Establishing an Investment Policy for the GPhC

Purpose
To seek Council’s approval of an Investment Policy for the GPhC

Recommendations

That the Council approves the establishment of an Investment Policy for the GPhC based on the following principles:

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

1.0 Introduction

1.1 The Council has established an interim reserves target of £12.5m and has requested that an investment policy be established to guide how any surplus funds are invested.

1.2 A number of consultants have been approached to develop a detailed operational policy and advise on its implementation. Deloittes consultants have been selected to assist the staff in implementing an operational policy following
2.0 Current situation

2.1 The GPhC is mindful of its responsibilities in relation to its registrants from whose registration fees it funds itself. It must spend and invest its monies carefully and wisely. It should collect and accumulate funds sufficient only to ensure it can deliver its regulatory responsibility over the foreseeable future without having to resort to either sudden increases or decreases to fees. Investment and management decisions to date have been based on the principles proposed in this paper.

2.2 As an organisation created by and whose purpose is determined by statute it should not seek to set fees at such a level that it can accumulate funds so that it could become self perpetuating from the income stream those funds generate.

2.3 The GPhC has at any one time significant cash balances which arises from a combination of its reserves and the fact that registrants pay in advance for their registration year. It is these cash balances that require investment and to which the GPhC’s investment policy will be applied.

2.4 The GPhC’s investment strategy should not at any time imperil its financial position by exposing the investments to the potential of losses in value. Therefore its investments strategy should concentrate on seeking the best yield from the most secure asset class. In this context that means cash deposits with financial institutions which are financially secure.

2.5 The argument against holding cash is the corrosive effect of inflation. However as we hold only sufficient cash to fund our reserves and these balances are used and replenished on a regular basis the impact of inflation on our cash balances is not significant and certainly does not outweigh the primary need for security.

2.6 The capital value of every other asset class, even government gilts, can vary in the market place. Government gilts cannot be held in a short enough time period to satisfy the need for liquidity and the need to maintain capital values.

2.7 To obtain the best yield from cash balances cash must be deposited for fixed periods e.g. three or six months. To ensure the cash is available when required deposits must therefore comprise a mixture of overnight, and a variety of fixed term deposits.

2.8 The only risk to cash balances is the potential default of the institution with which the cash is deposited. A few years ago the idea of a major bank defaulting would have been unthinkable but the events of recent years and the current problems affecting European banks means that this is a risk which has
to be taken seriously. It is essential therefore that deposits are made with a wide range of institutions so that no one institution holds more than 10% or preferably less of the available fund at any one time.

3.0 Proposal

3.1 The GPhC will work with Deloittes to put in place an operational policy to give effect to the principles outlined in the Recommendation and which will:

- Manage the investment of funds with a wide range of financially sound deposit taking institutions
- Deposit those funds over a mix of time periods to ensure liquidity whilst achieving the best yield possible
- Review the arrangements on an annual basis to ensure they continue to comply with the principles established.

The operational policy developed will be reported back to Council when finalised.

4.0 Equality and diversity implications

4.1 We do not believe there are any equality and diversity implications that will arise from the implementation of this policy.

5.0 Communications implications

5.1 The communication of this conservative and transparent policy should give confidence to registrants and other stakeholders that the funds raised from fees are carefully and intelligently invested.

6.0 Resource implications

6.1 The resource implications have been fully reflected in current forecasts and future budgets

7.0 Risk implications

7.1 The implementation of this policy will reduce the risk of potential loss of value associated with any investment.
Recommendations

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iii. Yield is important but has to be considered only after the first two principles have been considered.

iv. The potential for loss to occur through default must be minimised.

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