

THE HERBERT LOTT TRUST FUND

December 2004

I decided to ask the Royal Navy for current financial information and administration of the Herbert Lott Fund.

My request for information landed on the desk of Lieutenant Commander Bill Churchill Royal Navy, who works for the Commander-in-Chief Fleet in the Personnel Division now based on Whale Island Portsmouth.

Bill helps to look after Naval Charities, and the Herbert Lott Naval Trust Fund is such a device with a registered charity scheme reference number of 317685. He is directly responsible for this Fund and reports to his boss, Commander Stephen Carter Royal Navy, the Royal Navy's Charities Officer.

His help is invaluable and for it I am very grateful. Not only was his data input generous, but his response time was just a matter of days. Bill must be a Communicator; or perhaps a Pusser, or even a Gunner, but then again, notwithstanding his specialisation, just plain old Navy, efficient and outwardly courteous. Thank you.

The following pages are scanned copies of Bill's letter.

The Herbert Lott Naval Trust Fund

(Registered Charity Scheme Reference: 317685)

Guidance on Operating Procedures

CHAPTER 1

HISTORY AND BACKGROUND

101. Mr Herbert Lott was a member of the London Stock Exchange and was extremely interested in the Royal Navy and the part it played in the defence of the Commonwealth. In 1928 he opened negotiations with the Admiralty for the creation of a Trust Fund and made an initial donation of £20,000, which he increased shortly after by another £5,000. The Herbert Lott Naval Trust Fund was instituted in 1930 to make awards to "those who shall show marked efficiency or shall contribute in signal degree to the improvement of the appliances of the Naval and Marine Forces". When Mr Lott died in 1948 he left the whole of the residue of his estate (over £100,000) to the Trust Fund that bears his name.

102. The Herbert Lott Naval Trust Fund (HLNTF) was run as a single fund and by 1988 had a total capital value of some £700,000 and an annual income in excess of £30,000. At that time, the Fund composed of 5 elements to make awards for course prizes, Command allocations and inventions and these elements were:

- a. Command Allocations. To award RN ratings and Royal Marines other ranks who showed marked efficiency in their Naval duties. Officers were considered for these awards but only in exceptional circumstances.
- b. Course Prizes. To encourage efficiency in Naval duties by awarding prizes then set at £30 to the top students of certain courses and examinations. This was the largest category of the prizes made from the Trust Fund.
- c. Inventions and Suggestions. Awards determined by a Committee, chaired by the Captain Naval Surface Ship Acceptance.
- d. Shooting and Miscellaneous Prizes. To make awards for shooting proficiency and physical training, and related mainly to the Royal Marines and to HMS RALEIGH.
- e. Commonwealth Awards. A mixture of Command and Course prize awards that were made to the Australian, Canadian and New Zealand Navies.

103. However, by 1988 the organisation of the HLNTF was deemed as unmanageable on the grounds that because of its size and complexity that it did not lend itself to delegation to one establishment or even to one Command. Detailed discussions were therefore conducted with the Charity Commission and the United Services Trustee who then managed the investment of the capital. In light of those discussions and direction by the then trustees, a new Scheme was drawn up and Sealed on 23 November 1988. This provided for six stand-alone funds: the Naval Home Command Trust Fund; the Fleet Command Trust Fund; the Naval Air Command Trust Fund; the Royal Marines Trust Fund; the Naval Medical Trust Fund; and the Naval Inventions Trust Fund. These six Funds were established at this time as separate Registered Charities, each completely independent from the others and with no ability to transfer any excess residue income between them.

104. In the setting up of this Scheme, with its distinct 6 separate Trust Funds for the Naval Service, property was transferred from the accumulated income from the original fund in full and final settlement to take account of the Commonwealth Navies on the following basis:

- a. The sum of £8,400 to the Royal Australian Navy.
- b. The sum of £1,800 to the Royal Canadian Navy.
- c. The sum of £1,800 to the Royal New Zealand Navy.

105. This six-fund arrangement as set up by the 1988 Scheme operated reasonably well initially but with varying degrees of acceptability by the latter end of the 1990s. The individual funds were noticeably operating to different patterns with heavy usage in some areas and with low uptake rates by other funds.

106. A re-appraisal in the late 1990s by members of the Navy Board concluded that RN and RM personnel working in the purple organisations (the DLO, the DPA and central MOD divisions) were not best served by arrangements then in place. Attempts were made at that time to address this particular problem by proposing that the trustees of the various funds surrender some of their equities and cash deposits in order to create a separate "pot" and thereby permit predictable prize money allocations to reward personnel in purple organisations. The attempt failed, but it was agreed, as a compromise, that the managers of the CINCNVHOME Fund would consider nominations for prizes from purple areas but without guarantees about payment.

107. Doubts about how well the purple areas were being served remained extant and, in addition, queries concerning the financial management and control raised concern that the way the funds were structured, would be unlikely to benefit fully all the RN and Royal Marines personnel they were intended to serve. The RN management structure on which the separate Herbert Lott Funds had been set up had changed markedly over the years, and with further RN structural changes taking place at that time, consideration had to be given to the future management of the Herbert Lott Funds into the 21st Century. By 2002, the following changes were taking place: FLEET FIRST restructuring with its abolition of Type Commanders and the creation of functional management areas; the introduction of TOPMAST resulting in both training and personnel being allocated to the waterfront; the major changes expected from the introduction of DTR and possible future changes in the TLB organisations. Given these factors, it was agreed that a review of the whole HLTF structure and management would be appropriate.

108. The review of the Herbert Lott arrangements was conducted by 2SL during the latter end of 2002 and resulted in the Admiralty Board approving in principle a set of proposals to make the operation of Herbert Lott more effective and efficient. As a result a change process was embarked on with the key points put before the Charity Commission in February 2003. In full agreement of all trustees, a new Scheme was therefore produced for the HLNTF. The main changes to the 1988 Scheme being: -

- a. the winding up of the current, largely "tribal", six funds; and
- b. the creation of just one Herbert Lott RN Trust Fund with three supporting objectives - viz:
 - i) the provision of prizes to Naval Service personnel (see para 110 below) who show marked efficiency in their duties;
 - ii) the provision of prizes to Naval Service personnel who are top students of courses and examinations;

iii) the provision of prizes to Naval Service personnel for suggestions and inventions which improve the efficiency of the Naval Service

c. the creation of a Board of Trustees for the single Herbert Lott Naval Trust Fund comprising senior officers from the principal areas of the Royal Navy and Royal Marines.

109. This new Scheme was sealed on 19 May 2004

110. Naval Service personnel eligible for awards include all RN, RM QARRNS and equivalent reserves. Foreign or Commonwealth personnel, personnel from other Services and civilian personnel are not eligible.

111. The new single HLNTF is, of course, almost a return to the original Herbert Lott arrangements that existed prior to the 1988 changes but without the Commonwealth component. There are, however, subtle differences in the operation of the revised Fund, namely:-

a. the Management Board will apportion each year the income gained from the Fund's investments in the previous year to allow for awards on the following basis:

(i) a pan-Naval Service "HLTF Training Course Prize Component" that would exist purely for the purpose of paying out course prizes, irrespective of whether it was a NRTA, DRM or a CINCFLEET-sponsored course;

(ii) a component" for the award of efficiency prizes to those serving in 2SL's domain and including the DLO, DPA, VCDS and those areas or independent units not within the Fleet bailiwick;

(iii) a Fleet Efficiency Award Component" for the award of efficiency prizes to those serving within the Fleet Command; and

(iv) a pan-Naval Inventions Award Component.

b. the Management board would be able to flex money between the four Component's allocations as required in year to meet demand and current changes.

c. awards for training course prizes now derive from a single "pot", irrespective of the course's sponsoring department. Therefore the course prize inequalities that existed under the previous regime will be overcome with the issue of course prize principles agreed by the Management Board each year to standardise the frequency and levels of awards to be made.

d. efficiency awards come from just two components as allocated by the Management Board each year and based on a pro-rata division of the available money. The pro-rata split will be based on the numbers on the trained strength serving in each of the two component areas.

CHAPTER 2

HERBERT LOTT NAVAL TRUST FUND - TRUSTEES

Section I

The Management Board of Trustees

201. There are 5 Ex-officio trustees of the Herbert Lott Naval Trust Fund who are all appointed by virtue of their office, and as such, they form the Management Board of the Fund. This role is to be specifically included as a Secondary Purpose within each of the following Terms of Reference:

- a. Deputy Chief Executive/Naval Recruiting and Training Agency (DCE/NRTA).
- b. Deputy Assistant Chief of Staff (Personnel), Commander in Chief Fleet (DACOS(Pers)).
- c. Assistant Chief of Staff (Engineering), Commander-in-Chief Fleet (ACOS(E)).
- d. Director Royal Marines (DRM).
- e. Deputy Director Naval Life Management (DDNLM).

202. The Chairman of the Management Board of Trustees will be DCE/NRTA and in his absence, the trustees are to elect one of their number to chair the meeting.

203. The Trustees must exercise their powers jointly, at properly convened meetings and a quorum to enable business to be transacted must consist of at least 3 Trustees. The appointment of trustees is for the term of office of their principal role, and each appointment to the Management Board is to be ratified by the other trustees present at the next available meeting.

204. When a new trustee is appointed, the Secretary will provide him/her with an appointment letter as outlined at Annex A and in order to comply with the requirements of the Charity Commissioners, this will enclose documents governing the Trust (the Scheme) as well as a guide detailing the general responsibilities and conduct of trustees. It will also enclose a certificate of acceptance to be signed by the newly appointed trustee to acknowledge agreement to act in accordance with the governing documents. This certificate, when signed, will be held by the Secretary in the Register of Trustees. The letter of appointment will therefore enclose:

- Certificate of Acceptance.
- Charity Commission Publications CC2, CC3, CC11 and guide to investment powers.
- Herbert Lott Naval Trust Fund - Guidance on Operating Procedures.
- Copy of the latest Financial Report and statements.
- Copy of the Herbert Lott Naval Trust Fund Scheme.

Meetings of Trustees - The Management Board

205. It should be the practice for Trustees to meet annually in April/May by which time the Financial Statement for the previous fiscal year is available for discussion. A quorum of 3 trustees is necessary to enact business. Should this frequency of meetings prove to be unsatisfactory to deal with outstanding business, ad hoc meetings may be called as required.

Special meetings may be called at any time but at least 4 days notice is required and in the event of the intended discussions dealing with any amendments to the Scheme, then 21 days is required.

206. Specific requirements concerning meetings are:

- a. The trustees are to hold at least one ordinary meeting in each year.
- b. A special meeting may be summoned at any time by the Chairman or any 2 trustees upon not less than 4 days notice being given to the other trustees of the matters to be discussed, but if the matters include any amendment to the Scheme, then upon not less than 21 days' notice being so given. A special meeting may be summoned to take place immediately after an ordinary meeting.
- c. No business may be transacted at a meeting unless there is a quorum of at least 3 trustees present.
- d. The trustees may invite to be present at their meetings the Secretary/Treasurer, the Investment Advisers, the Auditor, and any other officers as may be necessary.
- e. Minutes of the meetings of the trustees will be maintained by the Secretary/Treasurer and will be approved by the trustees present.
- f. In the absence of the Chairman, those trustees attending will vote and agree on whosoever will chair that particular meeting.
- g. Every matter shall be determined by the majority of votes of the trustees present and voting on the question. In case of equality of votes the Chairman of the meeting shall have the casting vote whether he or she has or has not voted previously on the same question but no trustee in any other circumstance shall give more than one vote.
- h. In exceptional circumstances, business of the trustees may be executed by minute or letter. Decisions thus agreed, and signed by all the trustees, are to have the same authority as decisions reached by a meeting of the trustees.

Integrity of the Herbert Lott Naval Trust Fund - Trustees Responsibilities

207. The trustees aim is to promote confidence in the integrity of the HLNTF and ensure that it conforms with the minimum legal and regulatory requirements, achieving high standards of practice in the management of its resources and in the delivery of the original intentions of Mr Herbert Lott when he set up the Trust. In furthering this aim, the trustees are to ensure that the HLNTF:

- a. is formally set up with clearly documented aims and rules by which it will be run, including the legal powers it needs to achieve its aims.
- b. is run by a clearly identifiable body of people who take responsibility, and are accountable, for controlling the HLNTF so that it is economically and effectively run, and who:
 - i) act with integrity;
 - ii) act in the interests of the HLNTF;

- iii) act without regard to their personal interests;
 - iv) preserve their independence, neither allowing themselves to be directly controlled by others nor acting as mere representatives of others' interests;
 - v) are not disqualified from acting or otherwise unsuitable;
- c. manages and accounts for its resources well.
 - d. complies with all relevant legal and regulatory requirements.
 - e. acts with respect to the legal and human rights of the individual.
 - f. demonstrates how its activities support its charitable aims.
 - g. is open in the conduct of its affairs, except where there is a need to respect confidentiality.
 - h. carries out its aims with regard to the requirements of those it is designed to serve, the Naval Service within which it operates and the wishes of the founder, Mr Herbert Lott.
 - i. conducts its external relations and publicity in a way that enhances its own reputation and that of charities generally.

HERBERT LOTT NAVAL TRUST FUND

CASH LIMITS

(Revised Edition 4/04)

Background

1. At the 1st Meeting of the Trustees, discussion centred on the requirement to reward 3 specific categories involved with efficiency, namely Course Awards, Efficiency Prizes and Inventions awards. In addition, there are some special prizes awarded but in size, they are insignificant. The lion's share of the awards (some 60% of total available funds) had previously been for top students of courses, irrespective of complexity or length of course and the Trustees determined that for the future of the Herbert Lott, greater emphasis should be placed on efficiency awards. It was therefore agreed to aim the percentage split of the available income to:

a. Efficiency Awards:	52%
b. Course Prize Awards:	36%
c. Invention Awards:	9%
d. Remainder:	3%

2. To enable the Trustees to manage the annual allocation of income and the capital funds and apply a coherent Reserves Policy, some form of measurement of the HLNTF's resources in terms of Income and Expenditure, Cash Flow and Contingency was required. It has therefore been recommended that without tying down the Trustees to prescriptive instructions, a basic guide was required to measure the liquidity of the Fund that would enable them to fully apply their discretion in making the annual allocations based on the above split of awards. This basic tool is considered necessary to measure and define the basic Capital Reserve and establish bands to enable a trip wire approach to restricting levels of awards at one end of the scale to increasing the levels of individual awards at the other end.

Requirement

3. The following requirements have been considered as necessary ingredients for the measurement tool that is required:

- It must not fetter the Trustees in any way.
- It must be simple and easy to understand.
- It must cope with changing levels of income and inflation.
- It must take consideration of changes to the size of the Naval Service.
- Any assumptions made must be based on agreed procedures and parameters already set by the Trustees.
- It must be flexible.

Proposal Assumptions

4. To meet the first requirement, the following proposals are considered to be for guidance. The Trustees have the right to take this guidance as advice, but then to decide on a specific way ahead as required. The Trustees are also at liberty to agree on any changes to the assumptions made in the following example to more accurately reflect their joint views.

5. To meet the other requirements, it is proposed that the system to be adopted should be based on certain benchmarks. These benchmarks are:

- The level of Efficiency Award Prizes be set at £0.75 per head of RN total numbers at 2004 prices and is inflated by the RPI thereafter.
- The levels of the Award Prizes be set at the percentage levels outlined at paragraph 1.

Proposal

6. That the annual level of income to be produced by the Investment Fund Manager should be able to pay at least the total Prize money required each year based on the above benchmarks. Therefore assuming a Naval Service population size of 40,000, it should therefore have a minimum value of the sum of the following:

Efficiency Awards $40,000 \times £0.75 = £30,000$ representing 52% of the total requirement therefore:

Course Awards $36\% = £ 30,000/52 \times 36 = £20769.23$

Inventions Awards $9\% = £ 30,000/52 \times 9 = £5192.31$

Remainder $3\% = £ 30,000/52 \times 3 = £1730.77$

Total Minimum Income Required = £57692.31

7. That the assumed yield on the capital invested in the Fund's Portfolio should be 3.5%. Therefore the following equation results to obtain the minimum value of capital to produce the minimum income:

$$\begin{aligned} \text{Minimum Capital Reserve} &= £57692.31/3.5\% \\ &= £1,648,351.70 \end{aligned}$$

8. It should then be assumed that the fund should be able to sustain a specific number of Special Awards in any given year, without falling below the Minimum Capital Reserve. These may be to make awards for inventions that have had a significant impact on the efficiency of the RN or for other purposes as directed by the Trustees. It is suggested that this margin be set at an initial margin of £10,000. This then sets the next band width at:

$$(£57692.31 + £10,000)/3.5\% = £1,934,066.00$$

9. A table representing the above would look like:

BAND	2004 FIGURES £M	PURPOSE
GREEN	Above 1.94	Available to meet a general increase in the value of all Prize Awards
YELLOW	From 1.65 to 1.94	Available to Meet All Prize Awards Claims plus Special Award Contingency based on Efficiency Awards at £0.75 per head of Naval Service
RED	Up to 1.65	Minimum Capital Reserve - the "Irreducible Endowment"

10. Each time that the Benchmark figure of £0.75 per head is changed, the figures in the table will change thus keeping pace with inflation. As the size of the RN changes, the figures will also change and ensure that there is no excessive build up of reserves. The colour coding provides the Trip wires. As the Red is approached, the Trustees would have to consider reducing the size of individual Awards. In the Yellow, the size and number of awards can exist without change, with some element held in reserve to meet any exceptional awards. Spare income would be invested, thus enabling in the following year, should no claims arise, for the fund to move closer to the Green sector. In the Green and the Fund can declare that it has excess income and can meet all claims and the Trustees consider increasing the overall levels of Awards in each category.