



Overview & Scrutiny Board

2 March 2016

Trust Funds

Purpose of the report:

This report provides members with an outline of the current arrangements for managing the council's Trust Funds in the context of a recent Internal Audit report.

Background

1. Many local authorities act as trustees for funds that have been set up for charitable, or non-charitable, purposes. These are known as Trust Funds. It is common for these Trust Funds to be set up with a bequest from a local resident for a specific purpose. In some cases, the County Council may also have made a contribution to the Trust Fund.
2. Surrey County Council (SCC) currently acts as custodian trustee, where it holds the property of the trust, for 44 trusts and acts as one of several trustees for a further 4 Trust Funds. A schedule of these funds is included in the Appendix.
3. Many of the Trust Funds were established in the mid 20th century, although some are considerably older, and the nature and purpose of some trusts is no longer relevant today.
4. This report to the Council Overview Board has been requested following an Internal Audit report.

Service Management

5. At the time that many of these Trust Funds were established, and passed over to the County Council, the Committee structure still operated. The responsibility and trusteeship was overseen by the relevant committee and of the 44 trusts, 34 are education or school based.
6. Over time, the aims and objectives of many trusts has become obsolete or the schools to which they related no longer exist. By the time the council moved to an Executive and

scrutiny committee model in the late 1990s, many of the Trust Funds had become effectively dormant.

7. The responsibility for Trust Funds moved to the Council following the change in the council's governance arrangements.
8. Of the 44 Trusts, seven of them can be considered to be active. That is that they are making payments. Appendix 1 provides a schedule of all the Trust Funds. This shows the purpose of the trust, its value and activity in the 2014/15 financial year.
9. These seven active Trust Funds tend to be where the County Council is not the sole trustee and other trustees are active. Many of the Education Trust Funds are now inactive largely as a result of their purpose no longer being directly relevant or the school to which the trust is associated no longer existing.

Finance

10. The current role of Finance is the preparation of financial information for annual reporting for each of the Trusts. This includes the maintaining of the Trust Funds' accounts and recording interest and dividend income and any expenditure for the active funds.
11. There had been a requirement for local authorities to report on Trust Funds within their annual Statement of Accounts. For Surrey County Council this involved a one-page summary Fund Statement and Balance Sheet for all the Trust Funds. Following the adoption of International Financial Reporting Standards (IFRS) by local authorities in 2010, this requirement was removed. Surrey County Council continued to disclose the Trust Fund summary financial statements up until 2013. At this date, following an external audit recommendation, there was a review of the Statement of Accounts in order to 'de-clutter' and streamline, making them more 'user-friendly' As part of this wholesale review, the inclusion of the Trust Fund statement ceased, on grounds of materiality, from the 2013/14 accounts onwards.
12. The monies received from the bequests has either been held by the County Council, or invested and the return on this investment used to support the aims of the Fund. Investment is through the Charitable Funds provided by the Fund managers, BlackRock. Finance provides an overview of these investments, including reporting on the movements in valuations. Finance does not pro-actively manage the investments.
13. Recently, a review of the smaller Education trusts has been undertaken in conjunction with Legal & Democratic Services with a view to closing some of these Trusts or transferring custodianship to 'successor' schools.
14. Actions are being undertaken by members of Finance to address the recommendations made in the Internal Audit report. Chief amongst these are greater clarity for whom the Trust financial accounts are prepared to improve knowledge on the accounting requirements of the Charities Commission.
15. Finance officers are working with the services, especially Schools and Learning, to establish greater transparency on the oversight and strategic direction of the Trust Funds.

Conclusion

16. Research undertaken within Finance, coupled with the Internal Audit report, has highlighted a number of shortcomings in the way that the County Council manages the trusts for which it has responsibilities. To address these shortcomings, a series of actions are proposed.
17. It would appear that these shortcomings have arisen primarily because of the inherent nature of a lot of the Trusts. Many were established in the mid 20th century and the nature and purpose of these Trusts is no longer relevant today, meaning monies have accumulated rather than being spent or invested.
18. There is a need to increase the transparency in the way in which Trust Funds are controlled, monitored and reported. Without an alternative, it is possible for the management of Trust Funds to 'slip under the radar', with regards to transparency. Furthermore, it is necessary that as custodian trustee, the County Council are ensuring the objectives of the trusts are fulfilled.
19. Although the ongoing management of Trusts may be delegated to officers of the County Council, the responsibility, decision-making and oversight of the trusts rests with the Councillors of the County Council where the Council is the sole trustee. Alternatives to this could be investigated, including delegation to the relevant cabinet member for the management of the Trust Funds in order to amend the Articles of Association of the Trusts, authorise their closure and transfer of funds.

Actions

20. The action plan consists of two stages. The first stage initiates a "tidy up", getting SCC's 'house in order' and slimming down the number of trusts. The second stage is to determine the future management and control of those Trust Funds remaining with the County Council.
21. The first stage would involve identifying and grouping the Trust Funds into three broad categories. These would be i) Obsolete Funds; ii) Funds that could be 'resurrected'; and iii) Active Trust Funds.
22. For Obsolete Trust Funds, the council could initiate a process of winding up and closing, or merging. This would involve passing the monies across to identifiable recipients, such as schools or other established charitable Trust Funds with similar aims and objectives.
23. The options for those trusts categorised as "could be resurrected" include the following.
 - a. Dissolve and wind up, pass money across to identified school
 - b. Merge into a consolidated Trust
 - c. Assign responsibility over to another Charitable Trust
 - d. Keep, promote and reinvigorate the trust in house
24. The options for Active Trusts are also as follows:

- a. Dissolve and wind up, pass money across to identified recipient
 - b. Merge and consolidate where appropriate
 - c. Hand over to the Community Foundation for Surrey
 - d. Keep, promote and manage the trust in house.
25. SCC would need to approach the Charity Commission to see if the Trusts' governing documents can be amended or updated where the original terms of the Trust can no longer be realistically followed.
26. The future oversight and management of the remaining Trust Funds will then need to be reviewed. Where a local authority is a trustee of a charity, it is the corporate body which is the Trustee. While ongoing management can be delegated to officers, responsibility for decision-making and oversight rests with the Councillors. Finance and Legal & Democratic Services would lead on this review.

Report contact:

Kevin Kilburn, Deputy Chief Finance Officer

Kevin.kilburn@surreycc.gov.uk 020 8541 9207