directly benefits Flintshire. Over the last five years the Foundation has distributed over £4.5 million of grants to support over 600 groups, individuals and projects across Wales. Flintshire groups and individuals alone have benefited from £33,000 through 16 awards in the last three years. The Foundation is quality accredited by the Community Foundation Network to standards endorsed by the Charity Commission and manages a Capital Endowment Fund in excess of £7m, utilizing the services of professional fund investment managers.
- 3.06 The Foundation is being assisted by an advisor from the Community Foundation Network who has completed similar transfer processes with 30 local authorities across the United Kingdom including five local authorities based in Wales. Community Foundations across the UK have successfully assumed responsibility from local authorities for in excess of £30m of moribund, ineffective and active trust assets creating in excess of £1.3m per annum increased capacity of grant making to individuals and grassroots community groups. This person also acts as the Community Foundation's representative on the

Charity Commission's working group to liberate moribund and ineffective trust funds.

- 3.07 No other locally based organisation has been identified which has the relevant experience or expertise to deal with the release of such moribund and ineffective funds and their attaching assets, to deliver added value and the resulting benefits.
- 3.08 Transfer of the funds will require the absolute agreement of the Charity Commission and be subject to a Fund Agreement between the Council and the Foundation.
- 3.09 There is no intent to transfer the Council's small grant funds that it currently operates, such as the Community Chest.
- 3.10 **Flintshire Community Endowment Fund**

An initial proposal detailing the objectives and administration of the Flintshire Community Fund is attached at Appendix 1 and the key points are outlined below.

- 3.11 The Board of Trustees of the Foundation will be the Trustees of the 'Flintshire Community Endowment Fund'. If the transfer takes place the Council will no longer hold any of the funds or their assets or be responsible for their distribution. The agreement of the Charity Commission and the Fund Agreement between the Council and the Foundation will set out the charitable purposes of the Fund.
- 3.12 The capital sum of approximately £200,000 will form the initial capital fund with the interest earned from investing the capital being distributed through a small grants programme. The amount available for distribution each year will depend on interest rates and other investment returns.
- 3.13 The Foundation will continue to identify possible sources of additional funding from local businesses and potential philanthropic individuals so that more money is available to support the distribution of grants by the 'Flintshire Community Endowment Fund' or to support the growth of the capital element of the fund.
- 3.14 Initially, it is proposed to set aside up to £10,000 from the capital fund for distribution in grants both in 2013/14 and in 2014/2015. It is believed that this will encourage donations from potential philanthropic individuals, companies, businesses and organisations situated within the County who will be attracted to contribute to a Fund which is capable of making an immediate impact in servicing the needs of the community. The combined total of up to £20,000 represents income accrued over many years from the moribund and ineffective assets in scope. The Charity Commission have formally supported this approach.
- 3.15 The Community Foundation in Wales has a very broad Investment

Strategy to institute proper guidelines for the management of investments held which is reviewed every 3 years by the Finance, Risk and Investment Committee of the Community Foundation in Wales. The investment strategy lists investment requirements in two categories, short term and long term.

Short term:

- Hold adequate funds to meet core liquidity and grant making needs
- Prudent custodianship of immediate income funds

Long term:

- Affordable long-term funding from endowment income and capital growth for payment of future grants

The strategy sets out the aims and objectives to meet the long term investment requirements which include:

- Diversification – balanced portfolio across different types of assets.
- Risks – a moderate approach to ensure the security of assets is balanced against the need to maintain the real value of assets and to maintain the real value of the Foundation's ability to generate investment income for grant making purposes.
- Delegation – the management of the portfolio is delegated to at least 2 but no more than 3 investment managers.
- Ethical Considerations – the Foundation is a cause-neutral charity and no ethical restrictions are to be placed upon investment managers.

The performance monitoring of investments is outlined in the Fund Agreement. The Foundation will report on the performance of investments twice a year, including a comparison to benchmark, outlining reasons for performance and on an annual basis, provide an overview of the grants distributed, fees etc. along with relevant case studies.

It is proposed that these reports be shared with the Community Profile and Partnerships Overview and Scrutiny Committee and that they receive an annual presentation from the Foundation.

3.16 In establishing the 'Flintshire Community Endowment Fund', the Foundation will set funding themes that are complementary to the Council's Community Strategy (County Vision themes) to include:

- economic prosperity
- health improvement
- learning and skills for life
- living sustainably
- safe and supportive communities

Plus for general charitable purposes which align to the Foundation's ethos of inspiring local giving.

- 3.17 Initially applications to the Fund will only be received to support individuals for educational purposes (to include prize awards, educational attainment and bursaries) and to support projects and initiatives outside of support provided under statutory provision. This will ensure that the assets from the liberated moribund and ineffective trust funds are used broadly in line with their original objects. Grants will not be awarded if there is cross over with the Council's statutory duties.

As the Fund grows there will be the potential to divest additional funding for other purposes (as in 3.16), according to the 'objects' of the transferred fund.

Educational establishments across the County will be advised of the launch of the 'Flintshire Community Endowment Fund' and the process for accessing grant funding.

A maximum grant award of £750 is proposed for individuals, voluntary groups or charitable organisations. This would be subject to regular review as the Fund develops.

The Foundation will publish guidelines and eligibility criteria for the 'Flintshire Community Endowment Fund'.

- 3.18 Grant applications will be restricted to applicants residing within the County. The promotion, administration, assessment and vetting, quality checking and support for applicants will be undertaken by the Community Foundation in Wales. A flowchart of the process for grant making is attached at Appendix 2.

The trustees of the Foundation, as the accountable body, will review and approve all recommendations made, in line with charity law. Applications which do not meet the criteria of the 'Flintshire Community Endowment Fund' will, wherever possible, be signposted to alternative funds available from other funding bodies within the county or donor managed funds administered by the Foundation. This will assist in reducing the risk of applicants being disappointed.

- 3.19 A Grants Panel will be set up comprising of local people (to include nominees received from the Council, potentially comprising officers and elected members) which will review the applications received and their recommendations for a final decision to be made. The Foundation will appoint a trustee to chair the panel who will have non-voting rights.

It is proposed that the Chief Executive in consultation with the Leader determine the final working arrangements of the Panel and its

supporting structure to discuss in partnership with the Community Foundation in Wales.

3.20 When the 'Flintshire Community Endowment Fund' is established, information about the fund and application process will be circulated to all elected members, publicised on the Council and the Foundation's respective websites, and promoted in the local media and by appropriate community support networks.

3.21 In addition, to support the local strategic direction of the Fund, there will be a Strategic Advisory Group comprising of Council and key partner community representatives who would contribute their knowledge and strategic direction to develop a Strategic Development Plan for the Fund. One of their roles would be to identify potential companies who may wish to invest in grant-making or donate capital.

3.22 **The Flintshire Community Endowment Fund Administration**

A one off establishment fee of up to 3% of the value of the assets at the time of transfer is to be negotiated and agreed upon by the Council and the Foundation. This represents the direct costs aligned to the work undertaken by the Foundation to establish the Fund and to liberate, through the Charity Commission, the moribund and ineffective trust funds in scope and their attaching assets. This fee is to be taken from transferring assets at the time of transfer. If the fund had been transferred on 31st March 2012 the 3% fee would have been approximately £6k.

3.23 The value of all assets held in the form of endowment will incur an annual management charge of 1.25% of the market value of the Fund. Therefore the Fund would need to yield a return of 1.25% to cover the annual management charge, anything less would result in the depletion of the capital value of the Fund.

Furthermore, returns in excess of 1.25% are needed before the Fund generates income that can be distributed through the small grants scheme.

The Foundation's total returns (on all Funds held) on managed investments are 3.52% for 2011/12, 8.3% in 2010/11 and 10.03% in 2009/10.

3.24 The management and administration of the distribution element of the fund will incur a fee of 10% per annum of all income passing to the fund. This is based on interest earned and any one-off donations received. Therefore, any income generated through managed investments that could be distributed through the small grants scheme would be reduced by this 10% fee.

3.25 The transfer of funds such as these to the Community Foundation in Wales has been successfully implemented by a number of Councils in

Wales: Powys, Monmouthshire, Cardiff and Newport. Denbighshire have just recently launched their fund.

- 3.26 A further report outlining the final arrangements of the 'Flintshire Community Endowment Fund' will be presented to Cabinet prior to the launch.

4.00 RECOMMENDATIONS

- 4.01 To approve the closedown and transfer of existing moribund and ineffective education trust funds to a newly established 'Flintshire Community Endowment Fund' to be managed and administered by the trustees of the Community Foundation in Wales, subject to the absolute agreement of the Charity Commission for England and Wales and subject to the Head of Finance in her Section 151 statutory officer role being satisfied that the investment strategy of the new Fund does not pose a significant risk to achieving a satisfactory return on funds and value for money.
- 4.02 The Chief Executive in consultation with the Leader determine the final working arrangements of the Panel and its supporting structure to discuss in partnership with the Community Foundation in Wales.
- 4.03 To receive a further report outlining the final arrangements of the 'Flintshire Community Endowment Fund' prior to any agreed launch.

5.00 FINANCIAL IMPLICATIONS

As set out in the report.

In addition the following points are to be noted:

- when making investments there is a degree of risk involved
- decisions on how to manage investment risk will be transferred to the Foundation/Trustees with no option for the Council to resume control once transfer has taken place (despite performance reporting requirements included in the Fund Agreement).

6.00 ANTI POVERTY IMPACT

The Fund will seek to discharge the funds to support those who are disadvantaged; financially or socially.

7.00 ENVIRONMENTAL IMPACT

- 7.01 Environmental considerations can be built into the Trust's considerations for funding.

8.00 EQUALITIES IMPACT

- 8.01 The majority of the trust funds were originally established for educational purposes including educational attainment, prize funds and bursaries. Establishment of the 'Flintshire Community Endowment Fund' will enable the liberated assets to be used for these

purposes into the future.

9.00 PERSONNEL IMPLICATIONS

9.01 The transfer of these trust funds will release capacity amongst officers currently administering such funds.

10.00 CONSULTATION REQUIRED

10.01 Ongoing consultation will be undertaken by the Strategic Advisory Group to inform the future strategic direction of the Fund.

11.00 CONSULTATION UNDERTAKEN

11.01 Consultation has been undertaken with various officers and Corporate Management Team.

11.02 The Community Profile and Partnerships Overview and Scrutiny Committee considered this item at their meeting on 15 October and supported the initiative. Much of their in-depth scrutiny in relation to the governance arrangements has helped inform this report.

11.03 The Community Chest Members' Grants Panel was also provided with a verbal outline of the proposal at their meeting on 22 October. Member representation (numbers) on the Grants Panel was discussed; further consideration will be needed in this area.

12.00 APPENDICES

12.01 Appendix 1: The Flintshire Community Endowment Fund: Proposal May 2012
Appendix 2: Grant Process

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

None

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