



Council
20 July 2023
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. 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 consider the GOsC investment position.
Financial and resourcing implications	Contained within the paper.
Equality and diversity implications	Investing according to Environment Social Governance (ESG) could be an important accelerator towards equality, diversity, and inclusion.
Communications implications	The reserves position is set out in the Annual Report and Accounts 2022-23.
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 2023, we are holding funds above the target reserves range, which is due, in part, to the recovery of the investment portfolio in the prior year, in addition to prudent expenditure control this year.
- The investment portfolio is relatively stable at present, following significant market volatility over the past two years, though the impact of the rising price of oil and the subsequent global recession, is likely to affect investments.
- The most up to date investment valuation is £1.17m as at 31 March 2023.
- A representative from 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 £1.17m.
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. In 2021-22, 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. The approach we have previously taken is outlined below:

Risk area	Possible financial impact
Unforeseen increased volume of concerns received	Current fitness to practise budget set at £444k. 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	Our recent experience of the High Court and the Court of Appeal, means that we are aware we would incur costs of at least +£50k, including the GOsC paying the other parties costs if we were unsuccessful.
Uninsurable losses, e.g. data protection fines	In 2013 the NMC (Nursing and Midwifery Council) was fined £150k for a data breach and in 2016 two NHS (National Health Service) 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. The table below reflects the reserve position of the GOsC as at 31 March 2023, 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	2,858,764
Restricted funds	-
Material funds designated or committed	(222,093)
Sale of assets	(1,590,581)
Funds remaining	1,046,090

10. At year-end, the reserves are above the target reserves range which is a reflection of the significant investment gain in the prior year, in addition to prudent expenditure control this year.
11. The Executive has continued to monitor the reserves position as the year progressed. We will be utilising the Information Technology reserve to support the ongoing investment in our infrastructure and security, such as the upgrading of our CRM system, and the Values project which will allow for the implementation and evaluation of shared decision-making resources which will support osteopaths with undertaking CPD.
12. Additionally, Council will recall that at its previous meeting in May 2023, it agreed criteria for future reserves spending proposals.

Investments

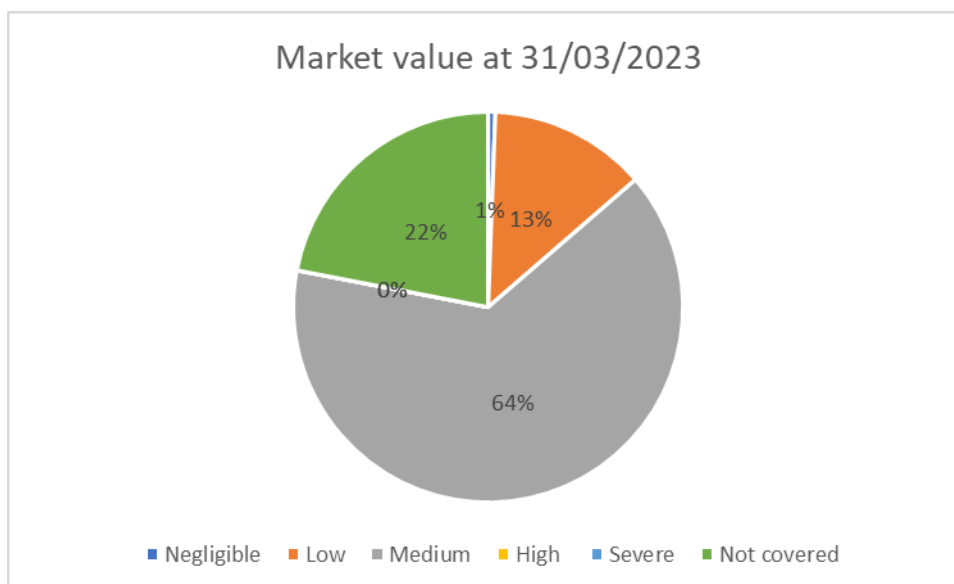
13. The GOsC stock market investment is based on several key principles:
 - a. Good financial stewardship aims to increase the asset value above inflation;
 - b. The investment profile of the GOsC was to be at the lower end of medium risk across a five-year period;
 - c. The portfolio needed to be diverse to spread the risk of fund fluctuation;
 - d. The investment should be 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 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.

15. 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.
16. 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 2022, the investment portfolio was valued at £1.25m.
17. Simon McGechie 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.
18. In November 2021, the Executive submitted the 'Investment portfolio: Environment, Social Governance (ESG) paper' presenting an approach that included monitoring, reviewing, and reporting to Council on the ESG Portfolio Sustainability Score ratings.
19. In terms of the Business Development (BD) process, there is consistent engagement with managers on material ESG issues as well as having a separate socially responsible investment (SRI) list of assets and this can be fundamentally broken down as follows:

	Core BD Funds	SRI Preferred Funds
Culture	Awareness of ESG	Embedded ESG Culture
ESG Integration	ESG issues considered	ESG Fully integrated
Stewardship	Vote their shares	Industry-leading engagement
Reporting	Making efforts to report and be transparent	Strong transparency and reporting
Exclusions	No criteria required	Aligned with BD exclusionary policy

20. The ESG Risk Rating evaluates the residual unmanaged ESG risk exposure of a company after taking into consideration its risk management strategy. The rating is presented on a 0-100 scale, the lower the score the better the management of ESG risk. The Morningstar Portfolio Sustainability score is an asset-weighted average of Sustainalytics' company-level ESG Risk Score, which measures the degree to which a company's economic value may be at risk driven by ESG factors.
21. When we reported to Council in November 2021 63% of our investment portfolio fund was rated, we set a key performance indicator (KPI) to track this with a view to building on the percentage in the future. The Executive further reported to Council in July 2022 that we have achieved 75% rated, with initial data suggesting that our standard investment proposition is favourable in terms of ESG, as 100% of the rated investment score below 30. We will keep this under review and will report to Council at future meetings on progress.

22. The Executive is pleased to report that we have continued with the trend and confirm an ESG risk score data coverage of 78.03% of the portfolio.
23. The graph below illustrates the proportion of rated products from our investment portfolio, by ESG risk category:



ESG risk category	Market value at 31/03/2023	% of holdings
Negligible	6,995.00	0.60
Low	152,594.00	13.06
Medium	751,752.00	64.37
High	-	0.00
Severe	-	0.00
Not covered	256,649.00	21.97

Recommendation:

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