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University of Bath Endowment Acceptance and Financial Management Policy

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## Table of Contents

**Section 1: Purpose of Policy Section 2: Scope of Policy**

## Section 3: Definitions of Endowments Section 4: Minimum size of endowed funds Section 5: Requirement for gift agreements

**Section 6: Creation of pooled endowment funds**

## Section 7: Rate of return available from endowment funds

**Section 8: Timing of transfer of funds into the University endowment Section 9: Lifespan of endowed funds**

## Section 10: Accepting donor-specified criteria for endowed funds Section 11: Approval of new endowed funds

**Section 12: Annual reports on the status of the endowed funds Section 13: Roles and responsibilities**

## Section 1: Purpose of Policy

This paper discloses our Endowment Acceptance and Financial Management policy so that the process through which new funds are established and existing funds are managed is clear and transparent, both internally and for donors who may be considering establishing such funds.

An endowment is a capital fund that is invested for the long-term, although not necessarily in perpetuity, with the aim of the return on the capital providing a regular income stream to support our objectives. These funds will mostly be established following the receipt of philanthropic gifts from private individuals, corporations, foundations, associations, and other organisations. We would like to increase the size of the philanthropically-funded endowment fund that supports its aims and objectives.

Endowed funds may be designated to benefit academic or non-academic posts, students, programmes, physical space (buildings, facilities, grounds or portions thereof), or specific academic or non-academic departments, centres etc. They are typically named after the donor or a person the donor wishes to recognise. Endowed funds may be established by a one-time gift, a series of gifts, wills, trusts, gifts of assets, or by a combination of these. Gifts can be accepted to build on established endowed funds (subject to the timings specified in Section 8). All endowments should be evidenced by a signed gift agreement.

## Please note that this policy covers the establishment or management of new endowed funds i.e. those that will be invested in our endowment investment pool.

**Section 2: Scope of Policy**

The main implications of our Endowment Acceptance and Financial Management Policy are as follows:

1. To set a minimum gift level for new endowed funds of £100,000 in order to avoid establishing funds with unacceptable levels of administrative costs.
2. To ensure that a Gift Agreement is always drawn up between the University and the donor so that both parties fully understand the expectations of the other and have the assurance and trust of a written record for reference. The gift agreement should explicitly state that the donation is being endowed.
3. To provide a clear framework for the Finance & Procurement Office (F&PO) and Department of Development and Alumni Relations (DDAR) to work within, which clarifies those responsible for approving the establishment of new endowed funds and decision-making in cases where conditions attached to gifts may prove unacceptable to us.
4. To allow the creation of pooled endowed funds. These funds will enable and encourage gifts of less than £100,000 to be made to our endowment. There will be a central expendable unrestricted endowment to pool gifts for purposes such as providing scholarships.

## Section 3: Definitions of Endowment

The current FE/HE Statement of Recommended Practice (SORP), issued in 2019, following the introduction of Financial Reporting Standard 102 classifies donations and endowments as follows (18.11 – 18.12);

*An endowment fund is a form of charitable trust retained for the benefit of the institution. Endowment funds must be sub-divided into their capital element and an accumulated income fund. Where a grantor indicates an intention for the institution to establish an endowment, then the income should be accounted for as an endowment fund.*

*A donation to establish an endowment fund, which prohibits the conversion of the capital into income, creates a permanent endowment fund. A permanent endowment fund must generally be held indefinitely. However, where an institution has the power to use the capital element of endowment funds, such funds are known as expendable endowments.*

The SORP identifies the following categories of endowments and we provide the narrative to support these;

***Restricted endowments with expendable income (expendable endowment).*** This is where the income can only be applied for the particular purpose specified by the donor and where the governing body, as trustees, has the power of discretion to convert the endowed capital to income.

### Permanently restricted endowments with unrestricted income, (permanent endowment).

This is where the income is expendable at the discretion of the institution in

furtherance of the institution’s objectives but the fund capital (the principal) must be permanently maintained.

### Permanently restricted endowments with restricted income

This is where the income can only be applied for the particular purpose specified by the donor and the principal must be permanently maintained.

The table below shows the classifications nature and restriction of gift.

|  |  |  |
| --- | --- | --- |
|   | **Gifts made in perpetuity** | **Gifts made with finite (generational) life** |
| **Gift without restriction** | Permanent Restricted Endowment with restricted income | Restricted Expendable Endowment |
| **Gift with restriction** | Permanent Restricted Endowment with unrestricted income | Designated fund |

Endowment funds are permanent, when the donor has stipulated permanent restrictions in use of the capital of the endowment fund. The investment return from such funds may be restricted in use, or unrestricted in use depending on the requirements specified by the donor. Separate disclosure is required for each type of endowment with the University’s Financial Statements along with a disclosure of purpose or other analysis.

Additionally, we recognise unrestricted endowment with expendable income where both income and capital are expendable at the discretion of the institution in furtherance of the institution’s objectives. From an accounting reporting basis this would be recognised as donation income, as it is unrestricted in use, when awarded but noted internally as an expendable endowment, this is further referenced below, see designated funds.

In this paper, wherever possible, the term endowment has been used to mean the sum of all funds we invest in an endowment investment pool. The term ’endowed fund’ has been used to indicate individual named funds, the majority of which will be invested in our endowment investment pool.

In addition under the FE/HE SORP there are:

***Designated Funds –*** *These are not endowments but are created when institutions designate elements of their reserves to specific purposes. Within the University of Bath designated funds will be credited with interest (using the cash return method) rather than invested in our endowment investment pool.*

Under the FE/HE SORP, if we receive expendable charitable donations which are unrestricted or have limited restrictions so that the restrictions have no material impact, then the funds should not be classified as an endowment. Although they could be designated and the funds invested in our pooled investment, to provide support in the long-term if we so choose.

## Section 4: Minimum size of endowed funds

The minimum value of gift(s) that we should accept to create a new named endowed fund should be £100,000. Smaller gifts can be accepted to be invested in endowed funds but only if they are made to ‘top up’ an existing fund. If a donor wishes to establish a fund with a gift of less than £100,000 then the gift will be invested in a central expendable unrestricted endowment to pool gifts for purposes such as providing scholarships.

Should a donor not be willing to accept these terms then the gift will be refused as the costs of administering the fund will exceed the benefits of the income realised. In exceptional circumstances, and on the recommendation of the Vice-Chancellor & President, the Finance Committee may agree to the establishment of an endowed fund with a gift of less than £100,000.

## Section 5: Requirement for Gift Agreements

A Gift Agreement should be prepared for all endowed funds established with philanthropic gifts. This should define the objectives of the fund, the nature of the activity it is intended to support, address naming issues (where appropriate and in line with the Naming Policy, available on request from the Department of Development & Alumni Relations) and set out the fund’s operating terms. It is important that the donor is clear about the terms under which the fund is established to avoid any potential disputes over the purpose of the fund in future years.

For gifts with a restricted purpose, we will seek to include an alternative use clause within the Gift Agreement enabling us to use the endowed fund to support other activities should changing circumstances prevent the use of the income as the donor originally intended.

It is our intention to minimise the risk of having to refer to The Charity Commission for any repurposing of gifts received.

## Section 6: Creation of pooled endowed funds

In order to encourage new gifts to build our endowment, generic or pooled endowed funds may be created where the sum of the gifts received exceeds £100,000 (although individual gifts may not in themselves exceed this amount). These will operate in the same way as other endowed funds with donors receiving an annual report for the entire fund, not just for the proportion of the fund created through their individual gift i.e. individual elements of the pooled fund will not be separated out for any reporting purpose.

## Section 7: Rate of return available from investment funds

Investments are designed to provide regular income and capital appreciation and for planning purposes the Department of Development and Alumni Relations uses a target rate of return, though this rate cannot be guaranteed to the donor.

For permanent endowments, representatives of the Endowments Fundraising and Expenditure Management Working Group will meet with the investment firm annually to agree a target rate of return to communicate to donors on request. The realised income will be put in spending accounts and be available for distribution the following academic year to fund the specified areas supported by the endowed funds.

## Section 8: Timing of transfer of funds into the University endowment

All monies used to establish endowed funds (including Gift Aid or any matched

funding that may be eligible) will be invested in our pooled investment units. Income from the endowment can only be spent once interest has been received, meaning there will not be spend against an endowment for at least the first 12 months.

Due to the administration involved in recalculating the values of the portfolio of endowed funds each time additional funds are added or withdrawn, the following timeframes will be applied;

|  |  |
| --- | --- |
| ***Value of endowment*** | ***Timeframe to invest in investment pool*** |
| *Gift £100k+* | *The beginning of the quarter following receipt of the gift* |
| *Drawdown (expenditure) and gifts of less than £100k being invested in pooled endowment.* | *In October following the year end.* |

Donors will be informed that any new gifts will be transferred into an endowed fund on the fund transfer date, in the interim the gift will be put into a specific, interest- bearing holding account using the cash return method.

## Section 9: Lifespan of endowed funds

The current expectation is that the long-term targeted return on our pooled investments will enable endowed funds to keep their value in real terms to use over generations.

Further, our expectation is that all endowed funds will be established to operate in the very long term, provided that the purpose of the fund remains valid and the value of the fund does not fall below a minimum threshold (see below). The only exception to this will be if the fund has been specifically established to operate for a specific time period, in which case this should be stated in the Gift Agreement.

However, the FE/HE SORP/Charity law requires that permanent endowments treat any capital gains or appreciation as part of the endowment’s capital that has to be maintained rather than being used to supplement income generated by the fund i.e. only income from the fund could be distributed. This could prevent permanently endowed funds achieving the optimal long-term rate of return as income would become an investment priority rather than overall return (from both capital gains and income).

For this reason, unless specifically directed otherwise by the donor, all new endowed funds should be created as expendable, rather than permanent. Donors will be made aware of this policy before they sign their Gift Agreement and the endowed fund is created.

If the capital value of an endowed fund falls to the point where it can no longer support the level of activity the fund was established to support then:

* If the fund is providing an award or scholarship, the size or frequency of the award will decrease for a period of time so that the fund can rebuild its core capital value to a sustainable level; or,
* If the fund is supporting an academic post, at the next available opportunity when the post becomes vacant, a new holder will not be appointed until the fund has rebuilt its core capital value to a sustainable level.

In either of these cases we may decide to supplement the income from the fund to enable the award and/or post to continue. Alternatively, for expendable endowments, we may use capital to supplement the income of the fund and this will form part of the annual review of funds to ensure that it can continue to be used over generations given the level of investment return received over the previous years.

If the value of the endowed fund continues to decline to the extent that its capital is below 25% of its original real value or £10k, whichever is the lower, then the endowed fund will be closed and the remaining fund used to support the relevant area of activity.

If the purpose for which an endowed fund is established becomes no longer valid, and there has been no alternative use agreed with the donor, then we will seek the permission of the original donor to reclassify the endowed fund as expendable and use the remaining fund used to support the relevant area of activity or transfer the remaining funds to the most appropriate existing fund.

If all reasonable attempts to trace the original donor fail then the fund would have to remain as permanent, unless permission to change classification could be obtained from the Charity Commission. If the original donor was a body corporate then this body, in its current legal entity would need to provide such permission to reclassify.

## Section 10: Accepting donor-specified criteria for endowed funds

Donors will be encouraged to be as non-specific as possible when making a gift to establish a new endowed fund. However, unless there are legal, ethical or practical reasons to the contrary, we will accept a donor’s specific preferences for the area of activity supported. For example, funds may be established to support scholarships with a preference for recipients from lower income backgrounds or from a certain country.

Donations will be refused if they require us to undertake illegal acts, bring us into disrepute, are contrary to our charitable aims, operate outside of our ethical framework or are likely to incur costs in excess of the value of the gift i.e. it can be proven that accepting the donation would not be in our best interests.

## Section 11: Approval of new endowed funds

Before a gift is accepted to create a new endowed fund, the new fund must have the approval of the Treasurer, the President & Vice-Chancellor and the Director of Finance.

The creation of new endowments, and receipt of gifts to existing endowment funds, will be reported to both Finance Committee and Council as part of the annual DDAR Report.

All such donations will be subject to the DDAR procedure on due diligence and the Ethical Fundraising Policy.<https://www.bath.ac.uk/publications/ethical-fundraising-policy/>

## Section 12: Annual reports on the status of the endowed funds

Donors will receive an impact report on the use of the income from their fund (e.g. names of new scholarship recipients, update reports from academic posts funded etc). Performance of endowed funds will be noted in the annual report prepared for DDAR by the F&PO by the end of the calendar year in which the financial year ended.

Where there has been an underspend on the use of income from a fund, it will be at the discretion of the Endowments Fundraising and Expenditure Management Working Group as to whether the underspend can be rolled over to the next financial year, or whether it is re-invested in the endowment capital.

## Section 13: Roles and Responsibilities

This policy is owned by the Director of Development & Alumni Relations and should be submitted triennially to Finance Committee for review/approval. Any changes will be agreed with the Endowments Fundraising and Expenditure Management Working Group before submission to the Finance Committee. The working group meets quarterly to ensure appropriate application of this policy and maintain oversight of existing endowments and related expenditure. It comprises the following members from F&PO and DDAR: Deputy Director of Finance; Assistant Accountant; Finance Officer (DDAR); Director of Development and Alumni Relations; Associate Director, Development Services.