



Council
6 February 2019
Review of reserves and investments

Classification	Public
Purpose	For discussion
Issue	<p>The General Osteopathic Council (GOsC) holds reserves to ensure it has sufficient funds to guard against unforeseen events.</p> <p>In addition, to protect its cash reserves, GOsC has a managed investment portfolio held through Brewin Dolphin and a separate 120-bond held with Secure Trust Bank.</p> <p>This paper reviews the reserves and investment positions of the GOsC.</p>
Recommendations	<ol style="list-style-type: none">1. To consider the review of the reserves position2. To consider the GOsC investment position.
Financial and resourcing implications	Contained within the paper.
Equality and diversity implications	None
Communications implications	The reserves position will be set out in the 2018-19 Annual Report and Accounts.
Annex	GOsC stock market investment valuation
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Background

1. The GOsC holds reserves as part of good business practice to ensure that it has funds available if unforeseen events materialise, such as a sudden increase in operational expenditure or income falling below expectations.
2. In addition, GOsC ensures its cash funds are protected by contracting with Brewin Dolphin to manage an investment portfolio with £500,000 invested while a further £500,000 is held with Secure Trust Bank in a 120-day bond.
3. This paper considers both the reserves position and the investment position in turn.

Reserves

4. In considering the reserves position, guidance from the Charity Commission is given due regard. Questions arising from the Charity Commission guidance, which Council might wish to reflect on, include:
 - Why you might need reserves for the charity to be effective?
 - How much do you need in reserves?
 - Have you got any funds in reserve at the end of the year?
5. Council will recognise that the environment and landscape in which we operate constantly presents new challenges; however, that being true, our income and operational expenditure is reasonably well known. The areas of risk which might lead to significant financial impact should an event crystallise remain the same as last year and are summarised below:

Risk area	Possible financial impact
Increased volume of complaints	Current fitness to practise budget set at £580k. When a spike in complaints occurred in FY13-14, expenditure was c. £720k, an increase of £140k.
Judicial review appeals	A judicial review appeal could cost up to £25k, with GOsC paying the other parties costs were we to be unsuccessful in defending the appeal.
Uninsurable losses, e.g. data protection fines	In 2013 the NMC was fined £150k for a data breach and in 2016 two NHS Foundation Trusts were fined £180k and £185k respectively for separate data breaches. The Information Commissioner has the power to issue fines of up to £500k and with the new General Data Protection Regulations there is likely to be a heightened awareness around data breaches.

Unforeseen increase in quality assurance activity	An unforeseen increase in quality assurance activity, i.e. additional unplanned visits, could result in additional expenditure of £20k per visit.
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6. Last year Council agreed a target reserves range of £350k-£700k based on the risk profile and possible financial impact(s). Council is advised that the risk profile remains the same as last year and therefore the target reserves range should also be kept constant.
7. To calculate the reserves position, Charity Commission guidance records that '...reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes.' The guidance goes on to say that this should exclude restricted income funds, tangible fixed assets, amounts designated for essential future spending and any funds which have restrictions on the way in which the funds have to be used.
8. The table below reflects the reserve position of the GOsC as at 31 March 2018, reflecting the amount of funds held, those designated or otherwise committed and those funds which would only be available after the sale of assets.

	£
Funds held	2,514,188
Restricted funds	-
Material funds designated or committed*	70,842
Sale of assets	1,796,779
Funds remaining	646,567

* CPD start-up funds.

9. At the last year-end position, the reserves fell within the target reserves range of £350k-£700k.
10. Based on our understanding of the financial position for 2018-19, we are able to state that the reserves position as at the year-end (31 March 2019) will continue to be within the target reserves range and there is no remedial action for Council to take.

Investments

11. In 2011, when interest rates had been cut significantly, GOsC invested £500,000 into the stock market through Newton Asset Management. The purpose was to offset a lack of real return on the funds.

12. At the same time, a further £500,000 was invested into a 120-day bond with Secure Trust Bank.
13. The stock market investment was based on several key principles which are set out below:
 - a. Good financial stewardship aims to increase the asset value above inflation;
 - b. The investment profile of the GOsC was to be at the lower end of medium risk across a five-year period;
 - c. The portfolio needed to be diverse to spread the risk of fund fluctuation;
 - d. The investment should be made via a fund route rather than a segregated portfolio;
 - e. No significant capital additions or withdrawals were anticipated;
 - f. The funds could be liquidated quickly if required;
 - g. That Council should review the investment strategy on a regular basis.
14. In the last financial year, Council agreed to transfer the management of the stock market investment to Brewin Dolphin, a leading wealth management company with vast experience of working with charities.
15. As at 31 December 2018, the stock market investment was worth £534,978, down from the 31 March 2018 year-end position of £551,021. The valuation as at 31 December 2018 was affected by a change in market direction in the final quarter of the year when concern over the world economy combined with major global equity markets falling sharply, led to negative returns for the calendar year.
16. Steve Oliver of Brewin Dolphin will be in attendance to give a short presentation to Council on the performance of the investment and the general market outlook for 2019. To support this, a client report is attached at the Annex which sets out the asset allocation of the portfolio.
17. Turning to the 120-day bond with Secure Trust Bank. As at 31 December 2018, the value of the bond stands at £583,036 with the level of interest earned standing at 1.24% gross. The Executive will continue to monitor the bond over the coming year to assess whether it continues to provide sufficient value for the investment.
18. Despite the fall in the stock market investment the Executive suggest the investment and the 120-day bond are ensuring Council's cash assets are protected and at January 2019 there is no remedial action required of Council.

19. The reserve position and the investments will be reviewed again by Council in 12 months' time.

Recommendations:

1. To consider the review of the reserves position
2. To consider the GOsC investment position.