

AGENDA ITEM

2.3

CHARITABLE FUNDS COMMITTEE

**CWM TAF MORGANNWG NHS GENERAL CHARITABLE FUNDS UPDATE
AS AT 30 JUNE 2021.**

Date of meeting

11/08/2021

FOI Status

Open/Public

If closed please indicate reason

Not Applicable - Public Report

Prepared by

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Presented by

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Approving Executive Sponsor

Executive Director of Finance

Report purpose

ENDORSE FOR BOARD APPROVAL

Engagement (internal/external) undertaken to date (including receipt/consideration at Committee/group)

Committee/Group/Individuals

Date

Outcome

(Insert Name)

(DD/MM/YYYY)

Choose an item.

ACRONYMS

UHB

University Health Board

1. SITUATION/BACKGROUND

- 1.1 To advise the Charitable Funds Committee of the activity and balances on charitable funds as at 30 June 2021. This report also provides further analysis over their use by both fund type and location. An update is provided on the investment performance within this report. The previous update to 28th February 2021 was provided to the CTM Board on 25th March

2021, therefore this report provides an update from 28th February onwards.

- 1.2 This report provides details on the contract performance against the HB's Investment Strategy as noted within section 2 of this report and the distribution of the unrealised gain in excess of the 20% of the market value of the investments.

2. SPECIFIC MATTERS FOR CONSIDERATION BY THIS MEETING (ASSESSMENT)

2.1 Balances held by the Charitable Fund

Balances held by the Charitable Fund as at 30 June 2021 are summarised in Appendix A analysed by fund type and location. Income received and expenditure incurred during the period 28th February 2021 to 30 June 2021 are also shown.

The balance at the end of June 2021 was £3.226m, which excludes the unrealised gain on investments referred to below.

2.2 Investment Update and Investment Strategy

The investment strategy for CTM NHS Charitable Fund is as follows:

"The charity will invest funds not required for immediate expenditure in suitable investments approved by the Audit Committee, in conjunction with guidance from its investment advisors. The aim of the investment strategy is to deliver a positive real return of at least CPI + 1% with a minimum of risk.

The level of risk inherent in the investment portfolio shall have volatility (maximum drawdown) of less than 20% over a 5 year period.*

The charity will strive to maximise income from investment dividends and interest, which will be used to fund administration costs and protect funds from inflation.

Increases in capital values will be used to build up a reserve to protect the funds from any subsequent fall in capital values, and therefore individual fund balances.

Should the reserve exceed 20% of the overall investment, any excess will be distributed to individual fund balances, subject to Audit Committee approval.

The investment strategy will be reviewed on an annual basis, with particular regard to the level of risk and returns expected.

**maximum drawdown represents the largest drop in the value of an asset class from its peak to its lowest point over a period."*

Balances are held in two places, with investments being held in CCLA and remaining cash balances being held in the ring-fenced Barclays bank account.

As at 30th June 2021 the investment balances are as follows:

CCLA

The total units remain at 783,307.83.

The market value at 30 June 2021 is £2.297m compared to £2.105m at 28th February 2021 as last reported to the Board. The monetary value of the cash invested in CCLA is £1.5m as such a surplus of £0.797m (53%) has been achieved cumulatively.

As per the investment strategy, should the reserve exceed 20% of the overall investment, any excess will be distributed to individual fund balances, subject to Audit Committee approval.

At the board meeting in March it was agreed to retain surpluses centrally and not distribute any surplus to individual funds, and an assessment will be made of whether and when to release some or all of the excess over 20% and an appropriate recommendation made after the Covid recovery period.

A performance review of the investments was carried out and presented to the Health Board in March and it was agreed that the contract with CCLA would be extended to 31st July 2023.

The Board also approved that a further £600,000 would be invested in the CCLA to reduce the excess cash balance in the account. At the 30th June this had not been actioned, however the investment is now

taking place and at the time of the Committee the £600,000 would have been actioned, taking the total cash value invested to £2.1m.

Barclays Bank

As a result of the Bridgend transfer and increase of funding from Covid-19 donations and grants, the current bank balance as at 30 June 2021 is £1.729m (£1.129m after £600k investment with CCLA).

The Barclays savings account provides little return on investment as interest rates are low. However, the assessment made on balances required over the short/medium term for utilisation and contingency required the balance to be held as cash of c£1.1m; therefore the current balance held is deemed appropriate.

3. KEY RISKS/MATTERS FOR ESCALATION TO BOARD/COMMITTEE

3.1 Investment Strategy

Due to the transfer of funds from Bridgend, further donations and grants received for Covid-19, the number and value of funds have increased significantly over the past couple of years and is likely to increase further as more grants are received from NHS Charities Together over the coming year.

Since the 31st March 2019 the balance on the fund has increased from £1.859m to £3.226m, an increase of over 73%. Currently funds are held in two places, for long-term investments funds are invested in the CCLA ethical fund and for short-term quick access it is held within the ring-fenced Barclays savings account referred to above. The interest rates within the Barclays account are currently very low and providing little return. It is proposed a review is undertaken which will identify instruments for investing the short term funds (i.e. the circa £1.1m referred to above) in different financial instruments which may achieve a better return on these funds.

This will look at the anticipated cash flow of the funds and may involve looking at investing funds for different periods i.e. 3 monthly/half-yearly maturity periods. While the overall investment strategy for longer term funds will not change, the following limits and controls will be identified for a more differentiated approach to short term funds:

- Maturity/time limits on investments
- Maximum values with one individual counterparty/group to limit risk

- Minimum credit ratings where applicable
- Types of investments allowed.

Charitable Funds Committee are asked to NOTE the proposed change to investing the short-term funding, noting a future paper will be brought to the Committee to approve the proposed investments that will be made.

3.2 **Excess reserves (unrealised gains) over 20%**

As previously highlighted, any gains that exceed over 20% are, as per the investment strategy, to be distributed to individual fund balances. The surplus exceeding 20% as at the end of June is £497k, which equates to 15% of the Charitable Fund Balances.

At the March board it was agreed not to distribute these funds due to the significant uncertainty around the economy and thus investment values. An assessment has been made and it is now recommended that the unrealised gains over 20% are released for use.

The Charitable Funds Committee are requested to ENDORSE to the Health Board the release of the excess reserves over 20%.

3.3 **Distribution of excess reserves**

The investment strategy states:

*"Should the reserve exceed 20% of the overall investment, any excess will be distributed to individual fund balances, subject to **Audit Committee** approval."*

Audit Committee – should be replaced with Charitable Funds Committee as per Standing Orders.

The following recommendations are made in relation to the use of the £497k to be released:



- I. £50,000 is set aside in an enabling fund, which can be used to underwrite fundraising activities, which will look to generate a net gain to the fund over the longer term. This would allow for potential opportunities for fundraising to be taken forward through the utilisation of the fund to provide cash flow management of a fundraising activities (e.g. underwriting start-up costs of a staff lottery).
- II. It is recognised that individual funds received a small net cost to the funds in 2020/21, due to administration charges exceeding investment income; while the gains from the increased valuations of investments were not distributed. It is proposed that these charges will be reversed from the excess reserves.
- III. The remaining balance of the excess reserves (likely to be in excess of £400,000), is placed into the HB wide general-purpose fund (fund holder - Paul Mears). This is how unrealised gains are dealt with in a number of other NHS Wales Charitable Funds, and the benefits of this include:
 - i) Enabling a better long-term planned use of the gains achieved from investments, linking into the need for a more strategic approach to using Charitable Funds.
 - ii) Allowing expenditure in areas of need that may otherwise not have access to Charitable Funds.
 - iii) Will give greater visibility to the level of unrealised gains, the risk of decreases in values will impact the general reserve rather than individual funds.
 - iv) Future net costs from management and administration costs exceeding investment income, if this occurs, will be paid for from gains from investments on the general reserve rather than passed onto individual funds, giving greater stability on individual funds.

- IV. The investment strategy is updated to reflect the distribution of excess reserves over 20% will be distributed to the HB Wide general purpose reserve.

Charitable Funds Committee are requested to ENDORSE to the Health Board the change in distribution of the excess reserves as outlined in I; II; III and IV above.

4. IMPACT ASSESSMENT

Quality/Safety/Patient Experience implications	There are no specific quality and safety implications related to the activity outlined in this report.
Related Health and Care standard(s)	Governance, Leadership and Accountability
	If more than one Healthcare Standard applies please list below:
Equality Impact Assessment (EIA) completed - Please note EIAs are required for <u>all</u> new, changed or withdrawn policies and services.	No (Include further detail below)
	No change or withdrawal of policy or services.
Legal implications / impact	Yes (Include further detail below)
	Charitable funds are required to be managed in accordance with charity legislation and requirements of the Charity Commissioner.
Resource (Capital/Revenue £/Workforce) implications / Impact	Yes (Include further detail below)
	To advise the Charitable Funds Committee of the activity and balances on charitable funds as at 30 th June 2021.
Link to Strategic Well-being Objectives	Provide high quality, evidence based, and accessible care

5. RECOMMENDATION

5.1 The Charitable Funds Committee are requested to:

- **NOTE** the current balances and investment performance of Cwm Taf Morgannwg NHS General Charitable Funds.
- **APPROVE** the change in the Investment Strategy to remove "Audit Committee" and replace with "Charitable Funds Committee" and **NOTE** the proposed change to investing short-term funds, noting a paper with specific proposals will be brought to a future Charitable Funds Committee
- **ENDORSE TO THE HEALTH BOARD** the release of the excess reserves above 20%
- In relation to the distribution of the excess reserves above 20%,
ENDORSE TO THE HEALTH BOARD:
 - the creation of a £50,000 enabling fund for underwriting fund-raising activities
 - change to the method of distribution of the excess reserves
 - reimbursement of management and admin charges to individual funds for 2020/21 if they exceed investment income
 - update of the Investment Strategy to reflect change in distribution method.