People Resource Committee

15 September 2021

hcpc health & care professions council

Investment Policy

Executive Summary

HCPC's Investment Policy was last updated in May 2017. The policy has been reviewed and the following changes have been made:

- Government bonds have been removed as an acceptable investment, in line with advice from DHSC and HM Treasury.
- Organisational changes have been reflected in the approvals.
- Bank credit ratings were reviewed.

Previous consideration	None
Decision	The Committee is asked to recommend the updated Investment Policy to Council for approval.
Next steps	To be reviewed in 12 months
Strategic priority	Strategic priority 5; Build a resilient, healthy, capable and sustainable organisation
Financial and resource implications	N/A
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INVESTMENT POLICY

1. Introduction

1.1. The investment policy is part of HCPC's corporate governance framework, and is consistent with our legislation and our strategic intent. It is also consistent with HM Treasury's guidance for the financial management of public bodies[1]. The policy sets out limits on the types of asset in which HCPC funds may be invested, together with processes for decision making, authorisation and reporting.

1.2. This policy applies to all those persons involved in investment activities for or on behalf of the HCPC.

2. Responsibilities

2.1. Council is responsible for approving the policy and monitoring investment performance. The Executive is responsible for advising Council on the policy.

2.2. Investments under the policy will be approved by the Chief Executive or the Executive Director of Corporate Services.

3. Legislation

3.1. The HCPC's governing legislation does not specify the types of investment we may hold, but gives an implied power to invest[2].

4. Objective and definition of investments

4.1. The objective of any investment is to achieve a financial gain in the form of income and/or capital appreciation. Hence investments are assets that are not required for immediate operational purposes and are held for the purpose of capital appreciation and/or income generation. Normally, the greater the potential gain, the greater the risk of capital loss, so investors need to be clear on the degree of risk they are willing to accept ("risk appetite").

4.2. The HCPC's investment policy provides the framework for the management of funds that are surplus to immediate requirements. The objectives of the policy, in order of priority, are

- to ensure that our funds are held safely;
- to ensure that we have sufficient liquidity to fund our operations; and
- to achieve a return on surplus funds.

[1] https://www.gov.uk/government/publications/managing-public-money
[2] *Health and Social Work Professions Order 2001, SI 2002 no 254, Schedule 1, Part 1, Section 16:* Subject to any provision made by or under this Order, the Council may do anything which appears to it to be necessary or expedient for the purpose of, or in connection with, the performance of its functions.

5. Main categories of investment

Equities

5.1. Held primarily in the expectation of capital appreciation. Can also produce income via dividends. Can be held directly in individual companies, or indirectly in funds. Listed investments are liquid, in that they can be sold instantly. High risk, since capital value is subject to performance of the individual company, and companies in the same sector, and the economy in general.

Investment property[3]

5.2. Held for rental yield and in the expectation of capital appreciation. Can be held indirectly via funds. Directly held investment properties have high transaction costs and are extremely illiquid: likely minimum 6 months from decision to sell to receipt of proceeds. High risk, since capital value is subject to condition of the property, changes in the surrounding area, and the economy in general.

Corporate bonds

5.3. Held primarily for interest yield. The redemption value and the interest payments are fixed, except in the event of default, so the yield to maturity on a high quality bond is reliable. But capital gains or losses in the period before maturity are possible because bond prices move in response to changes in the market rate of interest and, in the case of lower quality bonds, the perceived risk of default by the borrower. The longer the period to maturity, the larger the possible price movements and the higher the risk. Listed bonds are liquid.

UK government issued bonds, known as gilt edged securities

5.4. Held for interest yield or as a store of value. The redemption value and the interest payments and therefore the yield to maturity are virtually certain. Capital gains or losses in the period before maturity are possible because gilt prices move in response to changes in the market rate of interest. The longer the period to maturity, the larger the possible price movements and the higher the risk. Gilts are liquid. Short dated gilts are therefore the lowest risk sterling denominated investment[4].

Bank deposits

[3] HCPC's freehold properties in Kennington are operational, not investment assets.
[4] Following Brexit, the UK government no longer has the highest possible credit rating, but its credit rating is higher than that of any commercial bank. Several foreign governments have higher credit ratings than the UK government but a foreign government bond would be inappropriate because of exchange rate risk.

5.5. Held for interest yield. No risk of capital loss except in the event of the failure of the bank[5]. Liquidity depends on the length of the deposit and the terms. Some fixed term deposits can be redeemed early on payment of an interest penalty. The lowest risk category of investment.

6. Credit ratings

6.1. The risk level of bank deposits and bonds is assessed by credit ratings agencies. The three main agencies are Standard & Poor's, Moody's and Fitch. They use similar scales, ranging from AAA, which is the judged to be the lowest risk of default, to C. Instruments rated BBB- or higher by S&P or Baa3 or higher by Moody's are referred to as "investment grade" – that is, deemed suitable for investment by banks.

7. HCPC's risk appetite in relation to investments

7.1. The Council have agreed[6] that HCPC's risk appetite in general should be measured. We are funded through registrant fees and we have a responsibility to ensure we invest cautiously to minimise loss while maximising benefit. We accept that investments may be long term and take time to deliver rewards, appropriate benefit realisation monitoring is required to mitigate risk in investments.

7.2. Factors affecting our risk appetite specifically in relation to investments are discussed below.

7.3. Over the historical long term, investments in equities and property have produced positive returns in excess of the returns available from bank deposits or bonds. Therefore a risk neutral investor with funds available to invest for the long term would normally choose to invest at least partly in one of those asset classes.

7.4. HCPC's costs are funded by fees charged to registrants. Positive returns on investments via capital gains and/or income would make a contribution towards those costs, and may limit the need for fee increases. Conversely, investment capital losses could impact on operations and/or lead to fee increases.

7.5. However, registrants and other stakeholders are likely to place much more weight on a capital loss which causes a fee increase or a reduction in HCPC's operations than they would on a capital gain of the same value. We do not budget for significant investment income so we are not dependent on it to fund operations. Therefore our risk appetite in relation to investments should be very low.

[5] The UK has a deposit insurance scheme, the Financial Services Compensation Scheme, but it protects deposits up to £85,000 made by individuals and small companies, so the HCPC is <u>not</u> covered.
[6] Date of Council workshops in 2020
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8. Investment planning horizon

8.1. Although equities and properties have historically performed well over the long term, they can be volatile over the short term. Investors are therefore normally advised to invest in equities or property only if they can afford to take a long term stance. Because of the cyclical nature of registrant renewals, we have peaks and troughs in our cashflow, but we do not have a large permanently investable fund. This is a further reason why equities and property are not appropriate investments for HCPC.

8.2. Investment in government bonds could be construed as contravening paragraph 6.18 of Managing Public Money. As a public sector body associated with the Department of Health and Social Care and part of the department's accounting group, HCPC investing in UK government bonds could be construed as the government investing in itself.

9. Permitted classes of investment

9.1. Given a very low risk appetite and relatively short term investment planning horizon, the only permitted class of investment are sterling bank deposits with terms of up to 24 months.

9.2. Our banks must be UK registered and must have long term credit ratings of at least A- from Standard & Poor's and A3 from Moody's[7]. In order to reduce our exposure to an individual bank, no more than 67% of total cash will be held under one banking licence at any time.

10. Ethical considerations

10.1. Investment policies often include an ethical criterion applying to the companies in which investments can be made. In HCPC's pre-2011 investment policy, equity investments were permitted but investments in equities in the gambling, alcohol and tobacco sectors were excluded.

10.2. This policy does not allow investment in equities, and it is impractical to apply an ethical criterion to investments in bank deposits. The banks with which we place funds on deposit will lend our funds (mixed with those of all their other depositors) to a very large number of borrowers in a very wide range of industries, and some of their borrowers are likely to be in the gambling, alcohol or tobacco industries. All large banks are likely to be directly or indirectly involved to some degree in lending which could be challenged on ethical grounds. So for practical reasons, this policy does not require an ethical criterion to be applied to the banks with which we place funds on deposit.

[7] We currently bank with Barclays (rated A/A-1 by S&P March 2021), Lloyds (rated A+/A-1 by S&P June 2020), Natwest (rated A-2/BBB by S&P July 2021) and Santander (rated A/A-1 by S&P June 2020).

However, if one of the banks we use was to be seen to be involved in unethical lending, relevant to our role as a health regulator, we would consider moving funds away from it.

11. Decision making process

11.1. Investments in bank deposits will be proposed by the Finance department based on cash flow forecasts and approved by the Chief Executive or the Executive Director of Corporate Services. Because of the low risk and straightforward nature of these bank deposit investments, external professional advice is not required.

12. Benchmarking and reporting

12.1. The target rate of return on investments is that interest earned, as a percentage of average cash and investment balances, should equal or better the Bank of England base rate. Including cash balances in the denominator incentivises the Finance department to make best use of available funds, within the policy and subject to the overriding requirement that cash must be available to pay operational costs as they fall due.

12.2. The actual return will be calculated annually and reported to the Council as part of the annual budget setting process.

13. Review of the policy

13.1. This policy will be reviewed by the Council every three years, or more frequently if appropriate due to changes in circumstances.

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