



Community Endowments

Facilitating investment for lasting impact in Scotland's communities

Foundation Scotland administers Community Endowments on behalf of community organisations and charities ('the Client') that have funds available to invest. These funds will usually have come from legacies or donations such as community benefit payments from renewable energy developers or other infrastructure projects, and/or may be funds that have accrued over time. Foundation Scotland works with a number of investment managers to administer over £16 million in endowments for community groups, charities, individuals and companies.

What is a Community Endowment?

A Charitable Endowment is a sum of money (capital) that is retained for long-term investment, the financial return from which is used to fund the Client's own charitable activities as outlined in their agreement with Foundation Scotland. The return from the invested capital will be produced in a combination of dividends, interest and/or capital growth

How much does an Endowment Earn? The return from an endowment cannot be guaranteed and will depend on the objectives of the endowment; the level of risk taken; the blend of investments; and, of course; the investment performance.

How are Endowment Funds Managed?

- Client funds will be invested under an agreed investment strategy using an external investment manager from one of the Foundation's existing pool. A Client may request the use of a specific investment manager and Foundation Scotland will, at its discretion, consider the request, subject to an initial minimum fund of £250,000.
- The Finance Committee of Foundation Scotland will monitor the annual and long term performance of an endowment. Members of the Committee are selected for their investment expertise.
- A Client endowment may be pooled with other endowments held which enables efficient management of the investments and the potential of a greater return than a Client could achieve alone. However, each client endowment has a defined value within any pool which will determine the precise amount of the overall return.
- As a charity, Foundation Scotland can obtain specific tax reliefs, which means that a community group (whether or not a charity) will receive interest gross of Income Tax, whilst any gains made on the sale of the investments will be free of Capital Gains Tax.

Community Endowment Set Up

A Client will need to decide how much to invest at the start (minimum £25,000) and the charitable purpose(s) that their endowment will be used to support. The Client will also agree an appropriate investment strategy with Foundation Scotland.

An 'FS Trust' will be created as a vehicle to hold the endowment, which is a restricted fund, held on Trust by and within Foundation Scotland and subject to terms of an Agreement. This assures the Client that the endowment is ring-fenced for their purposes and no other.

The governing document is an 'Agreement incorporating Trust Arrangements' and will cover all details on the management of the endowment including: Trust Purpose, Investment, Distribution and so on. Once these details are accepted via a signed agreement the Client's funds will be invested.

A Client can add to their endowment at any time. The Client can also vary the purpose of their endowment from time to time. Accepted changes are recorded in a revised agreement or variation document.

Withdrawal and Reporting

Funds will be withdrawn from the capital under the terms of the agreement for distribution to charitable causes as agreed with the Client.

Options for drawdown will depend on the Client's aims but may include for example, a fixed percentage of the capital value (Foundation Scotland typically withdraws an annual sum for distribution which is equivalent to 4% of the capital value of the endowment) or a fixed amount to fund specific projects. Alternatively, where a community wishes to build its endowment for distribution at a later date, for example where funds are coming from annual donations from a wind farm developer and the aim is to build a pot of money for distribution after the operational life of the wind farm, they may decide on no drawdown during the interim period.

Each Client will receive a statement every six months with financial details of their endowment, showing the market value and the return produced.

Details of each endowment will be included in Foundation Scotland's Annual Accounts, which are externally audited. Foundation Scotland will also provide a copy of these accounts to the Office of the Scottish Charities Regulator (OSCR) each year together with an annual return.

Client Contribution to support Foundation Scotland costs

A one-off contribution of £500 is requested for endowment set-up and a further contribution requested for ongoing administration. The latter covers the following two areas.

- i) **Governance:** an annual contribution is requested toward the Trusteeship (Governance) of the Endowment which is set according to its size. As set out in the table below, the contribution tiers are cumulative.

Annual Governance Contribution	Annual contribution rate (% of capital)
Balances up to £99,999	1.0 %
£100,000 and £999,999	0.35 %
Balances over £1,000,000	0.1 %

Annual governance contribution levels for a range of capital sizes are shown below:

Capital value of Trust	£100,000	£250,000	£500,000	£750,000	£1,000,000
Governance Contribution	£1,000	£1,525	£2,400	£3,275	£4,150

- ii) **Distribution:** an annual contribution is requested that reflects the cost of distributing funds to charitable causes of the Client's choice. This contribution will be discussed with each Client and set according to the level of involvement required from Foundation Scotland. In the case of the financial return being re-invested into the capital (i.e. no return used for distribution) then no further contribution will be requested.

Who do I contact for more information?

You can call us on 0131 524 0300 or email us at communitybenefit@foundationscotland.org.uk

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