



BOARD MEETING AGENDA

- Meeting Type: Foundation Scotland Community Benefit Fund
Proposal Discussion
- Participants: Carol Thomas, Peter Thomas, Agnes Fleming, Cath
Auty, Libby Foy, Adrian Shaw, Chrissie Sugden, Sam
Marshall, Sheila Clark, Tom Black (Foundation
Scotland)
- Apologies: Michael Odumosu, Irene McClounnan, Andrew Swann
- Details: 9th June 2020, 7.30PM
Via Zoom Meeting: <https://zoom.us/j/476405332>

AGENDA

Discussion of Foundation Scotland's Community Benefit Fund Management Proposal.

The proposal had been read by all Board members prior to the meeting with comments and questions collated by Carol Thomas into a discussion document for the purposes of the meeting.

Tom Black, Community Engagement Manager began by responding to the points raised in the discussion document. As a formal written brief on what was required was not sent to FS, there may have been errors in terminology, which will be corrected.

- 1) Community Benefit Fund is not surplus income it is the **unallocated retained reserves** arising from the continued operation of Awesome Energy. This terminology will be amended by Foundation Scotland within the proposal document. If AED goes ahead with the proposal a set of accounts will be sent to FS so they understand more about how our specific fund works, with a possible meeting with Andrew Swann (Board Member in charge of Finance) if necessary.
- 2) DIG Operating area community should be referred to in all cases. This will include all five postcodes. AED to send operating areas to FS, either within a map or a list of postcodes.
- 3) It is important that the terminology within the proposal and any ongoing documents created by FS for use in managing the fund is correct, so

future generations are clear as to what funds are available and why. AED will provide the correct terminology to FS and this will be checked during the due diligence process if the proposal goes ahead. AED will also need to get the approval from SIS (lender) and possibly the Forestry Commission.

- 4) It is important that the documents arising from the setting up activity are precise and clear about what the CBF is intended to do particularly in regard to pre-existing activities. It was never the intention for the CBF to subsidise on-going DIG operations, but that it should facilitate specific projects that would enhance community resilience, improve quality of life, etc. The scope of what the fund is used for needs to be decided upon by AED and DIG and then communicated to FS. They were not made aware of this prior to the meeting and can incorporate this into future documentation. **Carol:** As the amount of money given to the community each year will vary (due to generation, debt servicing and cash flow) we need to ensure projects are self-funding once operational and do not require ongoing money from the hydro. **Agnes:** In terms of ongoing maintenance of existing assets, eg. hiring a janitor to look after the Social Club rather than applying for grants for specific areas of work, we could look at multi-year grants which spread the funds received over multiple years. **Carol:** We need to make sure that we don't tie too much into projects that aren't self-funding, because if the CBF is lower than expected it won't be able to cover the ongoing project. **Tom:** FS would do an assessment of all applications and for projects with ongoing cost they would ask to look at the business plan to see how these would be met without continued help from the CBF. If a project receives money to help with running costs in the first year and doesn't have a plan to meet those costs in the second year, without help from the CBF, that project may fold. This would be bad PR for AED/DIG and could lead to bankruptcy of DIG due to financial over commitment, hence the need for viable, self-funding projects. This fund is slightly different to other funds in that proposed projects and business plans are to be scrutinised by the DIG membership at the AGM, so FS would expect members to have questions about the viability of projects and whether they meet the requirements of the DIG business plan. **Chrissie:** It's unrealistic to expect people to scrutinise business plans and come up with questions at the AGM unless they have received the plans beforehand. **Agnes:** Doesn't agree with what we're saying here at all. We're here to look at the fund, not how DIG is going to run its business. **Carol:** Important to make sure we are confident that everyone understands the limitation of the fund and that we may have large maintenance costs (for example if the generator unexpectedly breaks down), which will mean the CBF will be lower than expected.

Chrissie has a valid point with regards to DIG membership being given information before the AGM so they can make an informed decision and we also need to understand the process and timescales involved in producing the various documents and processes, which will include the DIG's workflow. AED will go to their Shareholders at the AGM and ask them to approve the next CBF payment and they may have questions about what the money was used for last year, so things need to be transparent and financially viable. The purpose of this meeting is to ensure that the community gets as much as it can out of the CBF without incurring financial risk. **Agnes:** In agreement that projects need to be self-funding and DIG members need to be given information on projects prior to the AGM. In reference to using the CBF for maintenance of the Social Club, DIG want to use some funds for a maintenance project over the next couple of years, to ensure the small jobs that have accumulated over the years are completed. This wouldn't be a year on year cost. We can reword the section of the proposal (Page 4 under "Award-Making & Fund Management Services") to make clear what kind of maintenance projects are allowed. With regards to the DIG business plan, the Community Action Plan that is already in place will be reviewed along with input from the community and this will form the basis of the business plan. **Chrissie:** This is needed as most of what is in that plan has been achieved and there are new members of the community, with new ideas who would like to have a say in how the community moves ahead. All in agreement that a new community action plan would be put in place, in consultation with the Community via workshops and surveys, instead of discussing the business plan at the DIG AGM.

- 5) Projects supported by the CBF should be self-funding once established and not reliant upon continuing support, because the sums available will vary hugely year-on-year and must not be assumed to pay out every year.

Tom: This may be difficult to achieve 100% of the time as Development Trusts, like DIG, operate in areas of market failure, there isn't the population and spending power to develop the things you need in your community. The majority of the projects that Development Trusts fund won't be self-sustaining, so this may need to be more nuanced otherwise many projects will be ruled out. **Carol:** This contradicts what we spoke about earlier in that AED can't guarantee the amount of CBF each year and if we are committed to pay for ongoing project costs this will limit the amount of funds available for new projects and for those projects to continue. **Sam M:** AED alone can't support ongoing project costs but there are other avenues and grants open to people that could help with these cost. **Sheila:** Does this preclude projects reapplying for grants in the future? **Carol:** No, you can reapply for specific projects but can't

guarantee money every year. **Agnes:** Groups can apply every year depending on the project and if the funds aren't there, they don't get it. **Tom:** We can make sure the messaging that goes out with the application forms talks about matched funding opportunities and that the business plans will be assessed based on their ability to be self-sustaining.

6) We want to revisit the table of charges as AED is uncomfortable with the cliff edge nature of the table of fees on page 7 of proposal. **Tom:** The fee structure is cumulative and so for example if there is a fund payment of 75K, on the first 60K the percentage charged by FS will be 12% and the remaining 15K will be charged at 10%. **Carol:** We will need Andrew Swann (AED Finance) to look at this. **Tom:** FS will provide some examples of how the pricing works with different cash amounts. **Agnes:** Example, year 1, AED gives the fund 60K and DIG allocated 20K of that leaving 40K in the fund. Then in year 2 AED gives the fund another 60K, so the fund will now have 100K in it. Will we have to pay fees on the 40K from the previous year? **Carol:** The money we don't use stays in the fund, but what Tom has just said is that if AED give the CBF 50K, DIG would only receive 44K as FS would have taken 6K. When AED give the fund money next year, it doesn't matter what is held over from last year as the fee is taken off before it reaches the fund. The cumulative fee structure means we will be paying out more than we thought in fees. **Tom:** Examples will be sent through to AED and Andrew will be consulted as to the viability of this going forward. The fees have already been negotiated down by Peter and Agnes and FS can't go any lower, so if this isn't acceptable to AED then there is no point going any further. **Peter:** To give some context to this, there was an AED board meeting months ago where the fees of a few different fund managers were compared. The fees were found to be too expensive and Agnes said she would like to look around for another solution. The proposal we are discussing now is that solution and if we are to use a fund manager we will have to pay these kind of fees. Even though we didn't realise prior to the meeting that the fee structure was cumulative, it doesn't make that much of a difference to the costs. There is an advantage to using FS as they have the contacts in the areas.

7) We want greater clarity on the process around DIG's strategic 'grant' - we have been advised that AED would not be liable to tax inspection or such like if the Fund is handed over to a registered charity, but that the registered charity/charities would be. This is not something we want to see happen to FS or DIG, as the implications could be devastating, and therefore would like the work done under the proposal to ensure that items included within the 'strategic grant' are assessed/ringfenced in some way. **Tom:** FS is a registered charity and we make sure that everything we fund

is charitable in nature. DIG is responsible to ensuring what they do is charitable. The question is how can FS guarantee that the strategic grant given to DIG is used for something charitable? **Carol:** We need to know that money being given tax free to DIG complies with HMRC and OSCR's guidelines. **Tom:** As part of this fund is being given to DIG to help fulfil their community action plan goals, we still need a process to assess those projects in order to comply with the guidelines. DIG want to minimise the admin involved in using this money, so going through the same grant application process each time they want to use money would take too much time. **Agnes:** We decided to take a more strategic approach, and work with a 2-3 year plan instead of applying for money for each project. **Tom:** Possible to create a plan that FS and the community is involved, then get estimated costs that are approved. The money will be drawn for each phase and then FS can assess the project before the next tranche is paid out. We need criteria of what money can be used for and so we need to create documents for future DIG board members. **Carol:** SIS require information on what money is being used for. Need to make sure we have the accurate reporting from FS to shareholders and lenders. **Tom:** In the proposal under section 2:2 under the heading "Governance Services" there is point about supporting AED and DIG with governance and FS would expect to report to AED annually on the impact. **Peter:** Summing up the process. DIG comes up with a business plan in consultation with the community spanning 5 years and is reviewed yearly. The overall plan can be approved and then each project gets run and assessed as an isolated project and reported on by FS. **Tom:** There will also be checks and balances put in place, so we won't release the next tranche of funding until the previous projects have been assessed. The idea is to have a dialogue between FS and DIG to improve projects and to be accountability to wider community. **Peter:** Tension point is that DIG needs to know how much money they have to spend before putting a plan together. Need to ensure we have a project plan, quotes, receipts and outcomes of project for transparency purposes.

- 8) Any changes to AED rules will need to be reviewed by CMS, CSS, and SIS prior to being submitted to the shareholders for approval and subsequently submitted to FCA. CMS will advise on the best process to be used once the relevant rules are identified. We would expect FS to be involved in identifying the rules. **Tom:** FS can review them.
- 9) We need to discuss the formal review and renewal of the contract – every 3 years, which must take place in a timely and logical manner and be aligned with the various reporting periods and timelines. It would make sense to ensure that the reviews can be taken to the various AGMs, particularly AED's for ratification by Shareholders. We plan to hold an

EGM to get AED Shareholders to a) approve appointment of FS as Fund 'Manager' and b) approve any necessary changes to the rules; it follows that re-appointment after 3 years would also need to be approved by shareholders. **Tom:** AED to tell us what reports are needed and by when for the AGM. **Agnes:** Wasn't clear in section on the three year review that FS performance would be reviewed, as well as how the fund had performed. **Tom:** This needs to be clarified in the Fund Agreement, Memorandum of Understanding and Fund Strategy, which is part of the set-up phase of the fund that FS will undertake once proposal is approved. In the fund agreement we can stipulate that FS provide annual reports along with a review of their services.

- 10) We need to make sure that the fund cannot be used for things that AED's shareholders would not want to support e.g. anti-renewable activities, politically motivated activity, funding of projects that would jeopardize AED's Operation. **Tom:** FS call these "fund exclusions" and there is a standard set that they use and are happy to expand or curtail that list and include this in the fund agreement.
- 11) We want to discuss the alignment and timetable of various reviews and the documentation associated with it. It is important to consider the constraints placed upon AED by the primary lender. **Carol:** As we discuss the setting up we need to factor in the timetable of AED processes to avoid additional work. **Tom:** AED timings will be included in the fund agreement.
- 12) We would want to see a new Community Action Plan as a first step so that strategies, Business Plans, etc and the Fund Panel are working with up to date information. Discussed above, for AED to organise the Community Action Plan and add to fund strategy.
- 13) The use of fixed financial limits on fund distribution rather than capped % maximums is worrying; it would be preferable to see either/or maximums or straightforward % maximums. **Carol:** Need to make it clear in the documents what is available for the different entities mentioned in the proposal under Fund Strategies/elements. **Tom:** There are only suggestions within the proposal based on FS experience, this can be discussed in the set-up phase. **Agnes:** Micro grant scheme was about sharing funds to a wider audience and we wanted to cap it and not have a percentage. **Carol:** Can we build in some flexibility into this so as not to have large amounts of money sitting in the fund that isn't being used. **Tom:** We can review the amount each year and add in flexibility. **Carol:** If the money is handed over tax free and is sitting there doing nothing, HMRC may not like it. **Tom:** Not a problem in the FS fund only if it's sitting in the AED account. But community will ask questions about why money is sitting in the account and not being used. Need to give transparency to applicants as to the amount available, which is why it is fixed and not a

percentage. We can review the upper limits of the grants every year in line with inflation.

- 14) Proactive reporting of compliance with HMRC rules and guidelines would be preferable to retrospective – perhaps this can be looked at in the setting up process. Discussed above.
- 15) It is important that the setting up of the fund allows for the expansion of the target area and the inclusion of other communities should that become necessary. **Agnes:** Fund should be limited to DIG's operating area but could be expanded in the years to come and we can review this every 3 years. **Tom:** Donations overseas can be the most challenging part of the brief as governance is difficult. **Agnes:** DIG would be happy to keep that within the UK, so we can donate to UK causes.

Tom: Discussed future working relationship and the importance of clear briefs and timescales being in place. Peter to do make a graph outlining the implication of charges. **Carol** asked FS if they want to revise their set up fees. **Tom:** agreed to update the set up cost to reflect amount of work needed based on what is discussed in the meeting.

Tom left the meeting.

Sheila: Can we do a poll on whether this proposal goes ahead.

Carol: We have the funds to pay them appropriately for the set-up work.

Agnes: Confident with FS, they run An Suidhe panel very well. They have a good induction pack, everything is documented. On the point of costs, we did go out to find other managers but we couldn't find anyone else doing it as well as FS. They also have an understanding of local, rural communities.

Peter: Are we going to go ahead with FS? Commission up to 6K set up cost.

Agnes: DIG on board with this because they are not geared up to manage this kind of money.

Poll: To go ahead with FS with 6K cap on set up costs: Carol, Sheila, Adrian, Cath, Sam, Agnes, Libby, Chrissie. All approved.

Minutes approved at Board Meeting #039 on 21st July 2020.



Signed by Sheila Clark