

Trust Funds Policy

Category:	Finance
Last Modified:	August 2012
Review Date:	August 2013
Approved By:	Director of Finance
Contact Person:	Financial Reporting and Budgeting Manager, Extn 45559

Introduction:

At the present time there are over 180 different Trusts recorded in the University's financial system. These Trusts are a combination of those for which the University acts as a Trustee, and those for which the University undertakes an administrative role at the request of a Trust.

The Trust Funds are not available for expenditure on general University business.

The Trusts have also been established in different ways. Some have been established as the result of a bequest to the University (e.g. the Erskine Trust which funds the visits of international academics to the University, and also the travel of University of Canterbury academic staff to overseas Universities), and others are as the result of industry arrangements (e.g. Centre for Advanced Engineering and The Power Engineering Excellence Trust).

The larger Trust Funds are:

1. Erskine Trust
2. Endowment Trust
3. Centre for Advanced Engineering
4. Lord Rutherford Memorial Fellowship
5. Roper Scholarships
6. Sims Empire Scholarship
7. Mason Fund in Geology
8. Ethel R Overton Scholarship
9. Bickerton-Widdowson Memorial Trust
10. Electric Power Computer Applications Trust

Definitions:

Fringe Benefit Tax (FBT) is a tax payable on the value of fringe benefits provided to employees by an employer. The conditions under which FBT is payable vary widely, but generally apply in circumstances such as:

- private use or enjoyment of a motor vehicle, or its availability for such use;
- subsidised transport;
- specified insurance premiums;
- entertainment.

For the current FBT rate please refer to the Tax Policy and Guidelines.

Goods and Services Tax (GST) is a consumption tax imposed under the *Goods and Services Tax Act 1985*. It applies to the supply of goods and services in New Zealand, and on imported goods. The tax is paid to the Inland Revenue Department by all “registered persons” – basically all persons who carry on a taxable activity, such as a business. The Trust Funds are not registered for GST. Under the *Goods and Services Act 1985* the Trust Funds are not regarded as carrying on a taxable activity. All income and expenditure is therefore stated GST inclusive. For the current rate of GST please refer to the Tax Policy & Guidelines.

Non Resident Withholding Tax: A person resident in New Zealand is subject to the Income Tax Act. A person not resident in New Zealand is liable to New Zealand income tax only on the income derived from New Zealand. Generally, non-residents in New Zealand will be required to return employment income earned in New Zealand in the same manner of a resident of New Zealand. A non-resident must file a return of income showing all gross income derived from New Zealand. For the Trust Funds, this usually applies in a situation where academic staff are visiting the University and a fee is paid.

A **Trust** is a legal arrangement, whereby funds are set aside for a specific purpose as defined in the Trust Deed. A Trust is generally (but not always) a long term arrangement, with a capital base being established with the intention to be grown over a period of time, from which base the income will be earned to fund the purpose for which the Trust Fund was created.

Policy Statement:

Trust Fund Investment Management

Over \$90 million is invested through the University Trust Fund. The University has a detailed “Statement of Investment Policy and Objectives”(SIPO) approved by Council which governs the way in which these funds are invested. The goal of the Fund management is to maximise the return gained on investment funds, allowing income to be distributed to the various trusts and ultimately to increase the equity base available in each Trust Fund.

Investment risk is spread by using three specialist fund managers covering the following investment portfolio areas:

- NZ Fixed Interest
- International Fixed Interest
- NZ Equities
- International Equities

The overall performance of the Trust investments including the portfolio investment “mix” is overseen by Eriksens & Associates with reference to the University's “Statement of Investment Policy and Objectives”.

Income from Trust Fund investments is earned in two ways. Firstly through the receipt of interest and dividends on the investments (essentially cash), and secondly resulting from changes in the market value of the investment portfolio.

Accounting for Trust Funds

Trust funds are identified in the Oracle financial system in two ways:

1. The activity centre begins with an “9”.
2. The entity code used is “2” (as opposed to “1” denoting University operations, and “3” denoting Agency Funds).

Income and expenditure for each Trust Fund are recorded through the appropriate activity centre.

Distribution Policy

The Council requires funds for distribution from time to time. The policy is to distribute approximately 4.5% annually. The difference between the actual return and 4.5% is to be applied to inflation proofing the capital base, and for capital growth. The intention is to build a reserve fund, in addition to inflation proofing the capital base, which would be used as and when necessary, during years with low or negative investment returns, to support the flow of distributions without recourse to reducing the capital of the fund.

Specifically, the annual returns in any year will be distributed as follows:

- 4.5% to the operating accounts of the individual trusts, in proportion to the interim closing balances of each trust.
- Of the balance, an amount equal to the CPI for the year will be credited to the capital account of the individual trusts, in proportion to the interim closing balance of each trust. This is to maintain the purchasing power of the trusts.
- Any remaining income will be credited to a revenue reserve to help offset market fluctuations.
- Once the revenue reserve has reached an amount equal to two years average trust outgoings, the amount previously credited to the revenue reserve will be credited to a capital growth reserve. This reserve will be used to provide additional distributions to the capital accounts of individual trusts from time to time.
- In the event of a return of 4.5% not being achieved in any year, the amounts required for operational purposes will be funded (in order) from:
 1. Income
 2. The revenue reserve
 3. Balances held in operating accounts of individual trusts.

Related Policies, Procedures and Forms:

- [Fundraising Activities](#)

Notes:

1. If you have any questions concerning a Trust Fund, please contact Toni O'Donohue, Financial Reporting and Budgeting Manager, Extn 45559 in the first instance to discuss.
2. Any bequests or donations of cash or assets made to the University are to be directed to the UC Foundation. Please contact the UC Foundation Executive Officer, Extn 3723, ucfoundation@canterbury.ac.nz in the first instance to discuss.

© *This policy is the property of the University of Canterbury.*

Version Control Table		
Action	Approval Body	Date Amended
Full Review	Director of Finance	27 August 2012