



AGENDA ITEM

2.1.8

CTM BOARD

**CWM TAF MORGANNWG NHS GENERAL CHARITABLE FUNDS UPDATE
AS AT 28 FEBRUARY 2021.**

Date of meeting	25/03/2021
FOI Status	Open/Public
If closed please indicate reason	Not Applicable - Public Report
Prepared by	Daxa Varsani – Financial Accountant
Presented by	Steve Webster – Director of Finance
Approving Executive Sponsor	Executive Director of Finance & Procurement
Report purpose	FOR 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
ILG	Integrated Locality Group

1. SITUATION/BACKGROUND

To advise the Board of the activity and balances on charitable funds as at 28 February 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.

Following a tender process, the contract to manage the UHB's Charitable Funds investments was awarded to CCLA in July 2014 for the initial 5 years with the option to extend the contract for further 2 + 2 years (maximum of 9 years). The initial 5 year period ended in July 2019 and the contract is due for renewal.

This report provides details on the contract performance against the UHB'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.

In addition some further work has been carried out in regards to the management fee charged by CCLA, fees charged by other agents who tendered for this contract and some enquiries have been made to understand the Investment Management agents used by the other Welsh NHS bodies and the fees charged.

Furthermore, a review has been carried out of the current cash balance in the Barclays savings accounts, a review of the future working capital/cash requirements and a proposal to invest surplus cash in COIF Charities Ethical Investment Fund Units.

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 28 February 2021 are summarised in **Appendix A** analysed by fund type and location. Income received and expenditure incurred during the period 1 April 2020 to 28 February 2021 are also shown.

The balance at the end of February 2021 was £3.174m which excludes the unrealised gain on investments referred to below.

2.2 Investment

The total units held remain at 783,307.83.

The market value at 28 February 2021 was £2.105m compared to £1.785m as at 31 March 2020. The monetary value of the cash invested in the investments is £1.5m as such a surplus of £0.605m (40%) has been achieved cumulatively.

The current rate of gross on-going CCLA charge is 0.74% on the market value of the investments which includes 0.6% of management fee plus irrecoverable VAT and other costs.

Forecast income for 2020-2021 is currently £65k – an income yield of 4.33%. Actual income received for 2019-2020 was £64k.

2.3 UHB's Investment Strategy

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.*

2.4 CCLA Investment Management Contract Performance Review

A performance review of investments is carried to assess the outcome against the investment strategy set out within the tender documents.

The table below details the performance of the investments over the seven financial years:



Financial Year	Date from	Date to	Investment at cost	Market Value (Capital)	Capital value increase %	Annual Dividend income	CPI	CPI + 1%	Actual rate of return %
2014/15	02/10/2014	31/03/2015	£800,000	£880,802	10%	£15,000	0.3	1.30%	1.88%
2015/16	01/04/2015	29/07/2015	£800,000	£855,953	7%				
	30/07/2015	26/08/2015	£830,000	£871,168	5%				
	27/08/2015	31/03/2016	£860,000	£891,441	4%	£35,000	0.8	1.80%	4.22% *
2016/17	01/04/2016	03/08/2016	£860,000	£955,672	11%				
	04/08/2016	07/09/2016	£930,000	£1,036,647	11%				
	08/09/2016	09/11/2016	£1,000,000	£1,120,563	12%				
	10/11/2016	16/11/2016	£1,250,000	£1,366,498	9%				
	17/11/2016	31/03/2017	£1,500,000	£1,597,870	7%	£47,000	2.3	3.30%	4.24% *
2017/18	01/04/2017	31/03/2018	£1,500,000	£1,702,833	14%	£62,000	2.3	3.30%	4.13%
2018/19	01/04/2018	31/03/2019	£1,500,000	£1,826,596	22%	£64,000	1.8	2.80%	4.27%
2019/20	01/04/2019	31/03/2020	£1,500,000	£1,784,845	19%	£63,683	1.5	2.50%	4.25%
2020/21	01/04/2020	26/01/2021	£1,500,000	£2,190,755	46%	£64,780	0.9	1.90%	4.32%
*	Due to the variations in investment value for the year, averaging is used in calculating actual rate of return								

As seen from the above analysis the actual rate of return has been higher than expected and the increase in the market value of the investments shows a healthy return.

Therefore, it is recommended that the current CCLA Investment Management contract should be extended to the maximum period allowable of 9 years which would end on 31 July 2023.

It should be noted, however, that the past performance does not guarantee the future performance, as the market value of investments are subject to the volatility of the market.

2.5 Distribution of excess unrealised gain

The Investment Strategy for Cwm Taf Morgannwg NHS Charitable Funds states that: *Should the reserve exceed 20% of the overall investment, any excess will be distributed to individual fund balances, subject to Audit Committee approval.*

Due to the current volatility of the market and the UK political environment, Audit Committee decided not to distribute any surplus to individual funds in October 2019. Any surpluses therefore have been retained centrally as a buffer in the event of any future falls in investment values for the time-being.

As noted within section 2.3 of this report, it is proposed that additional cash surpluses should be invested in CCLA COIF Charities Ethical Investment funds and therefore, for the time being it is proposed that the Board endorses the proposals of not to distribute any surplus to individual funds until the normal charitable funds activities resumes after the Covid period. 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.

The value of the excess over 20% based on current market values is around £305k, which equates to over 14% of fund values.

A graphical presentation of the investment performance by week, along with a FTSE100 comparator, is shown in **Appendix B**.

2.6 **Investment of excess cash**

As a result of the Bridgend Transfer, in total £1.039m of fund balances were transferred to CTM as at 1 April 2019.

This balance is held within the Barclays saving accounts currently with very little return due to the low rate of interest.

Now that we have had some period to assess the activities of the charitable funds relating to the Bridgend area, a review of short to medium term working capital requirement has been completed in order to establish more efficient way of investing this cash as shown in **Appendix C**.

The current bank balance in the savings accounts is £1.72m and adjusting this balance for the known short/medium term cash & working capital requirements it is proposed that £600k of this cash should be invested in the CCLA COIF Charities Ethical Investment Fund Units.

2.7 **Investment Management Fees**

In total four tenders were evaluated as part of the tender exercise in 2014. The current rate of management fee charged by the second highest scoring agent is 0.6% + VAT on the value of the portfolio. This gives us a level of assurance on the reasonableness of the fees charged by CCLA.

A number of different Investment Management agents are used by the other Welsh NHS bodies. It is noted that at-least two of the other Welsh LHB's also contract with CCLA and the same management fee charge is applied to these bodies.

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

None noted



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 completed	Yes
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 Board of the activity and balances on charitable funds as at 28th February 2021.
Link to Strategic Well-being Objectives	Provide high quality, evidence based, and accessible care

5. RECOMMENDATION

5.1 The Board members are requested to:

- **Note** the current balances and investment performance of Cwm Taf Morgannwg NHS General Charitable Funds.
- **Endorse** the proposal to extend the CCLA contract for the period covering 1 August 2019 – 31 July 2023.
- **Review and endorse** the decision of not to distribute excess over 20% of the market value of investments to the individual funds for the time being.
- **Approve** the proposal to invest surplus cash of £600k in CCLA COIF Charities Ethical Investment Fund units.
- **Note** the rate of the Investment Management Fees charged by CCLA.