CITY OF GLASGOW COLLEGE
FOUNDATION

Charity Number: SC044620)

Purpose

The purpose of this paper is seek the Board's views on amending the Foundation's treasury and investment strategy.

Introduction

The Foundation's existing Treasury Policy states that cash should be held among at least three banks with a maximum in one bank of no more than 33.3% of the total. The banks are to have a UK banking license and a credit rating of at least A2/BBB+.

At the Foundation's previous Board meeting, Alan George (CAPITA treasury manager) set out a number of ways by which the Foundation might improve investment returns. These included using a wider range of financial institutions in terms of cash deposits and the use of certificate of deposits.

As the Board considers its treasury and investment strategy, it should be mindful of its legal responsibilities, including those under the Charities and Trustee Investment (Scotland) Act 2005.

The Act stipulates a number of conditions and duties that must be followed by the trustees. Before making an investment trustees should:

- Consider the need for diversification of the trust's investments.
- Consider the suitability to the trust of the proposed investments
- Consider whether the trustees should obtain appropriate advice on the way in which their power to invest should be used, or
- Obtain advice from someone who they believe has the ability, practical experience and appropriate qualifications to provide proper advice.

Scotland has its own legal framework in terms of regulating charities, which is overseen by OSCR. The Board might, however, find it helpful to consider guidance on charity investment decisions issued by the Charity Commission (see attached). No equivalent guidance has been issued by OSCR.

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The following paragraphs set out some areas under which the Board may wish to discuss changes to its existing treasury and investment strategy.

Cash Deposits & Certificate of Deposits

If the Board agrees to place cash deposits in a wider range of financial institutions, then the following should be considered:

- If foreign exchange risks are to be avoided, then cash deposits should be placed in Sterling accounts.
- If overseas tax liability is to be avoided, then deposits should be placed with financial institutions that hold a UK banking license.

The same constraints noted above should apply to both cash deposits and/or certificates of deposits.

Better returns on cash deposits should be obtained if the Foundation is able to place some deposits over an extended period beyond 1year. To facilitate this, the Board should again consult with the City of Glasgow College on their potential grant applications over the next 3-years.

If the Board agrees to use a wider range of financial institutions, then another consideration would be the administration of funds between more institutions and on a more frequent basis than currently takes place. This would probably require more of the treasury management and administration functions to be undertaken by CAPITA. This would require the Foundation’s cash being held in a CAPITA client account. This Capita client account would be bound by client money rules and Capita would be subject to financial services regulation. This is a slightly more risky solution compared to the funds being held directly by the Foundation. The Board would also require to issue operational guidance to the treasury manager, for example, constraints on how much of the Foundation’s investments could be placed with any one financial institution. There is also an option to reduce the credit rating limit of A2/BBB+, which would further increase the range financial institutions we could allow CAPITA to consider.

Bond Investments

Another possible route to increase investment returns would be to place some funds in government and/or corporate bonds. These normally carry additional risks compared to simple cash deposits but less risk compared to share investments. If the Board moves in this direction, then the Foundation must take appropriate professional investment advice. This might, for example, involve the appointment of a firm of investment/fund managers. The cost of the investment manager would, therefore, need to be offset by increased investment returns. The charges for investing are now split between the funds, and the people that sell them. Fund managers charge one fee, and financial advisers and brokers charge another. A fund's annual management charge could be in the order of 0.75%.

Stock Market Investments

In terms of charity investment in stocks and shares, it is normally recommended that investments are viewed as a long term strategy. This allows market swings in share prices to be evened out over the longer term. The Foundation is probably unable to commit to a longer term investment strategy until the City of Glasgow College has migrated into its new campus. The Board might wish to return to this particular investment issue at some point in the future.

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Recommendations

The Board is asked to consider whether to:

1. extend the range of financial institutions used in terms of placing cash deposits.
2. make use of certificates of deposits.
3. delegate additional responsibilities to CAPITA in terms of treasury management, which would entail the use of a client account.
4. invest in government and/or corporate bonds, which might entail the appointment of an investment manager.