

**Agenda Item 12**  
**Report NPA29/18**

Report to	<b>National Park Authority Meeting</b>
Date	<b>16 October 2018</b>
By	<b>Head of Income Generation and Marketing</b>
Title of Report <b>Decision</b>	<b>Options paper for the future of the Sustainable Communities Fund</b>

**Recommendation: The Committee is recommended to:**

- 1. Approve the principle of establishing an endowment for the Sustainable Communities Fund in partnership with the South Downs National Park Trust as set out at option 3 paragraph 4.5 of this paper.**
- 2. Delegate authority to the Chief Executive, in consultation with the Chair of the Authority to develop and approve the necessary legal agreements, documentation and associated decisions required to establish the endowment.**

**1. Introduction**

- 1.1 Sustainable Development Funds were launched in July 2002 and were originally ring-fenced by DEFRA as a grants programme and administered by National Park Authorities. Originally the funds tended to focus on projects of a capital nature, for example, the installation of solar panels.
- 1.2 In 2010 DEFRA removed this ring-fencing but some national parks continued to operate a Sustainable Development Fund at a smaller scale. A number of other national parks took the opportunity to refocus their funds on community led projects, rebranding it as a “Sustainable Communities Fund”.
- 1.3 The South Downs Sustainable Communities Fund (SCF) was set up in 2011. It has a rolling budget which was allocated £400,000 in 2011/12 and this amount has reduced over subsequent years to £20,000 per annum.
- 1.4 In 2017/18 the SCF committed £76,254.39 to 16 community led projects.
- 1.5 The SCF currently has a balance (funds available to be allocated to projects) of £70,000 (£50k carried from 2016/17 plus this year’s £20k grant) and has been allocated £20,000 per annum in the 2018-19 to 2022/23 Medium Term Financial Strategy.

**2. Policy Context**

- 2.1 The Sustainable Communities Fund has been a key tool for the SDNPA in progressing the Partnership Management Plan (PMP) and embedding the Shared Identity and National Park ethos. It is listed in the current action plan as delivering across all objectives. Many of the projects funded by the SCF have been hugely successful and have been included in the review of the PMP as examples of good practice.
- 2.2 However, the current level of grants is being maintained by recycling funds from SCF projects that failed to commence and by spending the accumulated balance. This is not sustainable and without action the SCF could become solely dependent on the annual budget allocated to it by the Authority. This would reduce the current level of grants available for communities and projects delivering the PMP (or increase the cost to the Authority if the annual budget is increased in line with demand) and raises the risk that future cuts to the central government NPA grant could make the SCF untenable.

- 2.3 At the July 2017 NPA Meeting, the SDNPA put the final governance arrangements in place for the establishment of a charitable trust. The relationship between the SDNPA and the Trust is governed by an MOU, Grant Agreement and Licence to use the Shared Identity. These documents are in place until 2020, at which point they will be reviewed. The grant agreement ensures that the Trust's work is aligned to the PMP whilst maintaining the independence of the Trust as a separate legal entity. The South Downs National Park Trust was registered in October 2017.
- 3. Issues for consideration**
- 3.1 In recent years the average total grants committed by the SCF to projects has been approximately £35,000. Last year this rose to £76,254, showing an increasing demand for funds in the area.
- 3.2 Assuming an average of £35,000 being allocated to projects each year and no action is taken to increase the funds available, the current balance will be depleted by 2020/21.
- 3.3 This would mean that the fund would be reduced in scope and be dependent on the £20,000 budget allocated to it by the SDNPA. There is also the risk that if the grant awards increase, the fund would be depleted more rapidly. For example, an average grant allocation to projects of £45,000 would see the balance depleted by 2019/20.
- 3.4 Given this forecast and the establishment of the South Downs National Park Trust, there is an opportunity to partner with the Trust to create an endowment similar in model to those set up by community foundations, which would secure the fund in perpetuity, to deliver funding for communities to support the implementation of the Partnership Management Plan.
- 3.5 Community Foundations are philanthropic vehicles that are established with a geographic remit. In the UK, they are typically county specific, and raise funds from families, individuals and businesses which are then invested. The profits from these investments are distributed through an annual grants programme, to local good causes. This model of investment alongside continued fundraising ensures that the endowment grows over time generating a sustainable, growing, grants fund.
- 3.6 There are currently community foundations for Hampshire, Sussex and Surrey which were set up in 2006 and each have now grown their individual endowments to in excess of £11 million. However, their grants programmes do not encompass environmental or cultural heritage causes and very rarely accept donations or grant applications focused in the environmental and heritage areas. This presents a gap in the market for donors wishing to support these areas.
- 3.7 Donors are increasingly using community foundations for their giving and research by Charities Aid Foundation (CAF) and Community Foundations UK suggest that donations invested in this way are due to increase from £371 million in 2016/17 to £1 billion in 2025/26.
- 3.8 Alternatives to establishing a community foundation model may be to accept a reduction in annual SCF grants, continuing with the status quo or to consider increasing the SCF budget from NPA resources. These options are laid out in more detail below and summarised at **appendix I**.
- 3.9 This paper is supported by SDNPT Trustees and has been developed in consultation with input from a range of members, including the current Chair of the SCF Panel, Doug Jones.
- 3.10 A paper on the future of the SCF was considered by the P&R Committee who raised a number of queries and resolved to *“Delegate authority to the Chief Executive to further develop, in conjunction with the South Downs National Park Trust, the necessary agreement required to establish an endowment and bring these back to the Authority for final agreement in due course.”*
- 3.11 Further work has therefore been carried out and whilst it has not been possible to bring a final agreement to this meeting for approval a draft of the proposed agreement is attached. It is envisaged that the final agreement would not be substantially different to this draft, but would allow an opportunity for members to raise any others issues or points for inclusion within the agreement. The issues raised at P&R committee have been incorporated into this paper which we are now bringing forward to members, alongside the associated draft legal documentation.

#### 4. Options and Financial Implications

##### Option 1 - Do nothing

- 4.1 Maintain the current level of NPA commitment and accept that the resource of the SCF will need to be reviewed in 2019/20 since it will reduce significantly without further intervention.

##### Option 2 – Increase the funding of the SCF from the NPA to maintain the current average annual grant allocation

- 4.2 At the current time, whilst the fund is becoming better known and supporting a high level of successful community led projects its funds are being depleted. A perception that the SCF's funds were running low could negatively impact the number of strong projects that come forward and would reduce the number and/or value of those that could be supported in future.
- 4.3 There is therefore a case to consider an increase in the current allocation of budget to the SCF over a 10 year time period, in order to allow it to continue financing projects at the current average level - approximately £35,000 per annum.

- 4.4 This would need to be considered as part of the appropriate budget round.

##### Option 3 – Work with the Trust to build an endowment for the Sustainable Communities Fund

- 4.5 Through the Trust, the South Downs National Park Authority could establish an endowment (similar in model to those set up by community foundations, although not in legal terms a community foundation) for the SCF, within the South Downs National Park Trust. This fund would be a ring fenced fund in the existing South Downs National Park Trust and not a new charity. The South Downs National Park Trust would be able to increase the endowment by fundraising from families, individuals, businesses and legacies, thereby enlarging the annual budget available for community grants. A 10 year budget modelling can be seen in **Appendix 2**.
- 4.6 The model assumes that we invest the initial endowment and future funds raised, gaining an average 4% return, net of expenses, over the 10 year period. This is based on the ARC (Asset Risk Consultants) Charities Index report which is used by Rathbones, amongst other investors, to benchmark performance. The 4% figure assumes an average approach to risk.
- 4.7 This would evolve the SCF into a long term, sustainable fund specifically for projects in the National Park and grow over time to become a considerable investor in community projects.
- 4.8 It would also provide the South Downs National Park Trust with an attractive proposition for potential donors, presenting longer term impact for their support when compared to projects with a finite timeline. A number of donors have already highlighted the attractiveness of such a proposal.
- 4.9 This scenario would involve the SDNPA pledging to match funds raised by the Trust, up to the £70,000 balance currently held by the SCF, to establish an initial endowment. The SDNPA funds would be transferred immediately, with a claw back in the case that the Trust cannot raise match funding within two years. If this happened the SCF would revert to the current model of operation and further thought would need to be given to its long term future. The Trust would also invest £70,000 of its current reserve, but these would not count toward the match funding requirements set out above. Once the Trust has raised the required match funding this would provide an initial reserve of £210,000 (SDNPA - £70,000, External Donors - £70,000 South Downs National Park Trust - £70,000)
- 4.10 The proposal is that the SDNPA continue to supplement the annual grants fund to the level already agreed for the SCF in the Medium Term Financial Strategy (£20k per annum) up to 2022/23 . This will allow the fund to maintain a level close to the historic average grants level of £35k, whilst the endowment income grows. At the end of the Medium Term Financial Strategy, members could choose whether or not to continue this commitment. Commitments after the medium term financial strategy are shown in **Appendix 2** in blue.
- 4.11 This proposal is, therefore, not asking that any new funds be committed through the SCF or elsewhere during the life of the current Medium Term Financial Strategy. However, if members wished they could still increase the budget of the SCF, through the budget round

and this would deliver a better return on investment than in Option 1 or 2 due to the additional revenue being generated out of the endowment.

- 4.12 In this proposal it is intended that the SDNPA's External Fundraising Co-ordinator would continue to administrate the grants programme, until the point where this could be funded by the Trust or the Authority decides to withdraw this support. This represents an opportunity cost of £21,877 per annum, as the intention is that this resource would not be re-deployed to other work. This reflects 50% of the current post holder (including on-costs).
- 4.13 A sensitivity analysis has been run on the proposed model, which assumes 20% growth in fundraising per annum and 4% return, after expenses, none of which are thought to be unrealistic. However using the same model, if each of those outcomes were to be reduced by 50%; i.e. the return was only 1.5%, after expenses and annual growth only achieved 10%, the fund would still provide a better return on investment than the current model.

## **5. Governance**

- 5.1 The proposal is that the Trust would recognise the South Downs National Park Authority as an equal partner in all grant awards and related promotion, ensuring the use of the Authority logo would continue alongside that of the Trust (an example can be seen in the table at the end of this paper and as an Appendix within the Funding Agreement).
- 5.2 The Trust would adopt the current grant allocation model and grant rounds with the addition of two South Downs National Park Trust Trustees (who would not be NPA appointed Trustees) to the panel.
- 5.3 The NPA will retain the right to appoint two members to the panel. It is also proposed that an SDNPA member be elected as Chair for the first two years of the transition period, to support the panel and Trustees in maintaining consistency. In future, the Chair will always be an NPA Member or SDNPT Trustee, as elected by the panel.
- 5.4 With the new fund placed within the Trust, the SCF panel would now advise the SDNPT Trustees who would make the final decision on the allocation of funds as opposed to the SDNPA Director of Countryside Policy and Management, as is the current case.
- 5.5 The fund would continue to support community generated "grassroots" projects. The Trust will work to double the current Sustainable Communities fund within, 10 years (i.e. a Grants Fund of £70,000 annually). In discussion with the trust it has been proposed that The trust should have the right to allocate income, generated by the fund, over and above the level of £70,000. In view of the Trusts objects being consistent with the PMP, this is considered to be appropriate. The Trust may in the future establish other endowments to support other types/scales of projects but this will be entirely separate from the SCF endowment.
- 5.6 The grant management function will initially continue to be offered by the Funding Co-ordinator who will remain employed by the SDNPA. This service will be provided pro bono as part of the partnership approach. Longer term, by including a small management fee in future donations (similar arrangements exist in many Community Foundations), these costs would be met by the Trust.
- 5.7 The Funding Co-ordinator role will not be changed and they will still provide a funding support service for small community groups operating within the National Park. The Funding Co-ordinator will continue to be employed by the SDNPA and will work with the Chair of the Panel on matters related to the SCF.
- 5.8 A draft Funding Agreement between the SDNPA and the Trust is being prepared and a draft of this is attached at appendix I. This agreement will make appropriate provisions for the issue of the grant and the use of the monies. It is considered that the proposal does not give rise to State Aid concerns and, as presented, the proposal does not constitute a breach of the State Aid Rules. The Funding Agreement will make provision that both parties continue to monitor the position to ensure no future breach of the State Aid Rules. In addition, the VAT implications of this proposal were also assessed and considered neutral (neither negative nor positive). The issue of securities will need to be considered further following the receipt of appropriate advice. The authority will revive updates as part of the

bi-annual Trust report to the NPA. Further updates will also be provided via those members appointed to the Grants panel as part the usual reporting process.

- 5.9 It is worth noting that this proposal has a number of similarities with the recent arrangements that the New Forest National Park Authority have set up with the New Forest Trust. Like other national parks, their SCF has reduced over time and they are now working in partnership with the New Forest Trust to distribute monies raised through their fundraising, via the established SCF grant giving infrastructure.

## 6. Next steps

- 6.1 Once approved in principle the Chief Executive will work with the South Downs National Park Trust to establish the new fund, and approve the appropriate legal documentation to give effect to the Authority's decision.

## 7. Other Implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	Not in relations to the establishment of the fund. The report seeks delegation to the Chief Executive in consultation with the Chair of the Authority to take necessary decisions should the principle be agreed. Any additional support to the SCF beyond the current MTFS can be dealt with through the budget rounds. Should the Trust be unable to raise the necessary match funding required a further report on the future of the SCF will be bought to the appropriate Authority decision making body
Does the proposal raise any Resource implications?	Assuming consistent costs over 10 years, options 1 and 3 do not present an increase in current financial commitments when compared with the medium term financial strategy. Option 3 does represent an opportunity cost, in respect of the gift in kind provided through the Funding Co-Ordinator (The value of this is equivalent to £21,877). Option 2 presents additional costs of £80,000 over the next 10 years.
How does the proposal represent Value for Money?	After the initial investment, the endowment will become self-sufficient, growing over the coming years, providing a significant return in terms of those projects supported and the exposure secured through this support.
Are there any Social Value implications arising from the proposal?	Yes. The Trust aims to build capacity to deliver against the PMP, particularly in the areas of conservation, engagement and education. This will create huge social value for those who live in and around the National Park.
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	No change from current SCF arrangements: applicants have to show how equality and diversity has been taken into account in the design of the project and this is considered when deciding a grant. The Trust will be required to ensure that any arrangements it makes for the provision of future grant funding is compliant with the Authority's enhanced equalities obligations
Are there any Human Rights implications arising from the proposal?	None directly arising from this report.
Are there any Crime & Disorder implications arising from the proposal?	None directly arising from this report.
Are there any Health & Safety implications arising from the proposal?	None directly arising from this report.

Are there any Data Protection implications?	Yes, these are dealt with in the MOU.
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy:	Yes, this project will help deliver against the SDNPA sustainability Strategy through 1, 2 and 4. This would be enhanced through the selection of option 2 or option 3.

## 8. Risks Associated with the Proposed Decision

Risk	Likelihood	Impact	Mitigation
The SDNPA loses profile from future grants from the fund	Low	Medium	Conditions around the fund can ensure that the any future grantees recognise the SDNPA.
The SDNPA loses influence in approved grants and the projects supported do not meet the PMP	Low	High	Conditions around the fund can ensure that the SDNPA has a key input into all approved grants. The Trust's work is focussed on raising funds to deliver the PMP.
The Trust is not able to recoup additional funds and the SCF slowly winds down	Low	Low	There would be a claw back allowing the SNDPA to take back funding on the basis that it could not be matched by the SDNPA. The proposed top up means that the Trust has a generous period of time in which to raise funds, with the timescale allowing for potential legacies.
Lack of influence results in projects not delivering the PMP	Low	High	The Trust has signed up to the 2050 vision and is delivering projects against the PMP. In addition, the proposal is to leave the current SCF intact whilst adding in a number of Trustees to the grant panel.
The endowment is inefficiently managed, leading to poor performance and low grant levels	Low	Medium	A group of Trustees with relevant financial experience would be brought together to advice on the endowment. This includes Toni Shaw, who has over 10 years' experience working with endowments, (building up over 10 million at the Hampshire and Isle of White Community Foundation) and Greg Mahon the Trust's Treasurer, who is a qualified Investment Manager and the Regional Director at Rathbones.

### JAMES WINKWORTH

#### Head of Income Generation and Marketing

#### South Downs National Park Authority

Contact Officer: James Winkworth  
Head of Income Generation and Marketing

Tel: 01730 819218



email: [james.winkworth@southdowns.gov.uk](mailto:james.winkworth@southdowns.gov.uk)

#### Appendices

1. Summary of options
2. Option 3 **medium term financial strategy commitments**
3. Draft Funding Agreement


SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Monitoring Officer; Legal Services, Business Service Manager. Head of Governance; Chair of the SCF Panel
External Consultees	South Downs National Park Trust
Background Documents	<a href="#">Authority Report 11<sup>th</sup> July 2017</a> <a href="#">Authority Presentation 30<sup>th</sup> March 2017</a> <a href="#">Authority Report 30<sup>th</sup> March 2017</a>

**Agenda Item 12 Report NPA29/18 Appendix I**

	<u>10 year cost to the Authority</u>	<u>10 year Value of Grants</u>	<u>Endowment invested for future Grants by 2028</u>	<u>Branding</u>	<u>Decision Making Process</u>	<u>Pros for the Authority</u>	<u>Cons for the Authority</u>
Option 1	£250,000 (10 * £20k plus £50K balance) and staff costs representing £21,877 per annum	£250,000	£0		No change	<ul style="list-style-type: none"> <li>- Sole donor, meaning no reduction in exposure</li> <li>- No change to the longer term financial forecast</li> </ul>	<ul style="list-style-type: none"> <li>- Currently unbudgeted beyond the medium term financial strategy</li> <li>- Grant balance could quickly be depleted, meaning the current grant level could reduce by 2020.</li> <li>- No means to attract further donations to the fund.</li> <li>- Long term reliance on the SDNPA.</li> <li>- Return is limited to the SDNPA investment police and adopted risk profile</li> </ul>
Option 2	£350,000 (10 x £35k pa inc £50k balance) and staff costs representing £21,877 per annum	£350,000	£0		No change	<ul style="list-style-type: none"> <li>- Sole donor, meaning no reduction in exposure.</li> <li>- Maintains the current level of grants</li> <li>- Increased goodwill for the SDNPA via the NPA investing more in local communities via the fund.</li> </ul>	<ul style="list-style-type: none"> <li>- Higher, currently unbudgeted cost</li> <li>- No means to attract further donations to the fund</li> <li>- Limited scope in how it can invest the current balance.</li> </ul>



**Agenda Item 12 Report NPA29/18 Appendix I**

Option 3	£250,000 (= 10 x £20K pa plus £50K balance) and gift in kind representing £21,877 per annum.	£360,592 (as seen in the Totals in Appendix I)	£902,962 (as seen in the Totals in Appendix I)	 <p>The logo for the Sustainable Communities Fund, featuring the text 'SUSTAINABLE COMMUNITIES FUND' in green and white, with 'GRANT-AIDED BY' above it. Below the text are the logos for 'South Downs National Park Authority' and 'SOUTH DOWNS NATIONAL PARK TRUST' over a landscape image.</p>	<p>Little change - the current grants process would be maintained, with the addition of two Trustees to the current SCF panel</p>	<ul style="list-style-type: none"> <li>- Reducing costs to the Authority over time</li> <li>- Organic, growing grants pot providing long term funding</li> <li>- Ability to attract additional donations to the fund, including gift aid</li> <li>- Ability to secure a better return from the invested endowment</li> <li>- Increase in exposure, over the long term, through more projects supported</li> <li>- Longer term self-sufficiency, potential to cut <u>cost to SDNPA post 2022/23</u></li> <li>- Increased goodwill for the SDNPA and the Trust</li> </ul>	<ul style="list-style-type: none"> <li>- Sharing exposure with the Trust on any grants funded</li> <li>- Diluted influence over the fund</li> <li>- Increased investment risk by taking through the Trust accepting a higher risk rate than the SDNPA</li> </ul>
----------	--	--	--	---	---	---	--

Option 3					
Year	Endowment Value assuming 4% return and 20% year on year fundraising growth, minus fees	Funds raised by the Trust, assuming 20% growth and excluding the initial funds to establish the endowment	Grants Fund from Endowment, assuming 4% draw down	SDNPA Grants Fund Supplement	Value of Grants Awarded
18/19	£175,000		£0	Already Allocated	£35,000
19/20	£210,000	£35,000	£7,000	£20,000	£27,000
20/21	£252,000	£42,000	£8,400	£20,000	£28,400
21/22	£302,400	£50,400	£10,080.00	£20,000	£30,080
22/23	£362,880	£60,480	£12,096.00	£20,000	£32,096
23/24	£435,456	£72,576	£14,515.20	£20,000	£34,515
24/25	£522,547	£87,091	£17,418.24	£20,000	£37,418
25/26	£627,057	£104,509	£20,901.89	£20,000	£40,902
26/27	£752,468	£125,411	£25,082.27	£20,000	£45,082
27/28	£902,962	£150,494	£30,098.72	£20,000	£50,099
Total	£902,962				£360,592.31
Post 22/23 not committed by the SDNPA					

Assumptions

- Trust takes the £35k SCF fund for the current year, from the initial £210k endowment.
- 5% average interest return across the years, 1% fees
- 20% of the funds value is raised in external donations each year
- The Grants Fund from endowment is a fixed 4% draw down from the capital, regardless of the growth rate
- The SDNPA provides £70,000 to establish the fund and maintains the commitment of £20k per annum up to 22/23 (the Medium Term Financial Strategy) after which it is reviewed.