



Council
9 July 2020
Review of reserves and investments

Classification Public

Purpose For discussion

Issue The General Osteopathic Council (GOsC) holds reserves to ensure it has sufficient funds to guard against unforeseen events. In addition, to protect its cash reserves, GOsC has a managed investment portfolio held through Brewin Dolphin.

This paper reviews the reserves position and the performance of the GOsC investment portfolio.

Recommendations

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

Financial and resourcing implications Contained within the paper.

Equality and diversity implications Council has discussed ethical investments; however, it recognised this would limit any return the GOsC might receive and may not protect the overall asset, which is a key principle of the investment portfolio. This paper does not consider ethical investments further as it is providing Council with its annual review of the reserves position and investment portfolio performance.

Communications implications The reserves position is set out in the Annual Report and Accounts 2019-20.

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 which at the year-end was valued at £1.011m. The investment portfolio had reduced by c.£150k due to the impact on the stock market caused by the coronavirus pandemic.
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 on building resilience 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. The impact of the global pandemic has sharpened the focus on reserves for all organisations. For the GOsC, we have always had a degree of security due to the stable nature of our income and operational expenditure. The novel coronavirus pandemic has placed unprecedented pressure on the GOsC income stream, as registrants converted their registration status from practising to non-practising. That we had a solid reserves position has helped us during this period.
6. Council will recognise that the environment and landscape in which we now operate presents new challenges. That said, the areas of risk which might lead to significant financial impact should an event crystallise have not significantly changed, and these are summarised below:

Risk area	Possible financial impact
Increased volume of complaints	Current fitness to practise budget set at £585k. When a spike in complaints occurred in FY13-14, expenditure was c. £720k, an increase of £140k.
Judicial review appeals	In 2019, a high-court decision which went against the GOsC resulted in total costs of c.£50k, including the GOsC paying the other parties costs.

Uninsurable losses, e.g. data protection fines	<p>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.</p> <p>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.</p>
Unforeseen increase in quality assurance activity	<p>An unforeseen increase in quality assurance activity, i.e. additional unplanned visits, could result in additional expenditure of +£20k per visit.</p>

7. Council has previously agreed a target reserves range of £350k-£700k based on the risk profile and possible financial impact(s). The risk profile remains the same and the target reserves range should also be kept constant.
8. 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.
9. The table below reflects the reserve position of the GOsC as at 31 March 2020, 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	2,496,796
Restricted funds	-
Material funds designated or committed	(182,093)
Sale of assets	(1,740,888)
Funds remaining	573,815

10. At year-end, the reserves are within the target reserves range.

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. At the same time, a further £500,000 was invested into a 120-day bond with Secure Trust Bank.
12. 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 liquated quickly if required;
 - g. That Council should review the investment strategy on a regular basis.
13. In 2018-19 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.
14. In 2019-20, Council agreed to close the 120-day bond with Secure Trust Bank due to the reduction in the interest rate paid on the bond. The funds were transferred to the Brewin Dolphin investment portfolio.
15. In 2020, the coronavirus pandemic caused stock markets to crash. This affected all investments including our portfolio. At the year-end, the value of the investment was £1.011m, which had reduced by c.£150k.
16. The current valuation of the investment, as at 23 June 2020, was £1.119m, which demonstrates that the investment portfolio has recovered a significant proportion of the loss incurred just prior to year-end.
17. Steve Oliver of Brewin Dolphin, and Simon McGeachie of Fairstone Asset Management (broker), will be in attendance to give a short presentation to Council on the performance of the investment and the general market outlook for 2020-21. To support this, a client report is attached at the Annex which sets out the asset allocation of the portfolio.

Recommendations:

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