Public business

Cash Management Policy

Action required:

The Council is asked to agree

i. The implementation of the attached cash management policy.

1.0 Introduction

1.1 From time to time the Council will have surplus funds over that required for the day-to-day running of the organisation. In June 2012, Council agreed 4 principles that were to be followed when investing such surplus funds (see Appendix 1 for the details). The attached policy document builds on those principles and sets out the boundaries that are to be applied when deciding where to place such surplus funds.

2.0 Key Consideration

2.1 The key consideration for Council is the degree of risk that it is willing to accept when deciding where to place any surplus funds. After consulting the Treasury & Capital Markets department of Deloitte, the proposal is to only place funds with investment grade institutions (Investment grade is defined as having a relatively low risk of default, with the grade being set by the rating agencies, Moodies, Standard & Poors and Fitch).

3.0 Equality and diversity implications

3.1 None
4.0 Communications implications

4.1 The policy should be communicated to executive team members and to external professional advisers and auditors.

5.0 Resource implications

5.1 None

6.0 Risk implications

6.1 The investment of funds carries risks. The purpose of the policy is to minimize the possibility of capital funds being lost through risky investments.

6.2 The corollary of accepting a low risk policy towards cash management is that the income received will be lower than from other, more risky, investments.

6.3 With the advice of Deloitte, a list of the types of investments that balance the above, and meet the 4 principles, has been produced and is shown in Appendix 1.

Recommendations

The Council is asked to agree:

i. The implementation of the attached cash management policy.

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6 November 2012
Appendix 1

General Pharmaceutical Council
Cash Management Policy (Draft)

Principles

In June 2012 Council approved the establishment of a cash management policy based on the following principles:

1. Security and the preservation of the capital value of any funds invested is the first and most important consideration of any investment decision;
2. Liquidity and access to the funds invested, when required, must be considered when any investment decision is made;
3. Yield is important but has to be considered only after the first two principles have been considered;
4. The potential for loss to occur through default must be minimised.

Risk Appetite

GPhC’s function is to provide a statutory service to the public and, as such, any investment decision must be on the basis of minimising the financial risk from such activities. It will only place funds with institutions with a credit risk rating no lower than Investment Grade, (defined as: a rating that indicates that a bond has a relatively low risk of default). They are set by the external rating agencies Moody’s, Standard & Poors and Fitch.

Funds will be placed with institutions that have an investment grade rating and either no more than 20% of available funds will be placed with any one institution, or up to 50% of funds may be invested in Money Market Funds, provided that no more than 5% of the fund is invested with any one institution.

Types of Investments

Funds may only be placed in the following sterling denominated – investment grade products:

- Treasury Bills – Issued by U.K. government but yield is currently low
- Money Market Funds – a fund comprised of short-term securities, such as Treasury bills or commercial bonds.
- Term Deposits – funds invested with a deposit taking institution for a set period. If early redemption is necessary, a penalty charge may be levied, which could either lead to a loss of capital or reduced income.
- Current Account Deposits –
- Corporate/Special Purpose Vehicle Commercial Paper – Promissory notes issued by corporate or securitisation vehicle. Potential capital loss if sold before maturity.
- Local Authority Bonds –
- Investment in interest derivative products is not allowed.

Should the rating of an investment be downgraded below investment grade, it shall be for the Director of Resources and Corporate Development to decide whether the greater risk of loss lies in the penalty costs associated with early termination, or with the possible devaluation of the capital value of the investment.
Responsibility for cash management

Council has delegated to the Chief Executive – Registrar the authority to determine with which institutions, and investment type, GPhC will place its funds.

The Director of Resources and Customer Services shall decide the maximum amount to be placed in any one investment and on what terms.

The transfer of funds from GPhC to the chosen investment institution shall be actioned according to the bank mandate in force at the date of the transfer.

The Head of Finance shall have the authority to move funds from one institution to another and to roll funds over at maturity.

The Head of Finance shall also be responsible for monitoring the credit ratings of the Council’s investments.

Management information

The Head of Finance will produce a quarterly report showing:

- The amount placed in each scheme
- The rate of return
- Maturity date
- The terms available from alternative institutions

Bernard Kelly
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6 November 2012