

Royal Northern College of Music
Investment and Treasury Management Policy
Policy & Procedure
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1. Treasury Management Policy Statement

This statement sets out the policies, practices and objectives of the College's treasury management activities, as agreed by the Board of Governors, and covers RNCM and all its controlled subsidiary undertakings.

a) The College adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA's Treasury Management in the Public Services: Code of Practice).

b) The College in compliance with the CIPFA Code of Practice, defines treasury management activities as:

The management of the institution's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

c) The College regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury management activities will be measured.

d) The College acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

2. Risk Management

The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the institution's objectives in this respect, all in accordance with current Treasury Management Procedure. In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out

Liquidity Risk Management

Liquidity risk is defined as the risk that cash will be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the institution's business objectives will be thereby compromised:

The College will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it all times to have the level of funds available to it which are necessary for the achievement of its business objectives.

Interest Rate Risk Management

Interest rate risk is defined as the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately:

The College will manage its exposure to fluctuations in interest rates with a view to containing its interest costs or securing its interest revenues while maintaining the security of the invested funds. It will achieve this by the prudent use of its approved financing and

investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes to the level or structure of interest rates.

Exchange Rate Risk Management

Exchange rate risk is defined as the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the institution's finances, against which the institution has failed to protect itself adequately:

The College will retain funds in currencies only to the extent that payments are due to be made in these currencies. Currency receipts surplus to this will be transferred into sterling at the best rate achievable, but always retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level of exchange rates.

Inflation Risk Management

Inflation risk is defined as the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the College's finances.

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on its treasury management activities, will be controlled by the College as an integral part of its strategy for managing its overall exposure to inflation.

Credit and Counterparty Risk Management

Credit and counterparty risk is identified as the risk of failure by a third party to meet its contractual obligations to the institution under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the College's capital or revenue resources:

The College regards the prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty list is constructed with security in mind, but with a reasonable spread to make the most of market conditions. The list will be reviewed on a continuing basis and at least annually.

Refinancing Risk Management

Refinancing risk is defined as the risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the institution for those refinancings, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

The College will ensure that its borrowings, private financing and partnership arrangements are negotiated, structured and documented and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the institution as can reasonably be achieved in the light of market conditions prevailing at the time. The College will manage its relationship with its counterparts to secure this objective and will avoid over-reliance on any one source of funding.

Legal and Regulatory Risk Management

Legal and regulatory risk is defined as the risk that the institution itself, or a third party which it is dealing with, fails to act in accordance with its legal powers or regulatory requirements, and that the institution suffers losses accordingly.

The College will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements.

Fraud, Error and Corruption and Contingency Management

This is defined as the risk that an institution fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends.

The College will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, the College will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends. Insurance cover will be taken out and the responsible officials included within it.

Market Risk Management

Market risk is defined as the risk that, through adverse market fluctuations in the value of the principal sums it invests, its stated treasury management policies and objectives are compromised and it has failed to protect itself.

The College will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Risk Management Techniques

The College will achieve mitigation of the above risks by compliance with its Treasury policies and by the prudent use of its approved financing and investment instruments, methods and techniques. This is primarily to create stability and certainty of costs and revenues, but at the same time retaining sufficient degree of flexibility to take advantage of unexpected and potentially advantageous changes in the level or structure of interest rates, exchange rates and inflation.

Performance Measurement

The College is committed to the pursuit of best value in its treasury management activities and to the use of performance measuring in support of that aim.

Accordingly, the treasury management function will regularly examine alternative methods of service delivery to ensure best value and will measure its performance using appropriate benchmarks. An external review may be commissioned from time to time.

3. Decision Making and Analysis

The College will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.

4. Approved Instruments, Methods and Techniques

The College will undertake its treasury management activities by employing only those instruments, methods and techniques as detailed in Schedule A Section 4 and within the limits approved by the College.

5. Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

The College considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

The Director of Finance will always ensure that those engaged in treasury management will follow the policies and procedures agreed by the College. S/he will also ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The delegations to the Director of Finance in respect of treasury management are set out in Schedule C.

6. Reporting Requirements and Management Information Arrangements

The College will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies.

As a minimum the Finance committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the College's treasury management policy statement and policies.
- An annual report on the performance of any external service providers.

7. Budgeting, Accounting and Audit Arrangements

The Director of Finance will prepare, and the College will approve and, if necessary, from time to time will amend, an annual budget, which will include income, and costs associated with treasury management activities. The matters to be included in the budget will, at minimum, be those required by statute or regulation.

The College will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards and with statutory and regulatory requirements in force for the time being.

The College will ensure that its auditors, both external and internal and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8. Cash and Cash flow Management

Unless statutory or regulatory requirements demand otherwise, The Director of Finance is responsible for all College monies. All funds will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared in order to ensure that there are adequate funds for the purposes of monitoring compliance with Treasury Management Policy Liquidity Risk.

9. Money Laundering

The College is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money.

Accordingly, it will maintain procedures for verifying and recording the identity of counterparties, reporting suspicious activity and ensuring that staff involved in this are properly trained. Staff will be made aware of the Anti-Money Laundering Policy.

10. Staff Training and Qualifications

The College recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake their duties and responsibilities. The College will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance will take responsibility for the necessary arrangements.

11. Use of External Service Providers

The College will evaluate the costs and benefits involved when employing external specialists. It will also ensure that the terms of such external providers are assessed and properly agreed and documented and subjected to regular review. Where services are subject to a formal tender or re-tender arrangements, legislative requirements will always be observed. At all times obtaining best 'Value for Money' will be main objective of the College.

12. Corporate Governance

The College is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty integrity and accountability.

13. Ethical Investment Policy

The College is keen to ensure that investment of surplus cash balances in accordance with this policy is undertaken in a socially responsible manner. The use of only a restricted list of high credit-rated counterparties provides some comfort in this regard though the policy does not include a list of prohibited companies or organisations, or types of companies or organisations.

14. Banking Arrangements

The College recognises the importance of ensuring effective control over its bank accounts. In line with the Financial Regulations, all funds due to the College are deposited in accounts with the college's main bank unless otherwise approved by the Director of Finance. Banking arrangements will be subject to periodic review.

Schedules to the Statement of Treasury Management Practices

Schedule A - Risk Management

1. Liquidity

The College's policy is to retain cash balances of £2m at any one time in order to meet the cash needs resulting from day to day operations of the College.

The Director of Finance is authorised to arrange short-term overdraft or other suitable 'committed' facilities with a reputable bank and to invest excess balances in accordance with Sections 3 and 4 below.

In line with the College's Financial Sustainability Strategy, it is targeted that unrestricted cash reserves should meet at least 90 days' liquidity at each financial year end.

2. Exchange Rate Exposure Policy

The College's policy is to avoid exposure to exchange rate fluctuations. Currency receipts should be transferred into sterling within one month of receipt, except where currency payments are due to be made. In this situation, sufficient currency should be retained on deposit to cover the payments.

3. Borrowing

Raising of finance for capital investment meeting the threshold outlined in the Financial Regulations must be approved, in advance, by the Finance Committee and the Board. The Board may, at its discretion, authorise an ad-hoc committee of its members to agree final documentation and execute documents within parameters set by the Board.

All borrowing raised on the security of any of the College's assets must be approved, in advance, by the Finance Committee and the Board. The Board may, at its discretion, authorise an ad-hoc committee of its members to agree final documentation and execute documents within parameters set by the Board.

Unsecured, overdraft borrowing must be within limits set by the Finance Committee. Authorisation by the Director of Finance must be given for unsecured, overdraft borrowings within such limits.

Lease finance arrangements for items with a capital value greater than £100,000 must be approved, in advance, by the Finance Committee.

The method, type and length of borrowing will be determined at a fixed interest rate if at an acceptable level and in line with the cash forecast. A short-term variable rate is permissible if beneficial to the College within risk tolerances and if agreed with Finance Committee.

The limits set out above may be amended only with the approval of the Board of Governors.

4. Counterparty Lists

The Director of Finance is responsible for monitoring closely the credit standing of approved counterparties. Where there is reason to believe that counterparty's credit standing is, or may become impaired, lower limits will be applied. Any change to the counterparty list should be advised to the Board of Governors.

Funds may be invested with approved counterparties providing they carry a minimum AA rating or better from one of the recognised credit rating agencies, i.e. Standard & Poors, Moodys or Fitch IBCA.

The following table details the Counterparty, Minimum Credit Rating, Limit and Period of Investment, which, for the time being is currently in place having been approved by the Finance Committee.

Counterparties	Minimum Credit Ratings			Limits	Period
	S&P	Moodys	Fitch		
House Bankers	A-/A-2	A1/P-1	A+/F1	£10 million	Up to 12 months
UK Regulated Bank/Bldg. Soc	A/A-1	A1/P1	A+/F1	£10 million	Up to 12 months
Money Market Funds	AAA	Aaa	AAA	£10 million	Up to 12 months

5. Approved Instruments, Methods and Techniques

INVESTMENT AND DEPOSIT OF SURPLUS FUNDS

The overriding principle guiding the investment of surplus funds is to achieve a satisfactory return while reducing risk to a level acceptable to the College.

The types of investment that may be represented in the cash management portfolio include securities and money market instruments listed below (all denominated in sterling):

- Deposits with approved banks.
- Deposits with approved Building Societies.
- Certificates of Deposit issued by FSA regulated financial institutions
- Fixed interest funds
- FSA regulated Money Brokers
- FSA regulated money market funds
- Corporate Debt issues including bonds, FRN's and MTN's
- UK or Foreign Government Treasury Bill issues

These investments are limited to the approved counterparty list and the operative financial and credit rating limits set therein.

6. Financing and Refinancing

If the College intends to raise capital for new projects and/or intends to refinance the whole or part of the existing debt portfolio, the Director of Finance will have regard to:

- The level of security required for the project (if required).
- The maximum level of assets that could be provided as security without adversely affecting the stability of the College.
- The value of assets already pledged as security on any existing facilities.
- Requirements of the Skills Funding Agency (SFA) or its succeeding body.
- Any statutory restrictions and the College's own powers/rules.

- Restrictions on the College's use of its property assets required by loan documentation/and other covenants.
- Proposed lender.
- Comparison with alternatives.
- Main terms and covenants.
- The costs involved (associated fees, arrangement and otherwise).
- The level and nature of interest rates charged and structure in the current market place.

Schedule B - Best Value and Performance Measurement

1. Frequency and Process for Tendering

The following services will be subject to tender or external review at least every 5 years:

- Banking services & card acquiring services;
- Fund management services (if applicable);
- Financial adviser/Merchant Bank;
- Cash management, money broking services and general finance advice.

Schedule C - Organisation, Segregation of Responsibilities and Dealing Arrangements

Responsibilities of Treasury Management Posts

The Board of Governors (Finance Committee/Audit Committee)

The Board of Governors has specifically reserved to itself the approval of all borrowing and the approval of Treasury Management Policy.

- Make recommendations to the Board of Governors on the terms and conditions of any proposed borrowing, taking account of the impact of the borrowing, any covenants and provision of security on the overall stability and financial health of the College.
- Approve the financial strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Periodically consider any amendments to the treasury management policy statement and practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing external audit reports and follow up action
- Approval the selection of external service providers and agreeing terms of appointment.

Director of Finance

Director of Finance, on behalf of the Principal, will be responsible for and have delegated authority to:

- Preparing the financial strategy for approval by the Finance Committee and monitoring of KPIs.
- Negotiating terms and conditions for raising capital finance for approval by the Board of Governors.
- Recommending clauses, to be incorporated in treasury management policy and practices for approval, reviewing the same regularly and monitoring compliance.
- Submitting regular treasury management policy reports.

- Submitting budgets and budget variations, (in particular with regard to the finance strategy).
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function and promoting best value reviews.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Recommending the appointment of external service providers.
- Confirmation of bank signatories for the College and its associated entities.

The Deputy Director of Finance (Financial Services)

- Execution of transactions.
- Adherence to agreed policies and practices on a day to day basis.
- Maintaining relationships with third parties and external service providers.
- Monitoring performance on a day to day basis.
- Submitting management information reports to the Director of Finance
- Identifying and recommending opportunities for improved practices

Reporting Requirements

The following matters should be included in reports to the Board of Governors:

Annual Report to Governors

- Commentary on treasury operations for the year.
- Cash flow performance compared with budget and commentary on variances
- Financial strategy KPI performance.
- Proposed amendments to the treasury management policy statement.
- Matters in respect of which the treasury management policy statement has not been complied with.

Periodic Reports

- Analysis of currently outstanding loans, deposits and investments by instrument, counterparty, maturity and interest rollover periods.
- Commentary on treasury operations for the period.
- Cash flow forecast compared with budget and commentary on variances.
- Commentary on continued applicability of annual financial strategy and proposals for amendments.
- Revisions/adjustments to future 12-month cash flow forecast and an estimation of future interest rates and the effect on annual financial strategy and revenues.
- Proposed amendments to list of approved counterparties and to limits attached thereto.
- Proposed amendments to treasury systems document.
- Matters in respect of non-compliance with treasury management policy.