



Council
20 July 2021
Review of reserves and investments

Classification	Public
Purpose	For decision
Issue	<p>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.</p> <p>This paper reviews the reserves position and the performance of the GOsC investment portfolio.</p>
Recommendations	<ol style="list-style-type: none">1. To consider the review of the reserves position.2. To agree to the designation of £100k for general legal costs.3. 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.
Communications implications	The reserves position is set out in the Annual Report and Accounts 2020-21.
Annex	None.
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Key messages from the paper:

- It is good practice to hold reserves for unforeseen events and to invest excess funds in order to protect the cash asset from inflation erosion. It is also good practice to review both reserves and investments on an annual basis, which Council does at its July meeting.
- Council has previously agreed a target reserves range of between £350k - £700k which is based on its assessment of risk and the possible financial impact. For the year ended 31 March 2021, we are holding funds above the target reserves range which is due to the recovery of the investment portfolio.
- A new designated fund has been created for general legal costs which may be associated with High-Court appeals and/or Court of Appeals. This is set at £100k.
- The investment portfolio suffered a large loss in 2020 due to the impact of the pandemic on the stock market. By the year ended 31 March 2021, the portfolio had recovered and was valued at £1.235m, which is a significant recovery.
- The most up to date investment valuation is £1.272m as at 30 June 2021.
- Representatives from Brewin Dolphin and Fairstone Asset Management will attend Council to report on the performance of the portfolio.

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 £1.235m. The investment portfolio recovered the loss it suffered in the previous year due to the impact on the stock market caused by the pandemic.
3. This paper considers both the reserves position and the investment position.

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 pandemic 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. Last year, the novel pandemic placed unprecedented pressure on the GOsC income stream. That we had a solid reserves position to rely upon helped during that period.
6. Council will recognise that the environment and landscape in which we now operate presents different 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
Unforeseen increased volume of concerns received	Current fitness to practise budget set at £585k. When a spike in concerns received occurred in FY13-14, expenditure was c. £720k, an increase of £140k.
Increase in High Court and/or Court of Appeal activity	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. Based on current experience, we anticipate any Court of Appeal activity incurring expenditure of c.£100k.
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. In 2019, the ICO fined a London-based pharmacy £275k for failing to ensure the security of special category data.
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.

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. This year we have established a new designated fund of £100k to cover general legal costs which may be associated with High-Court appeals and any subsequent Court of Appeal cases. This is a prudent move designed to ensure there is a reserve available for unforeseen costs that may arise outside of the operational budget which has already been approved by Council. This matter was discussed at Audit Committee who felt it was a sensible approach.
10. The table below reflects the reserve position of the GOsC as at 31 March 2021, 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	2,792,913
Restricted funds	-
Material funds designated or committed	(282,093)
Sale of assets	(1,671,106)
Funds remaining	839,714

11. At year-end, the reserves are above the target reserves range which is a reflection of the significant investment gain. No action is proposed at this stage; however, the Executive will continue to monitor the reserves position as the year progresses and, if necessary, propose to Council appropriate action.

Investments

12. The GOsC stock market investment is based on several key principles:
- Good financial stewardship aims to increase the asset value above inflation;
 - The investment profile of the GOsC was to be at the lower end of medium risk across a five-year period;
 - The portfolio needed to be diverse to spread the risk of fund fluctuation;
 - The investment should be a fund route rather than a segregated portfolio;
 - No significant capital additions or withdrawals were anticipated;
 - The funds could be liquated quickly if required;
 - 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 which reduced by c.£150k. As the stock market recovered so did the GOsC portfolio and as at 31 March 2021, the investment portfolio was valued at £1.235m.
16. The current valuation of the investment, as at 30 June 2021, is £1.272m
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 the year-ahead, including any opportunities and risks.

Recommendations:

1. To consider the review of the reserves position.
2. To agree to the designation of £100k for general legal costs.
3. To consider the GOsC investment position.