General Dental Council | protecting patients, regulating the dental team

Item 8
Council
13 December 2018

2019 Investment principles and strategy review

Purpose of paper	To review the current investment principles and strategy
Action	For decision
Status	Public session
Corporate Strategy 2016 – 2019	Performance – Objective 2: To improve our management of resources so that we become a more efficient regulator
Business Plan 2018	Objective 2: Manage, the GDC's finances effectively, maintaining sufficient reserves to ensure resources are available to manage our statutory functions
Decision Trail	The Council last approved the current investment principles and strategy in December 2017. The Finance and Performance Committee reviewed the current investment principles at its meeting on 19 December 2018 and agreed to recommend that the current investment principles and strategy are maintained for 2019.
Recommendations	Council is asked to **approve** that the current investment principles are maintained.
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Appendices	Appendix 1: GDC Investment Principles

Executive Summary

1. As a result of accumulated and projected surpluses, the GDC's business model is such that it is projected to have cash funds of that fluctuate due to seasonal differences in income receipts and expenditure patterns.
2. At present, funds held in the bank current account or on short term bank deposit earn less than 0.5% per annum, while the September 2018 CPI was 2.2%. Whilst the capital element is reasonably secure (assuming a stable UK banking sector), the purchasing power of cash will shrink year on year.
3. At their December 2017 meeting, Council approved the investment of available cash in instruments other than cash deposits, creating the opportunity to achieve investment returns greater than currently available from bank deposits (after deducting fees), whilst not exposing any capital to excess risk.
4. The investment strategy was established on the basis that a minimum cash balance of the order of £5.0m would be maintained. On this basis and following a review of the currently approved investment principles as set out in Appendix 1, no changes to either the investment strategy or the investment principles are advised.

Introduction and Background

5. In December 2010, following a tender evaluation process, Smith & Williamson were appointed as the GDC's investment advisor to assist the GDC in the development of an investment strategy that takes account of the GDC's statutory role as regulator, its accountability to Parliament, and, as a result, its need to invest prudently, avoiding unnecessary risks.
6. The GDC business model is such that, at the time, it normally had cash funds that fluctuate due to seasonal differences in income receipts and expenditure patterns. Funds were being held in bank current accounts or short-term bank deposits, earning less than 1.5% per annum, which was substantially below the CPI which was running in excess of 4% at the time. Whilst the capital element was reasonably secure, purchasing power of the cash was shrinking year on year.
7. With advice from Smith & Williamson, an investment strategy was developed that recommended investing a proportion of available cash in instruments other than cash deposits, creating the opportunity to achieve investment returns greater than was available from bank deposits (after deducting fees), whilst not exposing any capital to excess risk.
8. The objective was to achieve returns that mitigated the shrinking buying power of cash by investing in "real assets" (equities, property, commodities etc) as follows:
9. Being prudent, even allowing for the fact that investments would be realisable at current market value within 7 days, it was proposed that a minimum of £5.0m to be kept in available cash in the bank current account on a continuing basis. To accommodate monthly seasonal variations, remaining cash balances were to be managed by the Finance team on short term deposit, for periods up to 3 months in length.
10. At its December 2011 meeting, Council approved the proposed investment strategy and principles and the Finance & Business Planning Advisory Committee ratified implementation of the strategy in May 2012. The strategy has since been reviewed annually to ensure it remains appropriate.

Cashflow projections and proposed investment profile

11. The value of cash to be included in an investment strategy should be linked to projected cash balances. The investment profile that has been adopted and to which no changes are proposed, is based on the **minimum** level of projected cash balances.

12. Other short-term cash balances will be managed by the Finance team through the use of short term (up to 3-month bank deposits) at two UK clearing banks - currently Lloyds Banking Group and NatWest.

13. The justification for investing a proportion of available cash in instruments other than cash deposits is the opportunity to achieve investment returns greater than currently available from bank deposits after deducting fees, whilst not exposing any capital to excess risk. The objective here is to seek to achieve returns that mitigate the shrinking buying power of cash as a result of an increase in the rate of inflation. Investment advisors will seek to achieve this through investing in “real assets” (equities, property, commodities etc).

Ethical investment strategy

14. In March 2018, Council requested that the investment principles be updated to include a specific reference to an ethical investment strategy. The agreed wording is intended to incorporate both the GDC’s ethical intentions with what Smith & Williamson’s regulator must see and is incorporate into paragraph 5 of the current principles.

Recommendation

15. Council is asked to **approve** current investment principles are maintained.

Appendix 1

GDC Investment Principles

Introduction

1. This statement of Investment Principles is aimed at providing a guide to how the Investment Strategy is implemented.

Investment Principles

2. The GDC will aim to achieve an investment risk profile that seeks to achieve returns broadly in line with inflation.
3. Reserves would potentially be available for investment for 5 years duration, but the ability to liquidate some investments at short notice should be maintained.
4. The GDC would always retain ultimate decision-making powers in relation to investments, however day to day decision making powers could be delegated to the Investment Manager on terms to be agreed.
5. The GDC has an established ethical policy to exclude alcohol and tobacco owing to their impact on oral health and the healthcare sector which could be seen as a conflict of interest. Ethical restrictions have been agreed with the Investment Manager and consequently there are no direct investments permitted in companies with more than 5% turnover derived from the production of alcohol, production of tobacco or healthcare provision.
6. Custody of investment documents [share certificates etc] – will be agreed between the GDC and the Investment Manager, however where they are held by the Investment Manager they will be in the name of a Nominee company.
7. All investments would be realisable within 7 working days, apart from short term bank deposits that may be unavailable for up to 3 months.
8. Short term funds will be deposited with banks as approved from time to time by the GDC, currently Lloyds Banking Group and Natwest.