

Fund management by community foundations

Fund development and management is a defining activity for community foundations: in fact one simple definition of a community foundation is “a collection of funds”. Fund development is the active establishment of funds at a community foundation, through the cultivation of different kinds of donors and provision of effective donor services. It requires long term strategic focus and the building of long term relationships with actual and potential donors.

This information sheet covers:

1. Types of funds
2. Setting up funds
3. Considerations for managing funds
4. Charges for funds and donations
5. Investment of funds

Sample fund agreements for most types of funds are available on The Hub at www.communityfoundations.org.uk (in members section). Look in the section on Funds and donor options in Fund Development.

1. TYPES OF FUND

Whilst there are as many different funds as there are donors within UK community foundations, most of the funds fall into five main categories. The first four fund types quoted, in charity accounting terms, are defined as “restricted”. The fifth in charity accounting terms, is “unrestricted”.

1.1 Donor Advised

For a donor that wishes to participate in the grantmaking process, a **Donor Advised Fund** may be best. In this fund, the donor can be involved in the grantmaking process, for example through informal consultation with the foundation or, in some company funds, by a staff advisory group

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giving a steer to the nature of grants decisions. Some organisations such as Charities Aid Foundation (CAF) have set up similar vehicles for funds, but community foundations offer the added bonus of experienced local grant programme staff and volunteers who can provide research, local knowledge and support for their grant-making.

1.2 Field of interest, geographic or themed

A **Field of Interest Fund** serves those who know what specific, broad purpose, geographic or issue area they wish to support, but who do not wish to be involved in the specifics of grant-making. This may be an issue such as health, children and youth, arts or the environment, or a specific part of the geographical area covered by the community foundation. A foundation may set up a themed fund – such as a women's fund – to which many donors, large and small, may contribute.

1.3 Directed

If a donor wishes to support a specific charity, they can set up a **Directed** fund. The donor directs the community foundation to pay the fund's income to one or more specific named organisations. A safeguard is usually built in to the agreement to ensure there is a procedure for varying the grants should the nominated organisations wind up or change in nature.

1.4 Administrative endowment

This fund is developed to provide sustainable funding for the community foundation's running costs.

1.5 Discretionary or unrestricted

To contribute to the ongoing work of the community foundation, a **Discretionary Fund** can be established. In this case, the foundation's trustees use their discretion to allocate the fund's income to a broad range of community issues. This lets the foundation respond to changing community needs and opportunities and make decisions in the best interests of the community. A number of UK community foundations refer to this as their general fund or Local Giving Fund.

2. SETTING UP FUNDS

The community foundation helps the donor **decide what to give**. For a donor to have their own named fund, typically a minimum of £10,000 for flow-through (immediate impact) funds and £25,000 for endowment (investment) funds is required. Each community foundation sets their own minimum amount. Smaller contributions to the community foundation are of course very welcome. These can be made to the community foundation's general fund or to field of interest or themed funds. Some foundations also enable donors to make regular contributions that will build up over time towards the amount necessary to qualify as a named fund.

Once a donor decides they want their own fund, rather than contributing to an existing fund, the typical process is as follows:

- The community foundation helps the donor decide on the **name of the fund**. Typically, donors use their own name, family or corporate name, or the name of a person being honoured. Some donors chose to remain anonymous.
- The community foundation helps the donor decide if they wish to contribute to the work of the foundation instantly and with **immediate impact (a flow-through fund)** or if they wish to make an **investment and give in perpetuity (an endowed fund)**. Some funds are a combination of flow-through and endowment funding.
- What **kind of donation** most suits a donor is also discussed. Community foundations accept donations of cash (with the additional benefit of Gift Aid); shares (which also provide substantial tax benefits to the donor in the right circumstances) as well as property (similar relief applies to donations of land or buildings.) Whilst community foundations are not qualified tax advisers, they give relevant information on the types of tax benefits of giving and encourage donors to check with their own financial advisers.
- **Legacy pledges** are also an option for donors, which will in time lead to the establishment of a fund, or a donation to the community foundation. The donor simply makes provision in their will or trust to the community foundation. Many donors who leave legacies to the community foundation register their interests and charitable wishes with the foundation so that these can be carried on into the future. There are different types of legacy (pecuniary legacies and gifts of residue). As far as the beneficiaries of a deceased person's estate are concerned, a more tax effective method of giving can be to use a Deed of Variation. The donor should consult their financial adviser on this option. Examples of legacy pledges are available on The Hub – simply put Legacies in the search screen to find them.

3. CONSIDERATIONS FOR MANAGING FUNDS

Community foundations manage a variety of funds and contracts: here is a summary of practice from the network in managing funds and providing excellence in donor service – particularly for those donors with an interest in donor-advised funds:

- a customer-care and “high touch” approach to supporting donors and helping them decide on the best fund for them
- clarity about what the community foundation offers, the fees charged, relevant information on investment policy, and how the community foundation can support a donor and add real value to the giving process
- all board members, and staff of every department involved, or aware of, services provision to donors
- clarity about the nature of the gift: that the donor makes an irrevocable donation to the community foundation and the fund is placed under the stewardship of the community foundations’ board of trustees

- clear fund agreements that note the donors' interests, information on the management of the fund, any fees or charges, and information on any successor-adviser to the fund
- at a minimum, the offer or an annual review of the fund and its performance, to the donor; regular fund statements
- valued-added services; eg invitation to events and briefings; newsletters and mailings; ebuletins; site visits to projects in the community
- clear confidentiality and data protection policies
- comprehensive use of IT and community foundation software (eg DIGITS) to provide services to donors

According to the commitment made by network members as part of the scheme with **Coutts and Co**, the guarantee that community foundations give to donors with "personal" funds (ie the donor advised fund) is: maximum impact; minimum hassle; complete flexibility; regular feedback; active engagement; high cost-effectiveness; and, long-term effectiveness. See "*Your community. Make your giving count*" for the guarantee in fund management given by Coutts accredited members.

4. CHARGES FOR FUNDS AND DONATIONS

Here is a round-up of some fees from around the network as at July 2009:

Foundation	For flowthrough	Endowment set up	Annual fee for endowment	Comments
Bedfordshire & Luton	10-12.5% depending on work levels		1.25% up to £1m. Above £1m, scaling down to 1%	
Berkshire	10-12.5%	3%	1%	Under review
Bournemouth Dorset & Poole	10%	3%	1.5%	Flexible
Buckinghamshire	10%		1%	
Calderdale	10%	Under £100,000 – 1% (min £250). £100,001 to £499,999 – 0.75%. Above £500,000 – 0.5%	Hourly rate depending on number of applications likely to be processed.	For Acorn Funds the same set up fee structure would apply but plus annual fee of 0.5%
Cambridge	10%		1%	
Capital	12-15%	5% (only on NF's, capped at 5% of 1 st £50k for individuals; £200k for companies)	1.5%	Discretion to review charge over £0.5m; probably reduce to 1% on £1m+
Cornwall	10%		1.25%	
County Durham	10%		1.25% Admin of trust funds/other charities 2%	No fees for grassroots. Additional charges for donors who want extra services eg website, phone line
Cumbria			1% ex capital	
Devon	10%		10% of interest	
Essex	10% - negotiable subject of reporting requirements		1% of capital value on funds over £1million. 1.5% on funds £100,000-£1m 2% on funds under £100,000	
Gloucestershire		1-1.5%	From 1% of capital annually or 5% of income	1% or 1.5% entry fee
Greater Manchester			1.25% of market value at 31 March. Dividends go to operational grant funds after taking 10% of fee.	No entry fee

Foundation	For flowthrough	Endowment set up	Annual fee for endowment	Comments
Herefordshire	10%	1.5%	1.5%	
Hertfordshire	Varies up to 10%	1.5%	1.5%	All new flowthrough funds at 10%
Kent	5-10%	3%	1.5%	Always allow scope for variation, outreach charges
Leeds	10%		1%	
Lincolnshire	10%-20% depending on work involved		80/20 percent split on accrued interest. 80% grants, 20% fee	Flexible approach and will work for £380 a day
Merseyside			Up to 10% of endowment income or 1% of capital value annually, which ever is greater	Fee taken from income
Milton Keynes	10%		2% - 1% to us and 1% to investment managers	Fee structure to be reviewed
Norfolk	10%		1%	Some scope for variation
Northants	10%-18%	5%	1-2%	
Quartet		3% on entry from capital	0.5% of capital or 10% of income	Under review
Scottish	5% - 10%		Sliding scale 0.15%-0.4% plus 5%-10% if any income used for grantmaking	Sliding scale re size of endowment
Shropshire & Telford	12%		12% of interest generated for grant making	
Somerset	Standard 10%, can vary between 7.5% - 12.5%	3% to 5% for endowment start up	Standard 1.5% with some variations.	
South Yorkshire	15%	5%	1.5% of capital or 15% of income, whichever is greater	Investment management fees charged to capital
Staffordshire	10%	5%	1.5%	
Suffolk	10%		1%	
Surrey	7.5%	3% of capital value	1.5% of capital value off the interest earned. Above £250,000 this reduces to 1%. (NB 0.6% of which is payable to their (Investment Managers)	Grassroots set up fee of 5%.
Sussex	10%		1.25%	Also charge 5% of donations to Grassroots
Tees Valley	15%	n/a	1% of capital	
Tyne and Wear	10% with a min fee £1k but may reduce as low as 5% for funds over 350k, depending on work involved	n/a	1.25% for funds under 250k. 1% for funds over 250k	Entry level for named funds £50,000
Wales	10%	Negotiable	1.25%	
Wiltshire & Swindon	10%	3% set up fee taken from endowment donations	No more than 1% of capital	
Worcestershire	10%			
York & N Yorks	6 to 8%	2%	10% of grants made	

Not all foundations charge an entry or set-up fee. One foundation strongly advises against it:

“We do not charge set up fees. When setting its annual budget, the board has always allowed for development costs, including the cost of setting up new funds. While there is quite a lot of work involved in setting up a new fund, they regard it as part of winning new business. When promoting the concept of community foundations, the main selling point is our expertise in grant-making and assessments. A close second is that setting up a fund at a community foundation is quicker, easier and cheaper than

establishing a separate grant-making trust. Charging set-up fees to new donors could be a major stumbling block – not only do you lose the argument of being less costly than establishing a separate trust, but you are asking someone to pay up front for something that they don't yet know whether you are any good at!"

5. INVESTING FUNDS

Many UK community foundations appoint investment managers. The Hub contains examples of investment policies, information on selecting a manager (all at Hub section: Management and administration>financial administration>investment) and a list of the professional advisers, including investment managers, used by some members (Hub section: CFN downloads and research). In drawing up an investment policy members may find the Charity Commission's [Operational Guidance OG 86 C2](#), section 4, provides a useful structure.

For further information

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