

**PWYLLGOR CRONFA ELUSENNOL
CHARITABLE FUNDS COMMITTEE**

DYDDIAD Y CYFARFOD: DATE OF MEETING:	26 September 2023
TEITL YR ADRODDIAD: TITLE OF REPORT:	Apportionments of Governance & Support Costs and Investment Income & Gains
CYFARWYDDWR ARWEINIOL: LEAD DIRECTOR:	Huw Thomas – Director of Finance
SWYDDOG ADRODD: REPORTING OFFICER:	Tim John, Senior Finance Business Partner (Accounting & Statutory Reporting)

Pwrpas yr Adroddiad (dewiswch fel yn addas)

Purpose of the Report (select as appropriate)

Ar Gyfer Penderfyniad/For Decision

ADRODDIAD SCAA

SBAR REPORT

Sefyllfa / Situation

In March 2018 the Charitable Funds Committee agreed to create a central unrestricted fund in order for all the apportionments on **unrestricted** funds to be charged and credited. The decision on how to manage any surplus funds in this central fund and the level of reserve needed to be maintained was agreed to be reviewed periodically.

The Committee is asked to note the current balance on the central fund and decide whether a central fund should be maintained and if so at what level.

Cefndir / Background

There are expenditure and income sources which are not directly linked to individual fund activity and require an apportionment methodology to apply to funds. These areas are as follows:

Governance and Support Costs – include the financial governance function that provides the systems, processes and controls to ensure a sound framework for safeguarding the charity's financial assets and the fundraising and communications functions that support the strategic direction of the charity together with supporting activities to generate funds.

Audit Fees – the statutory requirement of an independent external audit of the charitable funds accounts which is undertaken by Audit Wales.

Investment Income – income is generated from investments through an investment portfolio managed by an appointed investment advisor and in deposit accounts together with rental income from an investment property.

Investment Gains/Losses – the investment portfolio managed by the investment advisor has investments in stocks and shares and as such can go up and down in value. Gains and losses can be in the form of realised or unrealised gains / losses, whereby realised is as a result of a sale and unrealised as a result of a valuation change in investments still held.

Income and gains / losses generated from the investments managed through the appointed investment manager are of two types as follows:

- Permanent endowment investment – this is specifically for the benefit of the Pembrokeshire Cardiology Equipment fund (T903). All gains/losses are applied to T903 with investment income returns applied to the restricted Pembrokeshire Cardiology Equipment Income fund (T460).
- General investments – this is investment of surplus¹ charity funds and is for the benefit of all charitable funds. Income, gains / losses and costs are apportioned across all restricted and unrestricted funds.

The papers presented to the Charitable Funds Committee meetings in March and June 2018 outlined the agreement that the charity’s governance and support costs would be covered by the dividends and interest from investments and cash balances held by the charity but that where this was insufficient, we would look to apportion costs across funds on an equitable basis.

Where we hold restricted income funds then investment returns are to be applied to those funds. This is in line with Charity SORP 2019 (Appendix 1). Associated costs and overheads should also follow the same principle for consistency.

The Committee has the flexibility to decide how to manage the application of investment returns and other costs for **unrestricted** funds and has the option to manage them through a central fund. The decision was made to create a central fund for **unrestricted** funds in March 2018.

Therefore, in practice all general income, costs and gains are apportioned on an average monthly fund balance basis and are normally attributed to the individual restricted funds and the central unrestricted fund (based on the balance of all unrestricted funds) on an annual basis.

	Income from general investments (A)	Governance Costs etc (B)	Gains & Losses from general investments (C)	Total recharge Sum of A+B+C
Restricted fund 1	Total income/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of restricted fund 1 etc.	Total costs/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of restricted fund 1 etc.	Total net gain or loss/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of restricted fund 1 etc.	Applied to Restricted fund 1
2 etc				2 etc
Unrestricted funds	Total income/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of all unrestricted funds	Total costs/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of all unrestricted funds	Total net gain or loss/Total average monthly balance all restricted and unrestricted funds x Avge monthly balance of all unrestricted funds	Applied to Unrestricted central fund (T610)

Asesiad / Assessment

¹ Surplus relates to funds invested over the longer term for which there is no short term expenditure plan.

The Committee agreed in March 2018 to manage the application of investment returns and other costs for unrestricted funds through a central fund. The table shows the activity that has been charged to the central fund for the last five years in relation to unrestricted funds. The balance at the end of 2022/23 on the central fund is £182,972.

	2018/19	2019/20	2020/21	2021/22	2022/23	Average
	£000	£000	£000	£000	£000	£000
Investment Income	132	138	127	108	137	128
Governance & Support Costs	(142)	(158)	(154)	(198)	(225)	
Audit Fees	(5)	(5)	(5)	(6)	(7)	
Investment Management Costs	(18)	(18)	(17)	(17)	(14)	
Investment Gains / (Losses)	91	(145)	569	64	(179)	80
Total	58	(188)	520	(49)	(288)	208
Balance b/f	0	58	0	520	471	
Balance c/f	58	0	520	471	183	
Total Investment Income and Gains / Losses	223	(7)	696	172	(42)	208

The average investment gains / (losses) and income is £208,000 per annum for unrestricted funds over the last 5 financial years.

The agreement was made to create a central fund for unrestricted funds with the costs for restricted funds being recharged to those individual funds. In 2022/23 due to the lack of investment income and unrealised losses this has meant a hit of £304,597 for governance costs etc reducing the actual amount on those funds. The deficit on the unrestricted funds has been recharged to the central fund.

In 2023/24 as at month 4, governance and support costs will be in excess of general investment income by £120,117. Of this £54,619 is against unrestricted funds and £65,498 against restricted funds. There is a residual balance in the central fund to cover the unrestricted deficit but as it stands there will be another hit on the restricted funds.

Clearly investment valuations can fluctuate significantly. This was recognised when the fund was established with a reserve being held from the surplus generated. However in recent years the costs have far outstripped the investment income and gains and the fund is being eroded. This is down to two factors – the fundraising team costs have increased significantly in recent years and the impact of the global recession on stocks and shares.

For comparison support costs including fundraising, finance, audit and management fees and general investment income for the last 5 years are included in the following table.

	2018-19 (£'000)	2019-20 (£'000)	2020-21 (£'000)	2021-22 (£'000)	2022-23 (£'000)
Support Costs	(298)	(326)	(367)	(494)	(551)
Investment Income	238	248	243	235	310
Gains / (Loss)	162	(259)	1085	140	(398)

The creation of the central fund has protected the unrestricted funds from the immediate hit of increased costs/losses but conversely there was no additional benefit distributed when there was a surplus in the fund historically.

Argymhelliad / Recommendation

The Committee is asked to consider whether:

- A central fund should be maintained for the unrestricted funds noting the protection now being seen against additional costs and investments losses; and
- If so whether a set amount eg 5% of investments should be retained to cover potential future losses (dependent on when conditions arise that enable balance surpluses to be transferred) with the remainder redistributed to unrestricted funds at year end
- Governance and support costs require review in light of the above.

Amcanion: (rhaid cwblhau)

Objectives: (must be completed)

Committee ToR Reference: Cyfeirnod Cylch Gorchwyl y Pwyllgor:	
Cyfeirnod Cofrestr Risg Datix a Sgôr Cyfredol: Datix Risk Register Reference and Score:	Not Applicable
Parthau Ansawdd: Domains of Quality Quality and Engagement Act (sharepoint.com)	Not Applicable
Galluogwyr Ansawdd: Enablers of Quality: Quality and Engagement Act (sharepoint.com)	Not Applicable
Amcanion Strategol y BIP: UHB Strategic Objectives:	Not Applicable
Amcanion Cynllunio Planning Objectives	Not Applicable

Amcanion Llesiant BIP: UHB Well-being Objectives: Hyperlink to HDdUHB Well-being Objectives Annual Report 2021-2022	10. Not Applicable
---	--------------------

Gwybodaeth Ychwanegol: Further Information:	
Ar sail tystiolaeth: Evidence Base:	Ledger reports and investment reports.
Rhestr Termiau: Glossary of Terms:	Included within the body of the report.
Partion / Pwyllgorau â ymgynhorwyd ymlaen llaw y Pwyllgor Cronfa Elusennol: Parties / Committees consulted prior to Charitable Funds Committee:	Director of Finance Fundraising Team

Effaith: (rhaid cwblhau) Impact: (must be completed)	
Ariannol / Gwerth am Arian: Financial / Service:	Income generated from fundraising activities is a key source of income for Hywel Dda Health Charities. The charity is therefore duty bound to ensure that the correct controls and governance arrangements exist with regards to all aspects of fundraising.
Ansawdd / Gofal Claf: Quality / Patient Care:	Charity objects are in support of NHS services locally.
Gweithlu: Workforce:	Not applicable.
Risg: Risk:	Reputational risk if associated with unethical fundraising.
Cyfreithiol: Legal:	The charity's financial reporting is in line with charity law and guidance.
Enw Da: Reputational:	Reputational risk if associated with unethical fundraising.
Gyfrinachedd: Privacy:	No impact.
Cydraddoldeb: Equality:	No EqIA is considered necessary for a paper of this type.

Charities Statement of Recommended Practice SORP (FRS 102)

Accounting for the investment return on income and endowment funds

2.23. The return on investment is made up of the income derived from the investment (interest, dividends, royalties or rents) and any gain or loss in the market value of the investment. If a charity sells an investment, a gain or loss on the carrying amount of the asset is realised upon its disposal. Where a charity retains an investment, an unrealised gain or loss on the carrying amount of the investment may arise at the balance sheet date.

2.24. For unrestricted funds and restricted income funds, trust law requires both the income and any investment gain or loss to be credited to the fund holding the investment. Where the charity has a number of individual restricted income funds, any investment income and gain or loss on investments must be allocated to the individual restricted funds holding the investment.

2.25. Trust law applies different rules to endowment funds. In the case of endowment, trustees cannot add the income from investments to the endowment capital except where they have a power to invest on a total return basis (see the SORP module 'Total return (investments)') or exercise a power of accumulation. Instead, the income from the investment is allocated to either unrestricted funds or a restricted income fund depending on the terms of the gift. However, any gain or loss on investment is attributed to the endowment capital. If a charity has several invested endowments, any gain or loss on investments must be allocated correctly to each individual endowment.