

Minutes of the special meeting of the Finance and Estates Committee held on Wednesday, 17th September 2008

Members Present: Mr A V Astling
Ms S Daly
Mr T Lucas
Ms J Payne
Mr L Williams

In Attendance: Mr P Bateman (Financial Consultant:
Acting as Interim Vice Principal Finance)
Ms J Boardman (Clerk)
Mr G Turton (Director of Finance from 01.10.08)

Item 1 Appointment of Chair and Deputy Chair of the Committee

1.1 It was agreed that Mr V Astling chair the meeting.

Item 2 Apologies for absence and confirmation of quorum

2.1 Apologies had been received from Mr C Stephen-Haynes. The Clerk confirmed that a quorum was present.

Item 3 Declarations of Interest

3.1 There were no declarations of interest.

Item 4 Investment Portfolio

4.1 The Principal reminded members that an initial report by HSBC had been presented to the last meeting of the committee. Members had asked HSBC to revise their report, which had resulted in the report presented to this meeting. HSBC had been asked to attend this meeting. However, the person responsible was away and no-one else had authority to attend.

4.2 The Interim Vice Principal Finance explained the current position of the Investment Portfolio, as detailed HSBC's report. In 1997-98 the college invested £2.5 million with HSBC on an advisory basis. Decisions were referred to the then Vice Principal Finance. The performance of the Investment Portfolio to 31st December 2001 had been as follows:

- A net gain of approximately £380,000.
- A loss of approximately £123,000
- Income received approximately £500,000

The performance of the Investment Portfolio from 1st January 2002 to 21st August 2008 had been as follows, based on valuations at 21st August 2008:

- A net gain of approximately £440,00
- A loss of approximately £210,000
- Income received of approximately £650,000

Interest of approximately £550,000 had been received from the sale proceeds of the Rowley Regis site, £9.5 million.

- 4.3 The total performance of the £2.5 million Investment Portfolio and the £9.5 million Rowley Regis sale proceeds was summarised as follows:
- £1.4 million overall gain
 - £221,000 capital loss
 - £1.6 million income
- 4.4 The Interim Vice Principal Finance pointed out that these figures were correct at the date of the HSBC report, 21st August 2008. There had probably been a further loss of about 10% since that date, amounting to about £120,000.
- 4.5 At the date of the report the current portfolio could be summarised as follows:
- £11.7 million grand total
 - £2.1 million fixed income, UK equities and other investments
 - £9.6 million cash, fixed interest fixed term deposits.
- 4.6 Regarding the future portfolio, the Interim Vice Principal Finance reminded members that the Corporation had agreed that it was not appropriate for the college to hold investments other than cash deposits, particularly as it has a major building development programme to fund.
- 4.7 HSBC had suggested three options for the future strategy:
- 1 Maintain the status quo as this has the potential for achieving a higher return than cash. The Interim Vice Principal pointed out that there was also the potential for a greater loss than cash.
 - 2 Transfer into predominantly cash based with a percentage of assets invested conservatively that seeks a higher return than cash, but has potential capital risk.
 - 3 Transfer into a cash based strategy. This would give security of capital and address the uncertainties of timing associated with capital project cash flows with interest rates at 5.5% for 3 month money. HSBC recommended this strategy.
- 4.8 Within option 3 there were 2 alternatives:
- 1 3 month money in a fixed interest cash deposit.
 - 2 HSBC's Sterling Liquidity Fund. Monies could be called when required, with a charge of £100.
- 4.9 The Finance Committee was asked to consider the following realisation strategy:
- 1 To amend the HSBC mandate from an advisory managed basis to a discretionary managed basis;
 - 2 To realise the investments over a limited period of time to enable the monies to be used for the capital project;
 - 3 To set the following parameters within which HSBC should realise the assets:
 - That HSBC be required to use their best endeavours to obtain the most advantageous price for each investment when realising the assets;
 - To realise the investments if possible by 31st December 2008;
 - Where a fixed term investment would reach the end of its term within the next 12 months, this should be converted to cash when available;
 - Equities quoted on the London Stock Exchange should not be sold when the FTSE 100 index was below a specified level, say 5,400, unless the individual share was showing a gain compared with its purchase price. The Interim Vice Principal Finance noted that the figure of 5,400 may no longer be appropriate as the FTSE 100 index had dropped significantly since the date of the report;
 - Other investments should be sold at the best price available;

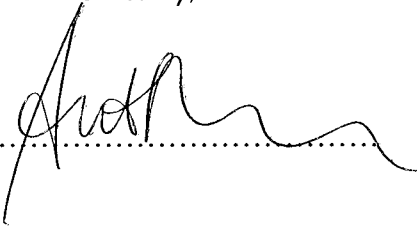
- 4 To place the monies realised in a cash based fund such as the HSBC Sterling Liquidity Fund. The Interim Vice Principal Finance advised that the funds needed to be liquid and at low risk and advised a cautious approach of foregoing interest in order to maintain a low risk.
- 4.10 The Principal confirmed that the recommendations in the paper were those of HSBC, which he and the Interim Vice Principal Finance were presenting on behalf of HSBC.
- 4.11 Members had a wide-ranging discussion which included the following key points:
- That it was not appropriate for the college to hold public funds in volatile stock market investments
 - That the investment of £2.5 million had made an overall gain
 - The need for extreme caution in the present financial circumstances
 - Whether the proposed parameters were appropriate
 - The element of risk involved in placing the whole cash fund in a cash deposit at one bank, in the present financial circumstances
 - The element of protection afforded by the HSBC Sterling Liquidity Fund, which spread risk over a range of banks
 - The criticism in the recent PFA audit that the college was holding stock exchange based investments and the risk of further criticism for continuing to hold them after being requested to liquidate them
 - The fact that the college was unlikely to be criticised for selling too soon and failing to obtain the best price
- 4.12 It was agreed that the Corporation should obtain and follow professional advice regarding the liquidation of the investments and the protection of the cash realised.
- 4.13 It was agreed that the new Director of Finance should arrange for the college to re-tender for all its banking services and review its Treasury Management Policy in view of the current banking situation.
- 4.14 The Principal confirmed that the Committee would receive reports on the college's investments at every meeting and that he would arrange for a representative of HSBC to attend a future meeting.
- 4.15 The Interim Vice Principal Finance undertook to check the charges on the HSBC Sterling Liquidity Fund.
- 4.16 **Resolved:** To recommend to the Corporation
- a) To amend the HSBC mandate from an advisory managed basis to a discretionary managed basis;
 - b) To realise the investments over a limited period of time to enable the monies to be used for the capital project;
 - c) To set the following parameters within which HSBC should realise the assets:
 - HSBC be required to use their best endeavours to obtain the most advantageous price for each investment when realising the assets;
 - The investments to be realised if practical and prudent by 31st December 2008, with the option for HSBC to extend this deadline in relation to individual investments where they made the case to do so;
 - d) On realisation to place the monies realised in the HSBC Sterling Liquidity Fund as a first destination and to obtain and follow professional advice regarding moving funds to a further destination.

Item 5 **Any other business**

- 5.1 It was agreed that two training items, on college finances and LSC funding, should be held at 5.00 pm on Monday, 3rd November 2008.
- 5.2 Mr G Turton asked whether it would be possible to move the committee meeting scheduled for 3rd December 2008.

Item 6 Date of the next meeting

6.1 The next meeting of the Finance and Estates Committee will be held on
Wednesday, 8th October 2008 at 5.00 pm.

Signed 

Dated 