Trust Fund Managers' Guidance

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This document does **not** attempt to be comprehensive in its guidance, but aims to provide essential practical information that all fund managers should be familiar with.

Fund Regulations

Trust funds held within the University will have their regulations published in Statutes and Ordinances (S&O), though for funds more than 100 years old reference to the Endowments book of 1904 may be required[1]. For new trust funds, regulations are first published in *Reporter*.

The fund regulations should specify how income (and capital, where appropriate) may be used as well as who the fund managers are. It is worth noting if there is an 'unexpended income' clause. Whilst it is laudable to want to operate to the spirit of the original gift this can prove very limiting: it is the fund's regulations that set the framework and, if need be, these should be interpreted broadly.

Fund Manager Responsibilities

Fund managers should be aware of their responsibilities. These include:

- To ensure the University's fiduciary duties as trustee under charity law are met.
- To act in the best interests of the trust.
- To avoid conflict with any interests of your own.
- To ensure funds used properly:
    - within fund's terms and conditions;
    - within University's general charitable purposes;
    - within the level of income;

  with focus on income/expenditure, not investment (other than CUEF v Monies on Deposit—see later).

The Nolan Committee on Standards in Public Life was set up in 1994 as a result of public concern about the financial probity of holders of public office. It was concerned with standards in public life generally and particularly where public funds were involved. The Nolan recommendations provide a number of standards to guide the interpretation of legislation, decisions and actions of those employed in public office. They can be found at Committee on Standards in Public Life.[2]

[1] *Contact the Trust Fund Assistant within the Finance Division*

[2] *en.wikipedia.org/wiki/Committee on Standards in Public Life*

Investment Options

The default option for trust funds held within the University is for permanent capital to be invested in the Cambridge University Endowment Fund (CUEF). In the unusual case that other investments are held, this is generally as a result of the original benefaction. Fund manager investment decisions are typically about whether:

- to put money on deposit (MoD) to earn a rate set internally by the University – for the short term, or
- to invest in the CUEF – for the medium/long term (so generally 5+ years).

The CUEF

The CUEF is a unitised investment vehicle, whose investment strategy is overseen by the Investment Office.

1. Units in the CUEF can be bought or sold quarterly. Only whole units can be held, bought or sold. Instructions should come from the fund managers (or their delegated nominee) and be received by the Finance Division two to three weeks before the end of the relevant calendar quarter.
2. The CUEF is re-valued calendar quarterly and at the financial year end (31 July).
3. The distribution rate for CUEF units is set at the start of each financial year (usually notified in early September) with income paid monthly. Since 2006-07 the distribution from the CUEF has become much more stable than previous years[4]. This is the result of a new formula approach introduced in 2005-06 – see S&O (2013) p1040.
4. In most trust funds in the University, the main income stream will be generated from units held in the CUEF.

More details about the unit value and distribution rate can be found at CUEF Key Information.[5]

Expenditure Decisions

Fund managers need to have documented plans (typically minutes from a fund managers' meeting) as to how the money will be spent, always referring to the fund's regulations.

- The power to hold over income between financial years does not remove **the positive obligation** to apply such income within a reasonable period for the purposes of the fund.
- If income is retained for more than a reasonable period without justification, this may amount to a breach of trust.
- It is unlikely to be justifiable to retain annual surpluses as a matter of habit or for the sole purpose of generating future income or because the purposes of the fund make it difficult to spend.
- Excessive accumulation of income suggests mismanagement and/or a need to revise the terms and conditions of the fund.

It is reasonable to expect to plan to spend more than predicted income in some years in order to offset under-spends in other years. It is not uncommon for assumptions made when deciding on the budget/plan for the coming year to vary from reality (e.g. costs do not materialise).

Useful sources of information in managing a trust fund

1. The fund regulations – see S&O.
2. Trust fund statements issued monthly by the Finance Division.
3. Sub-sets of monthly management summary reports available to Faculty/ Department administrators and accounts staff.
4. Transaction detail reports available from the University Finance System (UFS).
5. Central Accounting Helpdesk within the Finance Division.

Annually the Financial Management Information [3] (section J) includes an overview of trust funds by Department.

[3] A special issue of the Reporter produced in Dec/Jan following the financial year
[4] 2003-04 was a memorable year: the distribution rate was cut dramatically mid financial year. Such a reduction cannot happen mid-year under the formula which is designed to smooth out the effects of a fluctuating stock-market.
[5] www.admin.cam.ac.uk/cam-only/offices/finance/investments/cuefrates.

Overheads

Trust funds set up since the mid 1990's that pay for staff costs may have an overhead charge levied centrally. The costing at the time of donation will almost certainly have allowed for a local overhead as well. The central levy is applied by Central Accounting (Finance Division) monthly[6] and may operate at 20% or 30% of pay costs[7] depending on the age of the fund.

Year-end actions

Trust funds must not end the financial year with a cash overdraft[8]. Selling spendable capital units should be the first option to avoid this, but it is not the only route available. Other funds at the disposal of the Faculty/ Department may be available to help-out (by way of a short-term loan or permanently).

General Board Approval

Some funds require General Board (GB) approval for certain types of expenditure, or over specified limits. In such cases a request should be made to the Resource Management section (to Nick Tamkin, see Trust Fund transactions [9]) including:

1. a summary of the proposal needing approval;
2. the relevant minutes of the fund managers meeting(s);
3. any associated paperwork used by the fund managers in arriving at their proposal.

Where there is an external member of the fund managers there should be evidence that they have had a chance to comment on the proposal before GB approval is requested.

Reserves Policy

There should be a documented reserves policy (reviewed regularly, at least every 3 years) containing a reasoned and realistic assessment of the reserves needs of the fund (NB "Nil" is still a level of reserves which needs to be justified in the context of on-going sustainability of the fund to meet its aims). Liquidity is not really an issue for most fund managers to be concerned about; it is more a case of ensuring sustainable affordability bearing in mind likely income levels (which are relatively stable compared to a decade ago) and expenditure plans.

In developing a reserves policy a number of factors should be considered:

- Whether certain items are prone to / capable of significant changes between years and the likely timeframe for potential step changes in costs (e.g. a promotion).
- The need to regularly review actual pay costs v forecasts.
- Past experience of whether forecasts have proved to be overly prudent resulting in year on year surpluses.
- The level of potential drawdown against accumulated income that might be considered reasonable in any given year.
- Timing of fund manager meetings and whether some expenditure items could be approved towards the end of the financial year, thus leaving scope to adapt for forecasting discrepancies.

Review of regulations

Over time there is an increasing likelihood that the original purpose of the fund will become harder to meet. This may be evidenced by repeated under-spends from year-to-year. Under certain circumstances it may be possible to amend/broaden the regulations, either under the 60 year rule (Statute E, I, 8) or by application to the Charities Commission. Advice on this should be sought, in the first instance, from the Central Accounting Section within the Finance Division.

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6 *The levy is coded to transaction code EZYA*
7 *Identified by a transaction code starting A-D*
8 *Col 5 of management summary reports; the figure within cost centre ZZYB should not be negative*
9 *www.admin.cam.ac.uk/offices/planning/procedures/trustfund/index.*

Additional notes for administrators supporting Fund Managers

Master files

A file should be maintained holding all trust fund manager meeting agendas/minutes.
This should also contain in a readily accessible place:

- A copy of the fund regulations (and donation agreement where available)
- A current list of the fund managers
- Typical dates / regularity of fund manager meetings

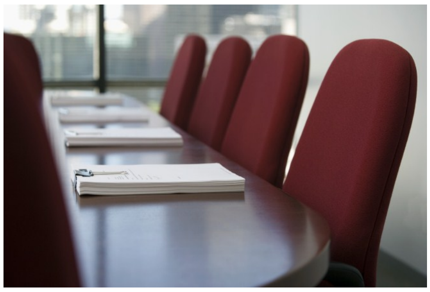
Fund manager meetings

1. A copy of the fund regulations should be provided for the managers to refer to thus informing decisions.

2. Minutes of meetings should make clear:
   a. what paperwork has been received/reviewed;
   b. decisions taken and how these were reached (if not self-evident to someone not present at the meeting);
   c. any delegated authorities.

3. It is recommended fund managers meet in person at least once a year[10].

4. A note should be made each meeting of when the Reserves policy was last reviewed. It is recommended such reviews should happen at least every 3 years.



CUEF buy/sell decisions

For practical reasons you will be the point of contact with the Finance Division. All such decisions **must** be taken by the fund managers unless they have delegated this task to you/others, in which case this should be clearly minuted.

Only units held in cost centre ZZYB (or ZZYC) can be sold. Instruction to buy or sell units can be given either in number of unit terms (only if all units need to be sold) or £. If the former it should be noted that the unit value at the time of the transaction will not be known when the buy/sell instruction is given. It is therefore more common to give instructions in £ to the nearest £100 or £1,000.

There may be certain times of the year when it is easiest to get the fund managers to take such decisions (e.g. at their annual meeting). This should then determine the primary calendar quarter when such instructions can be passed on to the Finance Division.

For example, if fund managers meet in October the primary buy/sell opportunity will be December. In this case contingency plans will need to be in place (and minuted) to cover the possibility of the fund having a cash overdraft at 31 July.

Useful dates

1. The distribution rate for the year is usually set in the first week in September.
2. The monthly distribution is posted on the 5th working day[11] following the calendar month end just before the General Ledger closes eg Sep-12 distribution posted Fri 5 Oct 12.
3. Central overhead levies are posted on or before the 3rd working day following the calendar month end and before the General Ledger closes.
4. Buy/sell decisions need to be notified 2-3 weeks before the end of the calendar quarter –see www.admin.cam.ac.uk/cam-only/offices/finance/investments/cuefrates.
5. The quarterly revaluations are posted at the end of following month[12] eg 31/12/12 revaluation posted into Jan-13 on 31/1/13.

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10 The only exception being funds that require no active decision making
11 This is the day after the deadline for making changes to Money on Deposit. Different timing applies to the August and July distributions.
12 A reversal of the 31 July revaluation is posted into the August period in early September