

**APPENDIX A - Executive
Report, 8 July 2021**



Report Reference Number: E/21/10

To: Executive
Date: 8th July 2021
Status: Key Decision
Ward(s) Affected: All
Author: Angela Crossland, Head of Community, Partnerships and Customers
Lead Executive Member: Cllr David Buckle, Lead Member, Communities and Economic Development
Lead Officer: Dave Caulfield, Director of Economic Regeneration and Place

Title: Selby District Community Legacy Fund

Summary:

This report outlines options for establishing a Community Legacy Fund, using budget underspend from the Community Engagement Forum (CEF) 2021-21 funding.

With a North Yorkshire and York Local Government Reorganisation (LGR) outcome awaited, the report also seeks to consider how the Council may be able to secure a legacy fund which supports Selby District residents and communities into the long term.

Recommendations:

The Executive is asked to:

- i) Approve donation, subject to appropriate conditions, of the CEF 2020/21 underspend of £100,000 to Two Ridings Community Foundation to establish a Selby District Community Fund.
- ii) Recommend to the Council the establishment of a Community Endowment Fund to be invested and managed by Two Ridings Community Foundation, subject to final due diligence, in line with Option 3 at Section 4.4 below. The recommendation is for investment of £2million subject to available unallocated funds committed to the Programme for Growth.
- iii) Recommend to the Council that authority be then delegated to the Director of Economic Regeneration and Place in consultation with the Lead Member for

Communities and Economic Development, the S151 Officer and Solicitor to the Council to enter into an agreement between Selby District Council and Two Ridings Community Foundation to secure achievement of agreed parameters to the investment and subsequent grant making process.

Reasons for recommendation

To provide a grant funding solution which offers greater investment into the Selby District community and secures a sustainable, place-based funding option for the future.

To do so in line with the Council Plan 2020-2030, 'to make Selby District a Great Place to Enjoy' with a key objective to 'Develop a Resilient Community'. A milestone achievement for this is to 'Collaborate with community representatives and funders to establish the community engagement and funding process post covid-19'.

Application of Programme For Growth funding is subject to Full Council resolution as per the Full Council recommendations in section 71 (v, vi) of 20th February 2020 to enable all councillors to have a considered input to review existing and newly considered projects under P4G.

1. Introduction and background

- 1.1 On 13th April 2021, Full Council agreed to remove the Community Engagement Forum procedures from the Council Constitution. An alternative approach to engagement and funding has now been agreed through a member funding approach, each actively responding to their local areas and supporting their residents and communities.
Due to the Coronavirus pandemic, there remained an underspend in the allocated funding for the CEFs in 2020-21 of £100,000. It was recommended that the Lead Member for Communities and Economic Development develop outline proposals for the use of the funding.
- 1.2 A working group of officers and representative Group Members discussed options and received a presentation alongside the Executive, from Two Ridings Community Foundation. The purpose of the presentation was to highlight options for community funding management and investment. Options included direct, finite use of the £100,000, as well as potential to attract finite match funding, and to look at an endowment investment approach which can offer both long-term match funding and interest growth. The discussions considered whether this provided opportunity to offer a solution to securing community investment into the district for the long-term future.
- 1.3 Through the CEF model the Council was investing up to £100k pa into community led projects. This has now been superseded by the member

funding framework which will continue to support local causes up to £93kpa (£3,000 per ward member). This will be the Council's main community engagement approach until 2023 depending on the implementation of new funding arrangements through any new Local Authority. It is envisaged that any new council will reduce in Councillor numbers. The approach enables councillors to respond flexibly to small community initiatives in their wards and surrounding areas. It would not effectively support community projects looking for higher levels of funding support or offer levels of sustainable funding (i.e. multi-year).

- 1.4 It is also important to identify that the Selby District does not always benefit well from other funding streams meaning it is important to continue supporting local community activity into the future.
- 1.5 Examples include a 2019 report¹ identifying National Lottery community funding per head in the Yorkshire and Humber. Analysis shows that in the three financial years 2015-16, 16-17 and 17- 18, £310m (i.e. over £100m a year) was awarded in grants to Yorkshire and Humber VCS organisations through 9,887 awards from 53 funders. Selby is the lowest funded of all the North Yorkshire districts at £2.53 per head in comparison to Craven at £8.57 per head; with Ryedale being the area with the highest proportion of funding per population. Separate work continues to build relationships with regional funders to understand how to increase such investment in the district.
- 1.6 It does however also demonstrate the need to ensure that there is locally accessible funding to communities which is protected to the area and gives opportunity for the Voluntary, Community and Social Enterprise (VCSE) sector to continue to strengthen the local community offer.

2. The Community Legacy Fund – delivery options

- 2.1 The objective of a community legacy fund in the Selby District would be to:
 - Secure a self-sustaining approach to funding for the district's communities regardless of local authority or boundary changes into the long term.
 - Provide access to local funding where we know how to spend it to best effect.
 - Provide multi-year funding to VCSE which creates stability in the sector and strengthens their ability to deliver community services.
 - Offer opportunities to stimulate local giving through other donors, businesses, and organisations.
 - Provide equitable opportunity for funding across our diverse area according to data, local intelligence and working in partnership.

¹ Rocket Science UK Ltd (2019) 'The National Lottery Community Fund Yorkshire and Humber funding ecology research': Rocket Science UK Ltd, Morpeth.

- 2.2 A range of community funding options has been explored against the above objectives. In-house grant management is considered as part of an options appraisal as identified in Section 4. Examples of external community investment/grant giving models include direct grant giving service level agreements, Crowdfunding platforms, community investment funds and community endowment funds. In reviewing the grant management and crowd funding platforms, the approaches would require an ongoing revenue stream from the local authority. Examples include Groundwork UK [Apply for a grant | Groundwork](#) and [Spacehive - Crowdfunding For Local Projects](#). A Community Investment Fund would support the social enterprise sector with business-to-business investment opportunities which is a different model of support and does not support the identified objectives; for example, [Community Investment](#).
- 2.3 The Community Endowment Fund involves donating an amount of funding which is invested to generate interest. Grant funding is taken from the interest generated and distributed to community groups according to locally agreed conditions. The endowment can continue to generate interest for grants in perpetuity or can be 'spent down' to match fund other donor contributions or increase the annual allocation of grant fund used. This approach is delivered by UK Community Foundations (UKCF). UKCFs are a recognised partner of the Charity Commission in managing dormant funds and administer significant funds from HM Government (inc. flood relief, coronavirus response). The local example is [Two Ridings Community Foundation | Giving across North & East Yorkshire \(tworidingscf.org.uk\)](#). Section 3 offers some further detail as to how TRCF manage the approach.
- 2.4 To meet the objectives identified above it is considered that a self-sustaining community endowment fund approach in conjunction with Two Ridings Community Foundation as the local UKCF body would be the preferred option.

3. Two Ridings Community Foundation:

- 3.1 Established in 2000, Community Foundations are a UK wide accredited network of charitable organisations that inspire local giving from a range of private and public funds. The North Yorkshire and East Riding areas are covered by Two Ridings Community Foundation (TRCF). Donors to the organisation can include businesses, individuals, public sector and other charitable funders. Such examples include Betty's & Taylor's Group, Drax Power Ltd flood recovery funding, HM Government Coronavirus community grants, Harrogate Borough Council Local Fund and North Yorkshire County Council endowment fund. See Appendix A for a brief outline of the Foundation and how it supports community funding and development.
- 3.2 The foundation works in a number of ways which includes:

- Direct management of funding (this can have clear criteria for spend including geographical, thematic criteria)
- Attracting match funding
- Investing in endowment funds – securing returns on an infinite basis (in perpetuity) or ‘spent down’ over time.
- Supporting local partnerships to strengthen VCSE involvement and increase funder capital (applicant capability).

3.3 For interest, in the Selby District:

- In 2020/21 TRCF distributed £91,634 in 20 awards to Selby District community organisations and groups.
- Since 2002 145 awards totalling £413,187 have been distributed in the district.

3.4 TRCF can support the development of any funding criteria through a ‘Vital Signs’ report, developed specifically for the district to identify where funding could make a positive difference and can also identify key themes for giving (i.e., supporting young people, tackling social isolation, supporting rural neighbourhoods). Examples can be found here: [Two Ridings Community Foundation | Vital Signs Reports - Two Ridings Community Foundation \(tworidingscf.org.uk\)](https://tworidingscf.org.uk)

3.5 TRCF also establish a grant panel who deliberate on fund applications; such panels aim to be locally representative and can include Members.

3.6 Managing Endowment Funds:

- Endowment funds are invested by Two Ridings from which they make grants etc on the return from the investments.
- Endowed funds can be held in perpetuity or can be ‘spent down’ over several years.
- TRCF operate a Total Return system and work to a 5% target annual return for grant making and contribution to Two Ridings costs.
- TRCF currently have £6m in long term, endowed assets. The investment managers for the Foundation are Brown Shipley and CCLA (Churches, Charities and Local Authority) to manage the funds on their behalf.
- An investment committee oversees this management, including representatives with significant investment management experience.
- Roughly, in only 20 years the fund will have distributed as much in grants as the original donation but will continue to generate income in perpetuity.
- Typically, it can take a year or two to generate a return for grant making.

4. Options Appraisal

4.1 An options appraisal has been undertaken on the various ways in which funding can be invested. The 3 main options considered by the working group are outlined below.

4.2 **Model 1: In-house management of a finite fund of £100k.**

The approach would require establishment of a grant policy, funding criteria and a decision-making process to ensure equity of opportunity. The fund would likely be time limited and close as the money is spent unless further funding is contributed to support ongoing grant activity.

Benefits:

- Spends the funding in the district within the current financial year.
- Provides an opportunity to increase contribution at any time but could be subject to any LGR impact.

Limitations/Risks:

- Once spent, it is spent.
- Requires new grant policy, funding criteria, decision making and grant management arrangements to be developed.
- Requires officer resource (≥£10k).
- Smaller grant approach does not offer support to larger VCSE projects or multi-year stability and could impact resilience in the long term.
- May be at risk if not spent as SDC dissolves due to LGR.

4.3 **Model 2: TRCF manage a donated, finite fund of £100k.**

Funding criteria would be established using the 'Vital Signs' report. Local grant panels are already established to review applications and can be strengthened through further local recruitment. Two Ridings have grant management expertise that would support monitoring and evaluation. There would be a £10k cost contribution required which is usually taken from the donation but could be covered by service budgets on a short-term basis. The fund would be time limited and close as the money is spent unless further funding is contributed.

Benefits:

- Spends the funding in the district within the current financial year/agreed timescales.
- No clawback when SDC dissolves due to LGR.
- Structures in place to manage against 'Vital Signs' criteria, local grant panel used.
- Provides early access to funding in comparison to investment funds.

- Where endowment option agreed, the grant fund is already established and provides an initial pump prime to allow quick access to funding, allowing the slower growing endowment fund to develop. The fund can then be 'topped up'.

Limitations/Risks:

- Once spent, it is spent unless further donation or 'top up' from further local authority funding, donor or endowment.
- Any donor involvement may effectively reduce SDC's overall control on the discretion of the fund but 'match' does not have to be an option.

4.4 **Model 3: Endowment Funding in perpetuity**

- 4.4.1 Create a capital funding pot which is held either in perpetuity or 'spent down' as identified in section 3.6. The fund is donated with a target Total Return on investment of 5%. Investment aims to grow capital to keep pace with inflation and to provide a revenue stream to finance community grants. There is no limit to the funding which could be placed in this investment and funds cannot be withdrawn. This is a long-term approach to grant funding investment and would take longer to grow.
- 4.4.2 Illustrative examples of the investment return are modelled at Appendix B. The modelling considers investment returns over 1,3,5 and 10 years at amounts from £100,000 to £5M and estimated interest rates of 1,3 and 5%.
- 4.4.3 A summary of various returns with cost and grant making illustrations is set out at Appendix B.
- 4.4.4 Criterion and grant panel decision making processes would be as Model 2 with the Selby District Community Fund being the fund which receives the interest growth for grant making. The initial CEF funding would enable a 'pump prime' to support short-term giving to the community whilst the fund has time to develop and is then effectively 'topped up' as the endowment creates a return.
- 4.4.5 The initial investment would be donated based on the fund being available to the community in perpetuity. SDC or any replacement authority would not be able to request return of the funds and funding would remain in the Selby District. However, the local authority as original donors (or the new authority) will be able to continue to shape the use of the funds into the future. This requires a level of trust that TRCF will deliver for our communities into the future but also protects the district boundaries against any local authority changes. TRCF would have an ongoing relationship with the new authority to guide local need.
- 4.4.6 There is an opportunity as any interest grows to use the return in two ways: firstly, to create the community fund as identified above; secondly to use a

proportion of the interest as a 'match fund'. This would be used as funding to attract other donors and effectively match their donation as new funding streams. Tax paying donors are then able to also supplement their donation with Gift Aid adding a further £25% to community funding (for example, see Appendix A 'Using funds as leverage'). Management and direction of such funding may be subject to the donor's discretion (if the donation was sizeable) however there would still be a minimum requirement to fund within the parameters of Selby District as a minimum.

4.4.7 To 'spend down' however, the original investment would decline over time as the number of grants given and match funders supported increases.

4.4.8 Benefits:

- The fund aims to be self-sustainable to generate community funding for Selby District (or relevant boundaries) in perpetuity.
- A 'spend down' approach, although finite, could equally stimulate an increase in wider donor match + Gift Aid to increase yield.
- Structures in place to manage against 'Vital Signs' criteria, local grant panel used.
- Projected 5% target return on investment.
- Long term approach enables risks of lower returns to be managed as growth levels fluctuate over time.
- Fund has no upper limit and can be added to.
- Provides opportunity for larger funding bids enabling multi-year agreements which support VCSE sector sustainability (a key issue for the sector).

Secondary option to create a donor match fund from the interest which:

- Stimulates match funding to draw in additional donors, use of Gift Aid and increased yield over time.
- Donors can create endowments or revenue funds from the match.
- Match fund approach is not a condition and can be used or not, at any time. Decision whether to use as match fund would be through negotiation with the local authority as donor.

4.4.9 Once donated, there is no clawback of the funding.

4.4.10 Limitations/Risks:

- Requires much larger investment to show earlier impact as this is a long-term growth option.
- TRCF invest at 'medium' risk. Some years could show loss in income, or slower return. Returns and grant making are managed over the longer term to smooth impacts of losses should any occur (all investments can fall as well as rise).

Secondary option limitations:

- The 'donors match' funding effectively goes into a donor's 'pot' and likely means SDC cede control of the direction of that spend (where donor proportion exceeds SDC). This would be mitigated through continued grant panel approach for all party interests. Still remains in Selby District as a core condition.
- Any option to 'spend down' the endowment would spend the entirety of the initial investment over a length of time.

5. Proposal

5.1 The following proposals have been agreed with the working group as the most effective way of supporting Selby District communities through a legacy fund approach:

- i) The working group consider Model 2 as effective management of the CEF underspend – to create a Selby District Community Fund.
- ii) The working group consider Model 3 as an effective investment for the community on an 'in perpetuity' basis. The intention then would be for the Selby District Community Fund to be replenished using the endowment fund interest.
- iii) The initial £100k CEF underspend would be used as an initial funding stream to offer short term community funding whilst the investment return establishes.
- iv) The working group consider that an initial investment of approximately £2 Million be contributed to an endowment fund.

5.2 Benefits of the approach include:

- Increased return on initial capital investment - target interest rate growth of 5%pa.
- Increased amount of community funding per head into Selby District.
- Increase in range of donors – funding contributions potentially matched between 10-100%
- Community groups gain access to further advice and support to strengthen funder capital (application capabilities) – increased application success rate.
- Investment into community services and activities for communities of higher need.

6. Implications

6.1 Legal Implications

6.1.1 In this instance Executive would need to recommend to Council to consider allocation of the funding of any new project in consultation with members as per Council resolution in section 71 (v, vi) of 20th February 2020 Full Council meeting, to enable all councillors to have a considered input to review existing and newly considered projects under P4G.

- 6.1.2 The officer and member working group were formulated through a request to Group Leaders to identify lead members to support review of the community legacy approach and develop ideas as Council representatives.
- 6.1.3 A formal agreement will be required to consider any donation to TRCF and therefore decisions at this stage are made in principle whilst due diligence of Two Ridings Community Foundation is undertaken, and the parameters of any giving are considered.

6.2 Financial Implications

- 6.2.1 An underspend of £100,000 from the approved CEF budget has been carried forward into the current financial year and would form the basis of the initial Community Legacy Fund. Securing the funding into a committed funding pot with Two Ridings Community Foundation would secure all the funding until it spends, regardless of financial year.
- 6.2.2 TRCF operate a Total Return system and work to a 5% annual return for grant making and contribution to Two Ridings costs.
- 6.2.3 In order to achieve a meaningful grant making fund, an endowment fund approach would require a significant investment. By way of illustration, to achieve an indicative revenue return of £50k p.a. an investment of £1m would be required with a return of CPI+4% (say 5%). The revenue return would enable the fund to keep pace with inflation, contribute towards grant making, and cover TRCF costs.
- 6.2.4 It should be noted that indicative returns cannot be guaranteed and returns below the illustrated 5% would reduce the amount available for grant making, and with any investment there is a risk of capital loss. Appendix B presents indicative modelling over 1,3,5 and 10 years at amounts from £100,000 to £5M and estimated interest rates of 1,3 and 5%. to demonstrate how the fund works and the associated risks of lower returns. Section 6.3 considers how risks in investment are managed and mitigated to provide reasonable assurance.
- 6.2.5 Robust due diligence will be required to ensure that TRCF have the necessary governance, policies, and practices to safeguard public funds and that an appropriate investment strategy is in place – the Council would need to be satisfied with the approach to investment. Section 6.3 identifies how the Community Foundation is regulated and accredited.
- 6.2.6 Any investment through option 3 is outside of the current budget framework and would require reallocation of funds from other sources. Subject to approval of the Medium Term Financial Strategy (MTFS) elsewhere on this agenda, there could be funds available within the Programme for Growth and this proposal should be considered in line with that review.

6.3 Policy and Risk Implications

6.3.1 The funding options have been developed to mitigate the risk of loss of community funding from the Selby District both from a short-term perspective and into the medium-long term future. The Local Government Reorganisation brings with it uncertainties as to how community funding and investment will be managed in the future and how the current District footprint may or may not benefit. Options outlined for recommendations to Council attempt to offer a level of mitigation to this and secure investment within our district footprint for the significant future.

6.3.2 Stood alone, use of the £100k revenue funding as a one-off donation would be a finite funding opportunity and therefore there is limited risk in the funds not being spent. The agreement would secure the funding for spend in the district until the full amount is spent.

6.3.4 In terms of developing an endowment fund approach I have expanded on the following risks as identified in Section 4:

Do Nothing: No financial risk to the Council. Loss of potential funding for VCSE resulting in lower resilience and risk loss of groups/sector delivery. Some mitigation due to member funding 2021-2023 although this is a smaller level of funding than proposed.

No identified budget: Funds may need to be repurposed from other budgets to support the initiative which may have an adverse impact on other council priorities. Reviewing the proposal in line with a review of the MTFS should support the Council in its deliberation.

Local Government Reorganisation: Should the LGR process include a 'freeze' on the council's financial assets the initiative may not be supported.

Two Ridings Community Foundation dissolves: TRCF has robust governance arrangements in place which include direction of assets to other charitable organisations should the Foundation have cause to dissolve. The parameters of the fund would remain in place.

To ensure the robustness of the Foundation's approach, TRCF undertakes an externally audited Quality Accreditation every three years to ensure processes are robust. The accreditation includes quality review of the whole organisation with 14 core standards that fall into 5 areas:

- Strategy, governance & risk
- Financial and Information management
- Philanthropy Services and donor management
- Grant making and Community Participation
- Organisational and Network Development

Investment does not make estimated returns: This could impact on the level of grant giving available and in worst case scenario, could incur capital losses. As the methodology of the endowment investment is to manage funding over a considerable length of time, a level of loss is tolerated during periods of slow growth. Projections for capital and interest growth are taken over a significant period (20-30 years). TRCF use the ARC Charity indices, a peer group comparison system which enables portfolio performance to be

reviewed with other similar charity portfolios [ARC Charity Indices \(ACI\): Asset Risk Consultants](#). The 5% draw down that TRCF trustees have approved is a deliberately cautious approach, showing steady growth across the last 15 years. Appendix A 'long term growth' includes a brief diagram to illustrate a fund's development over time. Two Ridings also invest funding over two investment fund managers to mitigate against risks and provide further security.

Cost contributions exceed investment return: See points above.

Donating public funds for control and investment by another body: No investment can be guaranteed, and all investments carry an element of risk. Due diligence will seek assurances over TRCF governance, policies and practices - both broadly and specifically on their arrangements for investments and how they manage the risk of fraud. As described above, TRCF undertake an externally audited Quality Accreditation every 3 years to support this diligence. TRCF will have an ongoing relationship with the local authority. Although the funding cannot be 'clawed back' by the authority, the parameters of spend would be subject to ongoing discussion to respond to local trends and need over time.

6.4 Corporate Plan Implications

Council Plan 2020-2030 priorities include 'to make Selby District a Great Place to Enjoy' with a key objective to 'Develop a Resilient Community'. A milestone achievement for this is to Collaborate with community representatives and funders to establish the community engagement and funding process post covid-19.

The proposal enables Members to drive a community centred approach to delivering services in line with the Council Plan 2020-2023.

6.5 Resource Implications

Contribution costs for a finite fund agreement would be 10%. For an endowment approach, a banded contribution ranging 1.25% to 1.75% of the total investment and growth. Cost contribution covers activity such as investment administration, grant administration and monitoring.

For the revenue fund, there is the option to cover the contribution cost separately ensuring the full £100,000 would be used for community funding. A one- off set up fee is required between £500-£2,500 (depending on size of donation and would cover all described activity).

Relationship management with TRCF would be through the Community, Partnerships and Customers team and transfer to the new local authority. It is anticipated that the local grant panel supporting decisions on grant funding to the Selby District would constitute local volunteers and could include Members.

6.6 Other Implications

None identified.

6.7 Equalities Impact Assessment

An Equalities Impact Assessment has been completed. The assessment recognises that TRCF fund across a range of different types of organisations and benefit many residents, including those with protected characteristics. To ensure that their funding benefits communities and addresses areas of inequality, the Foundation produces a 'Vital Signs' report which is used to identify areas of strength and need in a given area. This is used as a prospectus with potential donors to enable them to understand the local area, where greatest need is, and where they could make the biggest impact through giving.

It is considered that investment with Two Ridings Community Foundation would have a positive impact on all communities of interest, identify and place.

7. Conclusion

- 7.1 The report outlines options to support community funding, both through use of the CEF underspend, and to ensure a lasting legacy for the Selby District community. The Council Plan 2020-2030 has a vision for the Selby District to be a great place to live, enjoy and grow and for communities to be a strong and resilient part of that work. The proposal offers a solution through a long-term investment model to support that vision.

Appendices:

Appendix A: Two Ridings Community Foundation presentation

Appendix B: Two Ridings Community Foundation endowment examples

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