



**Financial Statements**

**31 July 2016**

<b>CONTENTS</b>	<b>Page</b>
The Patron, The President and The Governors	1
Officers and professional advisers	2
Welcome from the Chairman and Principal	3
Operating and Financial Review	5
Corporate Governance Statement	14
Responsibilities of the Board of Governors	18
Report of the Independent Auditor to the Board of Governors	19
Statement of principal accounting policies	21
Consolidated Statement of Comprehensive Income and Expenditure	26
Consolidated and College Statement of Changes in Reserves	27
Balance Sheet	28
Consolidated Cash Flow Statement	29
Notes to the accounts	30

**PATRON**

HER MAJESTY THE QUEEN

**PRESIDENT**

SIR WILLARD WHITE

**GOVERNORS**

Nick Prettejohn (*Chairman*) <sup>1, 3, 4, 5</sup>

Martin Vander Weyer (*Deputy Chairman*) <sup>1, 3</sup>

Carolyn Baxendale <sup>2</sup>

Mark Blundell <sup>1</sup>

Chris Cox

Professor Lynne Dawson <sup>4, 6</sup>

Mike Emmerich <sup>1, 4</sup>

Professor David Fanning <sup>2</sup>

Diane Gilhooley <sup>3</sup>

Felicity Goodey <sup>3</sup>

Jonathan Groves <sup>4, 5</sup>

Sir Alan Langlands

Alex Robertson <sup>6</sup>

David Roper <sup>2</sup>

John Summers <sup>1</sup>

Blanc Wan <sup>5</sup>

Nick Ware <sup>7</sup>

The Principal (Professor Linda Merrick) <sup>1, 3, 4, 5</sup>

The President of the Students' Union (Ed Gaffney (*to 30 June 2016*), Hayley Parkes (*from 1 July 2016*))

**SECRETARY TO THE BOARD OF GOVERNORS**

Dr Howard Keable

- <sup>1</sup> Member of Finance Committee
- <sup>2</sup> Member of Audit Committee
- <sup>3</sup> Member of Remuneration and Strategic Staffing Committee
- <sup>4</sup> Member of Nominations Committee
- <sup>5</sup> Member of Honorands Committee
- <sup>6</sup> Nominated by the Academic Board
- <sup>7</sup> Nominated by the Professional Services Staff

A record of members' attendance at meetings of the Board and of its committees is maintained by the Secretary and monitored by the Nominations Committee. For the session 2015-16, no cause for concern has been identified.

**OFFICERS AND PROFESSIONAL ADVISERS**

**PRINCIPAL**

Professor Linda Merrick, GRSM(Hons), MMus, PhD, ARAM, LRAM, FLCM, FRSA, HonVCM, ILTM

**DEPUTY PRINCIPAL**

John Gallacher, BA(Hons), DBA, FCA

**VICE PRINCIPAL (OPERATIONS)**

Sue Baines, BA(Hons), MBA

**VICE PRINCIPAL (PERFORMANCE)**

Paul Goodey, BMus(Hons), MMus, DMus, FRNCM, DipRCM

**VICE PRINCIPAL (ACADEMIC)**

Martin Harlow, BA(Hons), MPhil, PhD, Dip.NCOS, ARCM, FRNCM

**DIRECTOR OF DEVELOPMENT**

Suzie Thompson, BA (Hons) MInstF (Dip)

**BANKERS**

**Royal Bank of Scotland**

38 Mosley Street  
Manchester M2 3AZ

**SOLICITORS**

Mills & Reeve  
8<sup>th</sup> Floor  
1 New York Street  
Manchester M1 4AD

**EXTERNAL AUDITORS**

KPMG LLP  
One St Peter's Square  
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M2 3AE

**ADDRESS**

124 Oxford Road  
Manchester M13 9RD

A Higher Education Corporation established under the terms of the Education Reform Act 1988

**Welcome from the Chairman of the Board of Governors and the Principal**

We are delighted to present the Royal Northern College of Music's Financial Statements for the year ended 31 July 2016.

In May the RNCM was recognised by the Higher Education Funding Council for England (HEFCE) as one of the world's leading conservatoires, becoming the only music college outside London to receive enhanced Institution-Specific Funding. This funding increase, which will be in place for at least the remainder of our Strategic Plan (*RNCM 2020*), enables us to continue to develop the next generation of world-class musicians and to deliver our ambitious plans to ensure the RNCM remains at the forefront of music education.

In November last year – following nominations in two categories – we were proud to receive the Times Higher Education Award for Excellence and Innovation in the Arts for *After the Silence: Music in the Shadow of War*. This unique three-day project, which took place at Imperial War Museum North and featured over 300 performers and 25 world premières, highlights our commitment to ambitious, inclusive programming as we ensure that artistic innovation remains at the heart of the RNCM experience. Next year we hope to build on our award success as *Read with the World*, a scheme designed to support international students and enhance their learning experience, has been shortlisted in the Outstanding International Student Strategy category. Our reputation for producing exceptional opera was also confirmed this year when we beat competition from leading UK companies to win Best Opera at the Manchester Theatre Awards for our production of Britten's *A Midsummer Night's Dream*.

The 2015 Destination of Leavers of Higher Education Survey showed that 100% of our alumni are in work or further study within six months of graduating, placing the College at the top of the UK rankings for graduate employability. The results of the survey highlighted that the vast majority of RNCM graduates felt that their course prepared them well for employment after leaving the College. This included the exceptional performance and placement opportunities we offer through *The Platform*, our international centre for ensemble and vocal training. Each year, through a substantial number of professional partnerships worldwide, *The Platform* allows some 400 students to benefit from placements with internationally-renowned orchestras, ensembles and opera companies, ensuring they are fully prepared for the demands of the music profession, and have the experience and connections so critical for their future success. No other UK conservatoire offers the number and breadth of performance and placement opportunities to its students.

We are almost halfway through our Strategic Plan, *RNCM 2020*, and the results of which are making a significant impact on our regional, national and international reputation. The RNCM remains the UK's leading music college for research and by 2020 aspires to gain its own Research Degree-Awarding Powers. The impressive achievements of our students and alumni – both in the UK and overseas – is testimony to the high quality staff we recruit and the numerous professional partnerships we develop throughout the world, all of which reaffirm our position as a leading voice in music education and a place for artistic innovation and creativity. Through targeted interventions such as the Junior RNCM (our Saturday pre-tertiary music school for some 200 gifted young musicians from across the North of England aged 8-18), our series of specialist open access 'Young Projects' and our extensive widening participation programme 'RNCM Engage', we are also reaching out to local communities on a large scale, both through student placements with organisations around the North West and our own outreach events. These activities ensure that music is accessible to people of all ages and from all walks of life.

Following the launch of our unique 4-year undergraduate degree in popular music, we recently installed the world's largest BOXY modular studio system. This impressive new space is a designated student area with a particular focus on popular music, enabling musicians to create and capture amplified and electronic music and to interact across musical genres. Together with our newly-refurbished Concert Hall, Lecture Theatre and reconfigured backstage areas, the RNCM is in a strong position to maintain its world-leading reputation as we look to develop our estate further in the years ahead.

The higher education sector faces uncertain challenges going forward, but with our 2015/16 net assets totalling £38.5m (including a significantly improved cash reserve) the RNCM has again delivered a solid financial performance. As we look to fulfil our remaining strategic aspirations, the buoyant investment and development agendas we have firmly put in place ensure that we can continue to invest in our students, staff and facilities, and build on our reputation as a world-leading conservatoire.

Nick Prettejohn  
Chairman of the Board of Governors

Professor Linda Merrick  
Principal

## OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review was prepared in accordance with the Accounting Standards Board's Reporting Statement, Charity Commission guidance on public benefit and section 2 of the Charities Act 2011.

## THE COLLEGE

Founded in 1973, the Royal Northern College of Music is a world-renowned conservatoire, educating and training musicians to the highest professional level, in a stimulating and innovative environment.

The College is committed to delivering the highest-quality teaching and research. In research, the College's reputation for excellence was demonstrated in the most recent Research Excellence Framework Exercise, where the RNCM was shown to be internationally excellent and top of the UK conservatoires. The College's reputation for excellence in teaching was reflected in the recent successful bid for Institution-Specific Funding, in which world-class teaching was a key criteria, and the extremely high level of employability of its graduates, both of which serve it well in the competitive market for top conservatoire music students, both nationally and internationally.

The College places great significance on the quality of its environment and the specialist facilities it provides for students. Its location in Manchester affords students the opportunity to immerse themselves in the cultural life and rich artistic heritage of the City and is an important factor in attracting high-profile staff.

KEY FACTS	2015-16	2014-15
Student employability	100%	97.9%
Student retention	98.1%	94.4%
Total number of students	848	812
Total number of staff	220	211
Total income	£21m	£19m

## PUBLIC BENEFIT and CHARITABLE STATUS

In setting and reviewing the College's objectives and activities, the Board of Governors has had due regard to the Charity Commission's guidance on the reporting of public benefit and particularly its supplementary public benefit guidance on the advancement of education.

The College is an independent Corporation, established as a Higher Education Corporation under the terms of the Education Reform Act 1988 and the Further and Higher Education Act 1992. Within the provisions of the Charities Act 1993, amended in 2011, the College is an exempt charity. Its objectives, powers and framework are set out in the Articles of Government.

## RNCM 2020: OUR VISION

The College exists to educate and train musicians to the highest level in an environment that is musically and creatively stimulating and rich in opportunity. It is focused on nurturing and developing students' capacity to innovate, to inspire others and to be musical leaders of the future. The College's Strategic Plan, 'RNCM 2020', sets out its vision and key objectives.

RNCM will be a conservatoire of global significance, defined by the quality, breadth and contemporary relevance of its work. It will be a destination of choice for students and staff from across the world, a powerful voice in music education, and a laboratory for creativity and innovation in artistic practice. Proud to be in Manchester, 'RNCM 2020' will reach out to its local and regional communities, enhancing opportunities and enriching lives. Working with a unique network of world-class partners, it will shape the music profession of the future.

The increasing ambition of the RNCM will be manifest in a major new development, which will include a newly-conceived, fully digitally-enabled building, giving students the opportunity to work across boundaries, develop new work and to expand the RNCM's digital footprint.

## OUR STUDENTS

The College sees its students as partners in the learning experience and values their involvement in all key areas of decision-making at the College. The RNCM Students' Union is engaged in the governance of the College through representation on all academic committees, the Board of Governors and through regular more informal consultative arrangements and focus groups. The President of the Students' Union meets regularly with the Principal, as do members of the College's and Students' Union Executive Teams.

Involving College students in outreach projects, group workshops, and mentored teaching placements in Widening Participation and Access settings is a powerful way in which the College supports young musicians. The BMus (Hons) curriculum ensures all undergraduate students undertake these activities in years 3 and 4, meaning that c. 200 students will be undertaking placement activities with younger pupils in the Greater Manchester area.

Performance is at the heart of the student experience at the College and this is reflected in the extensive programme of events. Whilst the majority of these events take place in the RNCM's own facilities, a number of performances are also held in external venues. RNCM events, the majority of which are by or for the students, include concerts given by the College's students, featuring solo performers, chamber ensembles, large ensembles (Wind Orchestra, Brass Band, Session Orchestra etc.), full Symphony Orchestras, as well as fully staged operas. In addition, there are regular performances and masterclasses by eminent visiting artists, as well as lectures and talks to accompany certain aspects of the performance programme. A number of these events are free. Additionally, the RNCM stages a number of concerts delivered on a wholly commercial basis by artists that hire the RNCM's facilities. The breadth of the RNCM performance offer for students and the public is significant, taking in early music, classical repertoire, contemporary classical music and jazz, popular, folk and world music. The diversity of the programme ensures that the College's performance spaces and other public facilities are made available to a wide public who are entertained, educated and inspired by the range of music genres that the College presents.

### **Widening Participation and Access**

The key beneficiaries of the RNCM's activities are its students, who develop and hone their musical skills throughout their time with the College. Other beneficiaries include schoolchildren, by offering them experiences of, and training in, music at the College and in their own school, and the general public, enabling access to the wide variety of musical activity and making available the professional standard facilities available to arts-based SMEs, musical groups and societies. Arts groups using College facilities enrich the local cultural environment and by coming to the College, audiences are able to experience a much wider range of musical activity than would otherwise be available.

The College is committed to ensuring that students from all backgrounds have the opportunity to succeed on their chosen programme. It provides over £1m per annum in the form of bursaries, scholarships and awards from its Endowment Funds for the benefit of students who may not otherwise be able to attend the institution. The development of a classical musician from the point of first encountering an instrument to reaching the standard required for entry to a conservatoire can often take ten Years. To widen participation and access to College programmes, it is important that talent is identified and nurtured from an early stage, irrespective of background.

The aim of the College's Widening Participation Strategy is to enhance access to the College's programmes by students who would not otherwise have the opportunity. Throughout the year, the College is engaged with a wide range of activities to facilitate this, including regional 'mini tours' by staff and students; employing RNCM alumni as agents/ambassadors; using research to target specific schools and FE colleges in deprived areas where there is potential to develop musical activity; running conferences to support teachers; and targeting young musicians and teachers in each festival at the College.

The College's learning and participation programme, 'RNCM Engage', provides opportunities for engagement with music for people of all ages and musical tastes, bringing together students, professional artists, and community and business leaders to exchange and develop ideas, and to reach out to new and increasingly diverse audiences.

The Junior RNCM (JRNCM) is a critical part of the RNCM's widening participation strategy, drawing some 200 talented pre-tertiary music students to the College every Saturday in term time from across the North of England and beyond. The majority of these students are in receipt of full bursaries from the Government's Music and Dance Scheme, meaning that they can benefit from the opportunity of a high-quality music education irrespective of their background or ability to pay. Many no longer have access to GCSE or A level music tuition in their schools, and are part of a very small peer group, so are reliant on the JRNCM to develop their musical potential. The destinations of JRNCM students are exceptional, with the majority securing places at top conservatoires and universities in the UK and overseas.

The College's Junior Projects and Summer Schools further enhance its Widening Participation and Access agenda by offering high-quality tuition and support to young musicians, either at minimal cost or free of charge. These activities raise aspiration, enhance the provision music services can make available within limited funds, and enable those with talent to develop the skills and confidence they need to succeed at audition should they wish to progress their studies at higher education level.

## OUR STAFF

The College aspires to continue to be an employer of choice, able to attract and retain a highly-skilled, motivated, and diverse workforce. Excellent performance is recognized and staff supported to enhance the competencies needed for their roles. The College operates within a dynamic environment and expects its staff to be able to manage challenges through innovation, development and continuous professional enhancement. As part of enhancing staff development, the College has collaborated with the Higher Education Academy (HEA) to establish a bespoke in-house programme (accredited by the HEA) which will encourage and support a greater number of staff to apply for Fellowship, Senior Fellowship and Principal Fellowship of the HEA.

The College promotes equal opportunities throughout the organisation and strives to achieve a fair and equitable working environment for all employees. The College recognises that it has a leading role to play in the region to promote the benefits of a diverse workforce that possesses the required level of knowledge and blend of skills to contribute towards the achievement of its strategic objectives. The College will continue to provide an environment that is safe and healthy, and within which staff are actively engaged.

The College's Equality and Diversity Policy and Action Plans set out the College's ongoing commitment to promote equality of opportunity. The Equality and Diversity Forum coordinates the development of the College's equality objectives in accordance with our duties under the Equality Act 2010 and the public sector equality duty. These equality objectives support the aims of the general duty, namely, to eliminate unlawful discrimination, advance equality and to foster good relations. The HR Strategy has been developed in line with the College's established commitment to equality and diversity.

## OUR PARTNERS

Partnership working is central to the College's Strategic Plan and the delivery of a stimulating and innovative experience for the students which enhances their employability. Key partnerships in the region include The University of Manchester, Manchester Metropolitan University, Manchester Camerata, the Hallé, BBC Philharmonic and the Royal Liverpool Philharmonic Orchestras, Opera North, School for Sound Recording, Northern Ballet School, Central Manchester University Hospitals Trust and Chetham's School of Music.

Looking beyond Greater Manchester, the College's many partnerships with public and private sector music education organisations, such as the Associated Board of the Royal Schools of Music, Artis (a dynamic training organisation developing much sought after artist-practitioners to work with primary school children), Brighter Sound (a community popular music provider), Nordoff-Robbins (one of the world's leading music therapy organisations) and the Children's University offer wide-ranging opportunities for Widening Participation and Access initiatives on a regional and national scale.

In addition to its regional work, the College has established a range of exciting international partnerships with leading conservatoires in mainland Europe and internationally, including recently-established partnerships with Beijing University Academy of Opera, Zhejiang Conservatory and the University of Southern California. It also leads an international benchmarking group comprising the Principals of world-leading conservatories from across the globe. These relationships facilitate the sharing of best practice, project-based work and staff and student mobility.

Building on the RNCM's vibrant and long-term association with regional performing organisations, 'The Platform' now enables students to undertake placements with internationally-renowned performing organisations across Europe. Over 400 students each year benefit from these unique work experience opportunities, many securing employment as a result.

Partnership working is a key part of the College's Widening Participation Strategy. The RNCM has established strong partnerships with local Music Education Hubs and is especially proud to be working closely with the GM Music Hub, an ambitious, highly-regarded and innovative partnership between nine local Music Services and regional and national partner organisations set up to safeguard and develop the music education for children and young people across the Greater Manchester region.

## **OUR ESTATE**

The College places great significance on the specialist, innovative facilities it provides for students. The Facilities Strategy supports the College's Strategic Plan and specific objectives contained in other strategies. A key component of the Facilities Strategy is to provide stunning new state-of-the-art digitally-enabled student learning facilities complementing the recently-completed redevelopment of the Studio Theatre, which provides an exceptional acoustic space suitable for amplified music-making/teaching and for experimental music performance.

As part of the RNCM's digital ambitions, development and adaptation of new (and yet to be discovered) innovative technologies will play a key role in stimulating, enhancing and enriching learning, teaching, research, performance, business support, and communication activities.

The College acknowledges a responsibility for, and a commitment to the protection of the environment at all levels and will seek to improve its environmental performance, particularly in the areas of infrastructure, operations, communications and facilities. As part of its commitment to the environment, the College has developed a Carbon Management Plan, to reduce emissions by 25% of the baseline by 2019/2020. Infrastructure changes are expected to contribute 23% of the target 25% savings by 2020, with the remaining element achieved through user awareness campaigns. Annual targets are set and monitored by the College.

## **FINANCIAL PERFORMANCE**

### **Financial Strategy**

The Financial Strategy supports the achievement of the Strategic Plan, 'RNCM 2020', to ensure the long-term sustainability of the College, by developing and maintaining capacity to achieve current objectives, funding to meet investment needs and evaluating strategic options and risks, along with progress reviews and appropriate financial control in an environment that encourages financial enterprise, autonomy with accountability

### **Financial Review**

The financial performance of the College continues the trend of year-on-year improving results and is on track to ensure a long-term sustainable performance subject to the risks outlined later in this section.

## The College's Key Financial Performance Indicators.

<i>Financial Key Performance Indicators £M</i>	<i>2015-16</i>	<i>2014-15 restated</i>
<i>Net Liquidity days</i>	88	73
<i>Staff Cost as a % of Income</i>	51%	51%
<i>Endowment Assets</i>	19.3	18.4
<i>Net Pension Liability</i>	(10.2)	(8.5)

The main elements of the financial results are shown in the table below

<i>Income and Expenditure £M</i>	<i>2015-16</i>	<i>2014-15 restated</i>
<i>Income</i>	20.8	19.3
<i>Expenditure</i>	18.7	18.2
<i>Operating Surplus</i>	2.1	1.1
<i>Profit on Sale of Asset</i>	0.0	0.3
<i>Share of Associate Surplus</i>	0.1	0.7

**Income**

The RNCM continued its managed growth strategy for both home and international students, increasing tuition fee income by £1m. Other significant increases in income related to a successful reclaim of VAT on the Concert Hall refurbishment project of £630k and two large donations received, the Mary Glass bequest of £600k and George Henry Peters bequest of £492k.

**Expenditure**

Expenditure increased during the year due to increased staff costs, £0.8m, reflecting the pay award, increase in pension and national insurance contributions and higher staffing numbers to support the growing student body. Other Operating expenses decreased by £0.3m due to a small reduction in operational spend. Details of the charitable expenditure of the Endowment and Awards funds are reported in their respective financial Statements to 31st July 2016.

**Share of Associate Surplus**

The College consolidates its share of the surplus on continuing operations of its associate company, the Associated Board of the Royal Schools of Music (ABRSM). In addition the College receives a donation from the ABRSM, currently £1.2m pa.

**Balance Sheet**

The College ended the year with Net assets of £38.5m - £2.6m up on the previous year. Endowment assets increased in the year despite additional capital growth being released from the Awards Fund through adopting total return basis and utilisation of a restricted fund within the Endowment Fund (The Jellis Bequest) to purchase newly manufactured high-quality stringed instruments.

Net current assets increased due to an increased cash balance, £0.8m, and a reduction, £1.0m, in the amount drawn down from the revolving credit facility the College has with its bank.

The Pension Liability increased in the year by £1.75m. This will continue to be monitored although the College has no direct control over this.

## **Risks**

The College has embedded a system of internal control, including strategic, financial and, operational and risk management designed to protect the College's assets and reputation. Risk is viewed in an integrated way alongside Strategy and Performance Monitoring. The Performance and Risk Management Summary sets out the strategic targets and risks facing the institution in terms of progress towards the targets, [Exceeding, On track, Minor Concerns and Major Concerns] and the risk level [High, Medium, Low and Insignificant] of the particular risk area. The elements are viewed in terms of Risk, Mitigation and Latest updates. Areas with either a progress measure of Major Concerns or a risk profile of High are elevated to a Key Risk Register for particular attention.

## **Principal Risks**

Outlined below is a brief summary of the principal risk factors which may affect the College.

## **Institutional Specific Funding Review**

The College was successful in its submission to retain institution-specific funding which increased to £4m pa. The submission was measured on three key criteria. The first was evidence of the specialist nature of an institution's provision. The second was the extent to which the whole institution faces significantly and justifiably higher teaching costs and can demonstrate actions to effectively manage those costs. The third was that its teaching and the impact of that teaching is world-leading. The College successfully met all three criteria.

## **Reputation**

The College's reputation for excellence in teaching and learning was confirmed in the recent award of institution-specific funding described above. This, in addition to the recently-issued, positive Teaching Excellence Framework metrics and a strong performance in the Research Excellence Framework, set a high standard that will require continued focused management and investment to maintain. The College continues to discharge carefully its responsibilities in relation to safeguarding its students and staff.

## **Financial – Market Value and Interest Rate**

The College has a significant Endowment of £19m reported on its balance sheet, which is subject to valuation changes as markets fluctuate. The portfolio is managed by Waverton within a risk and return mandate specified by the Governors. Waverton report half-yearly to the Investment Sub-Committee which is drawn from members of the Finance Committee. Details of the funds' performance can be seen in their respective financial statements, which are consolidated in the RNCM's consolidated financial statements for the year.

The College also has two loan facilities, a fixed term bank loan, £0.72m, subject to base rate interest movements, and a fixed term, fixed rate bank loan of £3.01m.

#### **Other Income**

The College receives donations which have increased over time and enable the College to respond to possible future reductions in income.

#### **Tuition Fee Policy**

Applications to the College and recruitment of undergraduate students have increased despite uncertainty around tuition fees. The college very much welcomes the extension of the current status of 2017-18 intake of EU students but recognises the difficulties and opportunities the BREXIT decision presents. An early decision on the status of the 2018-19 EU students would be helpful.

The College continues to engage with the Teaching Excellence Framework success which will impact the College's ability to charge higher tuition fees.

#### **Staff**

As a small institution with limited staffing resource, the College is at risk from the loss of key staff. Staff costs increased in 2015-16, due to an incremental increase and higher numbers to support the growing student body, but remained at 51% of income. Mitigation of the impact of the loss of key staff and management of the significant staff costs remain a substantial risk for the College in terms of organisational performance, and the level of the nationally-negotiated settlement and the impact of pension liabilities.

#### **General Economic Outlook**

The outlook for inflation indicates likely increases in future years and this will put pressure on future performance. The College will continue to manage its costs to minimise any adverse impacts. A significant part of the College cost profile is its staff cost and the current pay settlement was made at 1.1%.

#### **Visa Regulations**

Visa regulations make international recruitment an even more difficult market. Whilst these measures are designed at removing abuse from the system and are particularly targeted at private sector education providers, they contribute to a perceived reduction of the attractiveness of the UK as a place to study and create hurdles for the College in its overseas student recruitment strategy.

#### **KPIs**

A number of key performance indicators have been identified by the Board of Governors which includes both financial and activity-based indicators. These are noted in the RNCM 2020 ( <http://www.rncm.ac.uk/strategic-plan/> ) and will be updated as their relevancy alters in response to changes in the environment in which the College operates. Strategy, Performance

reporting, including the use of KPIs, and risk management are viewed as complementary indicators which the Board will review at least annually and more frequently for some indicators.

## **CONCLUSION**

The RNCM is a leading international conservatoire, training students to world-class levels in music through a specialised learning programme of the highest quality, a laboratory for creativity and innovation, delivered by internationally-renowned teachers and underpinned by a unique artistic programme of performances. Successes, particularly in the Research Excellence Framework and the bid for Institution-Specific funding confirm the world-leading standing of the College. The College's financial performance continued to improve in the year to 31st July 2016, and the College continues to implement

## CORPORATE GOVERNANCE STATEMENT

The Royal Northern College of Music (the 'RNCM') is an independent corporation, established as a Higher Education Corporation under the terms of the Education Reform Act 1988, and operating within the provisions of an Instrument of Government made by the Privy Council in May 1993 under the terms of the Further and Higher Education Act 1992. As a recipient of substantial public funding and by virtue of its educational objectives, it is an exempt charity, with the Higher Education Funding Council of England (HEFCE) acting as its Principal Regulator. The Members of the Corporation constitute the Board of Governors ('the Board') of the RNCM, the activities of which the Corporation has been established to conduct, and whose objects, powers and framework of governance are set out in the Articles of Government, the current version of which was approved by the Board in July 2011, and by the Privy Council in October 2011. The Board is also, in relation to the charitable activities of the RNCM, its Trustee Board. Members of the Board are therefore the Trustees of the RNCM, and of its four Trust Funds, each of which is a separate charity registered with the Charity Commission.

The RNCM, like other public bodies, has a duty to conduct its affairs in a responsible and transparent way, and to take into account in so doing the requirements of its funding bodies and the Governance Code of Practice published by the Committee of University Chairs (CUC, (2014)). The RNCM's corporate governance arrangements have been established in such a way as to meet these responsibilities and continue to comply with relevant provisions in the First (1995) and Second (1996) Reports of the Committee on Standards in Public Life. In addition, the RNCM corporately, through its arrangements for governance, is committed in a demonstrable way to the principles of academic freedom and equality of opportunity which are embodied in its Articles of Government.

### The RNCM's corporate governance framework

The Articles of Government provide for and empower the Board of Governors, the Academic Board and the Principal of the RNCM to exercise the authority assigned therein to their respective roles, which are summarised below.

### The Board and its committees

The Board, which normally meets five times a year, is constituted in accordance with the RNCM's Instrument of Government and has a clear majority of independent members. It carries the ultimate responsibility for the College's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. It is also a specific role of the Board to satisfy itself that work being undertaken on its behalf, whether by committee or by officers, is consistent with corporate objectives and is within the bounds of accepted good practice as articulated in the College's Ethics Framework, approved by the Board in February 2016.

There is a distinct separation between the roles of the non-executive Chairman and Deputy Chairman and the RNCM's chief executive officer, the Principal, who is a member of the Board. Academic staff, Professional Services staff and the student body are also represented. The Board approves the College's strategic plan and provides overall financial and organisational oversight.

The Board has appointed a number of committees and has also established processes which ensure that it is kept regularly advised on the strategic and policy elements of safeguarding, health and safety, and equality and diversity issues, so that it is able to act effectively and in an informed way with respect to these matters as and when it may be required.

The Finance Committee comprises a Chair, who is an independent member of the Board, four other independent members of the Board and the Principal, and is established to oversee all matters relating to the finances and business concerns of the RNCM. Specifically, the Committee *inter alia* advises the Board on financial sustainability strategies, recommends to the Board the annual revenue and capital budgets for approval, and, on the Board's behalf, monitors financial performance in relation to approved budgets during and at end of year. In addition, the Board has delegated to the Committee the authority to act on its behalf in respect of matters relating to the RNCM Trust Funds.

The Audit Committee comprises a Chair, who is an independent member of the Board, two other independent members of the Board and two co-opted external members with relevant experience. Senior executive officers are invited to attend meetings as necessary, but the Committee also has the opportunity to meet with the internal and external auditors without such officers being present. It receives reports from the internal and external auditors of the College, and their opinion on the adequacy of the College's systems of internal and financial control, and considers recommendations for the improvement of those systems. Thus, the Committee has a particularly important function in providing opinions and giving assurances to the Board relating to the effectiveness of the arrangements for risk management, control and governance, including the management and quality assurance arrangements for data submitted to the Higher Education Statistics Agency (HESA), HEFCE or other funding bodies and the new assurance statement relating to the Board's oversight of academic governance arrangements. Whenever appropriate, it will provide explicit confirmation to the Board that necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of internal and financial controls. It also recommends to the Board the annual financial statements for approval, having confirmed compliance with relevant statutory and regulatory provisions.

The Remuneration and Strategic Staffing Committee comprises a Chair, who is an independent member of the Board, the Chairman of the Board, and two other independent members of the Board, including the Deputy Chairman. It meets to determine the remuneration arrangements for the Principal and those of such other senior staff of the RNCM as the Board has agreed should come within its remit, and to consider such strategic staffing issues as may be referred to it by the Board, or by the Executive Committee of the RNCM.

The Nominations Committee comprises the Chairman of the Board, two other independent members of the Board, an academic member of the Board, and the Principal. It advises the Board in relation to the appointment of members of the Board and its Committees, unless authority to make an appointment rests elsewhere, taking into account and reviewing as appropriate the full range of needs and requirements of the Board in maintaining its overall effectiveness as a governing body. On behalf of the Board, it oversees a process of review of the effectiveness of individual Board members (where the Board has been the appointing authority) and where necessary makes appropriate recommendations to the Board.

The Honorands Committee is constituted jointly with the Academic Board and makes recommendations to both bodies in respect of distinguished individuals to be selected for the conferment of honorary awards of the RNCM. The Board appoints from its independent membership the Chair of the Committee and two other members.

The Board maintains a Register of Interests of its members, which may be consulted by arrangement with the Secretary to the Board. Members of the Board receive a reminder in the papers for each meeting of the need to declare any particular interests they may have in relation to the business scheduled for consideration.

The Board has in place arrangements to conduct, on a periodic basis, comprehensive reviews of the effectiveness of its own working arrangements. This last took place in June 2015, facilitated by an external consultant appointed by the Board and concluded that the RNCM has a high functioning and well-led Board.

The Academic Board meets three times a year, is constituted in accordance with the Articles of Government and comprises members of the academic staff, members of the student body and two co-opted external academic members. It is chaired by the Principal and is responsible, subject to the oversight of the Board, for establishing the academic governance arrangements for the RNCM, which include policies relating to learning, teaching, scholarship and research. These deal with such matters as the academic criteria for the admission of students, approval of the content of the curriculum, approval of policies and procedures for the examination and assessment of students, the appointment and review of internal and external examiners and assessors, and the monitoring of the quality of academic programmes. The Academic Board is also the final authority for the determination of student progression and for the granting of academic awards in the name of the RNCM. In addition, it initiates and/or considers proposals for the development of the academic profile and activity of the College, and advises the Principal and the Board thereon.

### The Principal and the senior managerial arrangements

The Principal is responsible to the Board for the leadership, organisation, direction and management of the RNCM. Although the ultimate responsibility for what is done in this regard rests with the Board, the Principal exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and the shaping of institutional ethos. The Principal is supported in this by the Principal's Advisory Group, which meets regularly during term time to discuss the strategic and management issues of the College, including those related to financial, physical, and human resources, and the Executive Committee, which considers and approves, and monitors and evaluates, a range of managerial and operational activities across the College.

### Internal control

The RNCM receives substantial public funding to support its activities, and in this regard is regulated in accordance with the terms of a Financial Memorandum issued by HEFCE in August 2014, and it is also aware of its obligations to take into account any relevant guidance on accountability, probity or value for money issued from time to time by HEFCE, the National Audit Office or the Public Accounts Committee.

The Board is committed to exhibiting best practice in all aspects of corporate governance, and pays particular attention to the advice and guidance offered by the British Universities Finance Directors' Group (BUFDG), and to that set out in The UK Corporate Governance Code issued by the Financial Reporting Council in September 2012. In the opinion of the Board, the RNCM complies with all the provisions of the aforesaid Code in so far as they apply to the Higher Education Sector, and it has so complied throughout the year ended 31 July 2016. The Board acknowledges its responsibility for the RNCM's overall system of internal control and for reviewing its effectiveness. The system managed by the Deputy Principal, which is risk-based, covers all aspects of internal control, including governance, management, quality, reputation, compliance and financial. Operationally, through the Risk Register (see below), it produces a balanced portfolio of risk exposure, closely aligned to the strategic objectives of the RNCM and integrated with its normal business processes. As such, however, it is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only, therefore, provide reasonable (but not absolute) assurance against material misstatement or loss.

The Audit Committee reviews the effectiveness of the system of internal control and reports its opinion to the Board. This review is informed by the work of the Internal Auditors, by the contributions of the College managers with responsibility for the development and maintenance of the financial control framework, and by comments and observations made by the External Auditors in their management letter and other reports. The system of internal control as described above covers the period from 1 August 2015 to 31 July 2016 and up to the date of approval of the audited financial statements, on 21 November 2016.

### Financial control

The Board is responsible for ensuring the economical, efficient and effective management of the RNCM resources and expenditure, and for safeguarding its assets, including specific responsibility for the oversight of systems that prevent and detect fraud. The system of internal financial control provides for comprehensive financial planning processes, assessments of annual income, expenditure, capital and cash flow budgets in conjunction with the monthly review of financial results, the reporting of variances and the projection of outturns. The RNCM sets out matters concerning the broad policies relating to financial control in its Financial Regulations. These Regulations are approved by the Board and apply to the RNCM and all its related undertakings, and include all funds passing through its accounts. They encompass the processes to investigate fraud and other financial irregularities, budgeting and forecasting, the treatment of year-end balances and capital expenditure programmes and general issues with regard to the Accounts and Accounting returns of the RNCM.

The RNCM's financial statements are prepared on a going concern basis as the Board is satisfied after making appropriate enquiries that, at the time of their approval, the RNCM has the resources to continue in operation for the foreseeable future.

Risk management

The RNCM's arrangements for risk assessment and management are embedded in an approach which integrates strategic planning, performance monitoring and risk management. The Executive Committee, through the Deputy Principal, presents the Performance and Risk Management Summary, in a traffic light indicator format, and the current Key Risk Register to the Board of Governors. In addition, the Finance Committee reviews the financial performance elements of this information separately. In 2016 the RNCM developed an Operational Risk Register which is presented to the Audit Committee by the Deputy Director of Finance (Financial Services).

The Performance and Risk Management Summary sets out the strategic targets and risks facing the institution in terms of progress towards the targets, and the risk level of the particular risk area. The elements are viewed in terms of Risk, Mitigation and Latest updates. Areas with either a progress measure of Major Concerns or a risk profile of High are elevated to a Key Risk Register for particular attention. These arrangements have been reviewed by the Internal Auditor during the period with the conclusion that they are fit for purpose.

A handwritten signature in black ink, appearing to be 'N. R.', followed by a long horizontal flourish.

Chairman of the Board of Governors

## RESPONSIBILITIES OF THE BOARD OF GOVERNORS

In accordance with the Education Reform Act 1988, the Board of Governors ('the Board') is responsible for the administration and management of the affairs of the College and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and to enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of the HEFCE Financial Memorandum, the Board, through its designated office holder (the Principal), is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board has ensured that:

- \* suitable accounting policies are selected and applied consistently;
- \* judgements and estimates are made that are reasonable and prudent;
- \* applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- \* financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Board is satisfied that the College has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- \* ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- \* ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources and which enable it to ensure that the financial statements are prepared in accordance with relevant legislation of incorporation and other relevant accounting standards;
- \* safeguard the assets of the College and prevent and detect fraud;
- \* secure the economic, efficient and effective management of the College resources and expenditure.



## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF ROYAL NORTHERN COLLEGE OF MUSIC**

We have audited the financial statements of Royal Northern College of Music for the year ended 31 July 2016 set out on pages 21 to 44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the Board of Governors, in accordance with paragraph 13(2) of the Charters and Statutes of the institution. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board of Governors and auditor**

As explained more fully in the Statement of Responsibilities of the Board of Governors on page 18, the Board of Governors is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group and the College's affairs as at 31 July 2016, of the Group and College's income and expenditure, gains and losses and changes in reserves and of the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements*.



**Opinion on other matters prescribed in the HEFCE Audit Code of Practice (effective 1 August 2014) issued under the Further and Higher Education Act 1992**

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the College for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the College's Articles of Government
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and
- the corporate governance and internal control requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements* have been met.

A handwritten signature in black ink, appearing to read 'Clare Partridge'.

Clare Partridge  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 Sovereign Square  
Leeds  
LS1 4DA

28 November 2016

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Year ended 31 July 2016**

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards (FRS 102). The College is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of fixed assets and derivative financial instruments). The financial statements are prepared in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS 102). The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**1. Basis of Consolidation**

The consolidated financial statements include the College and its Trust funds; Awards Fund, Endowment Fund, Eva Turner Fund, and Annie Ridyard Scholarship because the funds are effectively controlled by the College, and the College's share in the Associated Board of the Royal Schools of Music. Intra-group transactions are eliminated fully on consolidation. The activities of the student union have not been consolidated because the College does not control those activities. All financial statements are made up to 31 July 2016.

**2. Income Recognition**

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Investment income is credited to the statement of income and expenditure on a receivable basis.

**3. Realised and Unrealised Gains and Losses**

Realised and unrealised gains or losses on investments are recognised on the Consolidated Statement of Comprehensive Income and Expenditure.

**4. Grant Funding**

Government capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Government revenue grants including funding council block grant and research grants are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**

Year ended 31 July 2016

**5. Accounting for Charitable Donations****Unrestricted donations**

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

**Endowment funds**

Where charitable donations are to be retained for the benefit of the College as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the College.
2. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the College can convert the donated sum into income.
3. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

**6. Pension schemes**

The College participates in three pension schemes, the Teachers' Pension Scheme (TPS) and the Universities Superannuation Scheme (USS) for academic staff and the Greater Manchester Pension Fund (GMPF) for non-academic staff. All are independently administered defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS).

Contributions to the TPS are calculated so as to spread the costs of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations, using a prospective benefit method. The TPS is a multi-employer schemes and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as defined contribution schemes and the contributions recognised as they are paid each year.

The USS is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The assets of the GMPF are measured using closing market values. GMPF liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Year ended 31 July 2016**

is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

**7. Leases**

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal annual amounts over the period of the leases.

**8. Land and Buildings**

Upon transition to FRS102 the College has carried forward the depreciated cost arising from historic valuations. Land is held freehold and is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful economic lives of 50 years.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to the CSCI once all relevant performance related conditions have been met.

Assets under construction are accounted for at cost, based on the value of architects' certificates and other direct costs, incurred to 31 July. They are not depreciated until they are brought into use.

Subsequent expenditure on existing fixed assets: Where significant expenditure is incurred on buildings it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved
- Asset capacity increases
- Substantial improvement in the quality of output or reduction in operating costs
- Significant extension of the asset's life beyond that conferred by repairs and maintenance

**9. Investments**

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of cost and net realisable value.

**10. Equipment**

Equipment costing less than £1000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Upon transition to FRS102 the College has carried forward the depreciated cost arising from historic valuations.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Year ended 31 July 2016**

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:-

Plant and machinery	4%
Fixtures and fittings	10%
Computer and recording equipment	20% - 33%

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are credited to the CSCI once all relevant performance related conditions have been met.

**11. Musical instruments**

Musical instruments, except for string are depreciated at the following rates:

Pianos and organs	10%
Woodwind and brass instruments	10%
Percussion, keyboard and electronic	10%

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets.

Depreciation is not provided on string instruments since the estimated remaining useful economic life of the tangible fixed assets exceeds 50 years and any depreciation charge would be deemed immaterial. The carrying value of these assets are subject to an annual impairment review.

The Royal Northern College of Music Collection of Historical Musical Instruments (RNCM CHMI) is identified as a heritage asset. The collection is reported in the Balance Sheet at cost.

**12. Stocks**

The stocks are catering, bar and promotional items and are valued at the lower of cost and net realisable value.

**13. Maintenance of Premises**

The cost of routine corrective maintenance is charged to income and expenditure account as incurred.

**14. Taxation Status**

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Year ended 31 July 2016

### 15. Royal Northern College of Music Students' Union

The financial statements do not consolidate those of the Royal Northern College of Music Students' Union as the College has no financial interest and no control or significant influence over policy decisions. Nevertheless, the Board of Governors requires the Students' Union to submit its audited Report and Accounts for scrutiny annually and satisfies itself that a sound budget is prepared for the ensuing year, before the grant to the Union, which is disbursed proportionately on a termly basis, is released.

### 16. Deferred Income

The premium received by the College on the grant of the long lease has been deferred and is being released over a 30 year period being the period of the lease up to the first break point.

### 17. Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

### 18. Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event. It is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 19. Accounting for Associate

The College accounts for the investment in the associate using the equity method.

# Consolidated Statement of Comprehensive Income and Expenditure

## Year Ended 31 July 2016

	Notes	Year ended 31 July 2016		Year ended 31 July 2015	
		Consolidated £'000	College £'000	Consolidated £'000	College £'000
<b>Income</b>					
Tuition fees and education contracts	1	9,493	9,493	8,486	8,486
Funding body grants	2	4,496	4,485	5,171	5,155
Research grants and contracts	3	150	91	74	74
Other income	4	2,796	3,029	2,850	4,000
Investment income	5	739	6	832	4
<b>Total income before endowments and donations</b>		<b>17,674</b>	<b>17,104</b>	<b>17,413</b>	<b>17,719</b>
Donations and endowments	6	3,141	-	1,851	-
<b>Total income</b>		<b>20,815</b>	<b>17,104</b>	<b>19,264</b>	<b>17,719</b>
<b>Expenditure</b>					
Staff costs	7	10,708	10,708	9,917	9,917
Other operating expenses	9	6,383	5,031	6,689	5,042
Depreciation	10	1,103	1,103	1,137	1,137
Interest and other finance costs	8	472	472	421	421
<b>Total expenditure</b>		<b>18,666</b>	<b>17,314</b>	<b>18,164</b>	<b>16,517</b>
<b>Surplus/deficit before other gains losses and share of operating surplus of associate.</b>		<b>2,149</b>	<b>(210)</b>	<b>1,100</b>	<b>1,202</b>
Gain/(loss) on disposal of fixed assets		10	10	339	339
Gain/(loss) on investments	16/17	525	-	602	-
Share of operating surplus/(deficit) in associate	11	106	-	737	-
<b>Surplus / (Deficit) for the year</b>		<b>2,790</b>	<b>(200)</b>	<b>2,778</b>	<b>1,541</b>
Actuarial (loss) in respect of pension schemes	23	(187)	(1,328)	(3,669)	(1,068)
<b>Total comprehensive income for the year</b>		<b>2,603</b>	<b>(1,528)</b>	<b>(891)</b>	<b>473</b>
<b>Represented by:</b>					
Endowment comprehensive income for the year		1,132	-	105	-
Restricted comprehensive income for the year		25	-	(65)	-
Unrestricted comprehensive income for the year		1,576	(1,398)	(801)	603
Revaluation reserve comprehensive income for the year		(130)	(130)	(130)	(130)
		<b>2,603</b>	<b>(1,528)</b>	<b>(891)</b>	<b>473</b>

All items of income and expenditure relate to continuing activities

**Consolidated and College Statement of Changes in Reserves**  
Year ended 31 July 2016

Consolidated	Income and expenditure account			Revaluation reserve	Total
	Endowment £'000	Restricted £'000	Unrestricted £'000	£'000	£'000
Balance at 1 August 2014	18,107	97	13,576	5,054	36,834
Surplus from the income and expenditure statement	1,197	565	1,016	-	2,778
Other comprehensive income	-	-	(3,669)	-	(3,669)
Transfers between revaluation and income and expenditure reserve	-	-	130	(130)	-
Release of restricted funds spent in year	(1,092)	(630)	1,722	-	-
<b>Total comprehensive income for the year</b>	<b>105</b>	<b>(65)</b>	<b>(801)</b>	<b>(130)</b>	<b>(891)</b>
Balance at 1 August 2015	18,212	32	12,775	4,924	35,943
Surplus/(deficit) from the income and expenditure statement	2,697	122	(29)	-	2,790
Other comprehensive income	-	-	(187)	-	(187)
Transfers between revaluation and income and expenditure reserve	-	-	130	(130)	-
Release of restricted funds spent in year	(1,565)	(97)	1,662	-	-
<b>Total comprehensive income for the year</b>	<b>1,132</b>	<b>25</b>	<b>1,576</b>	<b>(130)</b>	<b>2,603</b>
<b>Balance at 31 July 2016</b>	<b>19,344</b>	<b>57</b>	<b>14,351</b>	<b>4,794</b>	<b>38,546</b>

College	Income and expenditure account			Revaluation reserve	Total
	Endowment £'000	Restricted £'000	Unrestricted £'000	£'000	£'000
Balance at 1 August 2014	-	-	10,575	5,054	15,629
Surplus from the income and expenditure statement	-	-	1,541	-	1,541
Other comprehensive income	-	-	(1,068)	-	(1,068)
Transfers between revaluation and income and expenditure reserve	-	-	130	(130)	-
Release of restricted funds spent in year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>603</b>	<b>(130)</b>	<b>473</b>
Balance at 1 August 2015	-	-	11,178	4,924	16,102
(Deficit) from the income and expenditure statement	-	-	(200)	-	(200)
Other comprehensive income	-	-	(1,328)	-	(1,328)
Transfers between revaluation and income and expenditure reserve	-	-	130	(130)	-
Release of restricted funds spent in year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(1,398)</b>	<b>(130)</b>	<b>(1,528)</b>
<b>Balance at 31 July 2016</b>	<b>-</b>	<b>-</b>	<b>9,780</b>	<b>4,794</b>	<b>14,574</b>

# Consolidated and College Balance Sheet

Year ended 31 July 2016

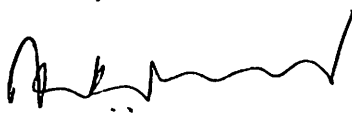
	Notes	As at 31 July 2016		As at 31 July 2015	
		Consolidated £'000	College £'000	Consolidated £'000	College £'000
<b>Non-current assets</b>					
Fixed assets	10	30,543	30,543	30,440	30,440
Investments	18	1,259	-	1,202	-
Endowment assets	16	19,344	-	18,430	-
		<u>51,146</u>	<u>30,543</u>	<u>50,072</u>	<u>30,440</u>
<b>Current assets</b>					
Stock		36	36	34	34
Trade and other receivables	12	739	690	514	469
Cash and cash equivalents	19	4,116	316	3,278	1,376
		<u>4,891</u>	<u>1,042</u>	<u>3,826</u>	<u>1,879</u>
Less: Creditors: amounts falling due within one year	13	(2,188)	(2,187)	(2,782)	(2,778)
Share of net liabilities in associate	11	(479)	-	(1,734)	-
<b>Net current assets/(liabilities)</b>		<u>2,224</u>	<u>(1,145)</u>	<u>(690)</u>	<u>(899)</u>
<b>Total assets less current liabilities</b>		<u>53,370</u>	<u>29,398</u>	<u>49,382</u>	<u>29,541</u>
Creditors: amounts falling due after more than one year	14	(4,575)	(4,575)	(4,940)	(4,940)
<b>Provisions</b>					
Pension provisions	15	(10,249)	(10,249)	(8,499)	(8,499)
<b>Total net assets</b>		<u>38,546</u>	<u>14,574</u>	<u>35,943</u>	<u>16,102</u>
<b>Restricted Reserves</b>					
Income and expenditure reserve - endowment reserve	16	19,344	-	18,212	-
Income and expenditure reserve - restricted reserve	17	57	-	32	-
<b>Unrestricted Reserves</b>					
Income and expenditure reserve - unrestricted		14,351	9,780	12,775	11,178
Revaluation reserve		4,794	4,794	4,924	4,924
		<u>38,546</u>	<u>14,574</u>	<u>35,943</u>	<u>16,102</u>

The financial statements were approved by the Governing Body on 21 November 2016 and were signed on its behalf on that date by:


Chairman of the Board of Governors, Nick Prettejohn



Chairman of the Finance Committee, Martin Vander Weyer



Principal, Linda Merrick



## Consolidated Cash Flow

### Year ended 31 July 2016

	Notes	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
<b>Cash flow from operating activities</b>			
Surplus for the year		2,790	2,778
<b>Adjustment for non-cash items</b>			
Depreciation	10	1,103	1,137
(Gain) on investments	16/17	(525)	(602)
(Increase)/decrease in stock		(2)	2
(Increase) in debtors	12	(225)	(55)
Increase/(decrease) in creditors	13/14	238	(1,128)
Increase in pension provision	15	1,563	315
Share of operating (surplus) in associate	11	(106)	(737)
<b>Adjustment for investing or financing activities</b>			
Investment income	5	(739)	(832)
Interest payable	8	194	169
Endowment income		(1,431)	(32)
Profit on the sale of fixed assets		(10)	(339)
Capital grant income		(103)	(1,254)
<b>Net cash inflow from operating activities</b>		<b>2,747</b>	<b>(578)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of fixed assets		13	487
Capital grants receipts		103	1,254
Disposal of non-current asset investments		5,112	3,681
Movement in restricted and endowment asset cash		62	(815)
Investment income		739	832
Payments made to acquire fixed assets		(1,209)	(3,498)
Investment management fee		(64)	(105)
New non-current asset investments		(5,108)	(2,430)
New deposits		(1,553)	-
		<b>(1,905)</b>	<b>(594)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(194)	(169)
Interest element of finance lease and service concession payments		(6)	(6)
Endowment cash received		1,431	32
New unsecured loans		-	1,886
Repayments of amounts borrowed		(1,202)	(119)
Capital element of finance lease and service concession payments		(33)	(33)
		<b>(4)</b>	<b>1,591</b>
<b>Increase in cash and cash equivalents in the year</b>		<b>838</b>	<b>419</b>
Cash and cash equivalents at beginning of the year	19	3,278	2,859
Cash and cash equivalents at end of the year	19	4,116	3,278

## Notes to the Accounts

### for the year ended 31 July 2016

		Year Ended 31 July 2016		Year Ended 31 July 2015	
		Consolidated	College	Consolidated	College
	Notes	£'000	£'000	£'000	£'000
<b>1 Tuition fees and education contracts</b>					
Full-time home and EU students		5,647	5,647	4,982	4,982
Full-time international students		2,908	2,908	2,599	2,599
Other fees, Junior RNCM and Young Strings		938	938	905	905
		<u>9,493</u>	<u>9,493</u>	<u>8,486</u>	<u>8,486</u>
<b>2 Funding body grants</b>					
Recurrent grant					
Higher Education Funding Council		4,393	4,382	4,209	4,193
Specific grants					
Higher Education Funding Council		-	-	270	270
Capital grant		103	103	692	692
		<u>4,496</u>	<u>4,485</u>	<u>5,171</u>	<u>5,155</u>
<b>3 Research grants and contracts</b>					
Research councils		119	60	74	74
Other		31	31	-	-
		<u>150</u>	<u>91</u>	<u>74</u>	<u>74</u>
<b>4 Other income</b>					
Residences, catering and conferences		1,126	1,126	1,045	1,045
Other capital grants		-	227	562	812
Other income		1,670	1,676	1,243	2,143
		<u>2,796</u>	<u>3,029</u>	<u>2,850</u>	<u>4,000</u>
<b>5 Investment income</b>					
Investment income on endowments	16	657	-	746	-
Investment income on restricted reserves	17	-	-	-	-
Other investment income		82	6	86	4
		<u>739</u>	<u>6</u>	<u>832</u>	<u>4</u>
<b>6 Donations and endowments</b>					
New endowments	16	1,431	-	32	-
Donations with restrictions	17	122	-	565	-
Unrestricted donations		1,588	-	1,254	-
		<u>3,141</u>	<u>0</u>	<u>1,851</u>	<u>0</u>

# Notes to the Accounts

## for the year ended 31 July 2016

	Year Ended 31 Jul 2016		Year Ended 31 July 2015	
	Consolidated £'000	College £'000	Consolidated £'000	College £'000
<b>7 Staff costs</b>				
Staff Costs :	£'000	£'000	£'000	£'000
Salaries	8,919	8,919	8,239	8,239
Social security costs	629	629	541	541
Movement on USS provision	(10)	(10)	(8)	(8)
Other pension costs	1,170	1,170	1,145	1,145
<b>Total</b>	<b>10,708</b>	<b>10,708</b>	<b>9,917</b>	<b>9,917</b>

Emoluments of the Principal:	£	£
Salary*	129	128
Benefits	2	2
<b>Sub total</b>	<b>131</b>	<b>130</b>
Pension contributions	21	18
<b>Total Emoluments</b>	<b>152</b>	<b>148</b>

\*No salary sacrifice arrangements are in place

No remuneration of other higher paid staff, excluding employer's pension contributions, exceed £100,000

Average staff numbers by major category :	No.	No.
Academic	70	69
Professional Services	150	142
	<b>220</b>	<b>211</b>

	£'000	£'000
Compensation payable recorded within staff costs	8	14

### Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College. Staff costs includes compensation paid to key management personnel.

	Year Ended 31 July 2016 £'000	Year Ended 31 July 2015 £'000
<b>Key management personnel compensation</b>	<b>339</b>	<b>333</b>

## Notes to the Accounts

### for the year ended 31 July 2016

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#### 7 Staff costs (continued)

##### Board Members

The College board members are the trustees for charitable law purposes. Due to the nature of the College's operations and the compositions of the Board, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of Board may have an interest, including those identified below, are conducted at arms length and in accordance with the College's Financial Regulations and usual procurement procedures.

##### Related Party Transactions

###### Associated Board of the Royal Schools of Music (ABRSM)

The Principal and a member of the RNCM Board of Governors are both board members of ABRSM.

The RNCM holds a 25% share in the Associated Board of the Royal Schools of Music (see note 11) and receives an annual donation (£1.197m 15/16, £1.2m 14/15).

No amounts were outstanding at 31 July 2016 and no debts were written off.

###### Conservatoires UK (CUK)

The Principal and a member of the RNCM Board of Governors are both board members of CUK.

The RNCM is a member of CUK, who represent the collective views of eleven UK conservatoires to develop best practice for training and education in the performing arts and to promote the sector's excellence nationally and globally.

The RNCM pays a membership fee of £7720 and also acts as an agent to process financial transactions on its behalf. In 2015/16 this amounted to payments totalling £56,084.

No amounts were outstanding at 31 July 2016 and no debts were written off.

###### Manchester Camerata

A member of the RNCM Board of Governors is a board members of Manchester Camerata.

Manchester Camerata are an orchestra and registered charity who work in three specialist areas - schools, health and wellbeing, and youth programmes. They are an official RNCM partner and are based within the RNCM hence the transactions in 2015/16, amounting to £58,588, related to rental of office space and associated facilities.

No amounts were outstanding at 31 July 2016 and no debts were written off.

##### Board Members

No board member has received any remuneration/waived payments from the group during the year (2015 - none)

The total expenses paid to or on behalf of 19 board members was £6302 (2015 - £5448 to 20 board members). This represents travel and subsistence expenses incurred in attending Board and Committee meetings in their official capacity.

**Notes to the Accounts**  
for the year ended 31 July 2016

	Notes	Year Ended 31 July 2016		Year Ended 31 July 2015	
		Consolidated £'000	College £'000	Consolidated £'000	College £'000
<b>8 Interest and other finance costs</b>					
Loan interest		194	194	169	169
Net charge on pension scheme	23	278	278	252	252
		<u>472</u>	<u>472</u>	<u>421</u>	<u>421</u>
<b>9 Other operating expenses</b>					
Academic and related expenditure		1,466	1,420	2,296	1,588
Administration and central services		1,295	1,288	561	917
Premises (including service concession cost)		1,136	1,136	1,168	1,168
Residences, catering and conferences		481	481	478	478
Scholarships and Bursaries		1,299	-	1,295	-
Concerts, Promotions and Performances		706	706	891	891
		<u>6,383</u>	<u>5,031</u>	<u>6,689</u>	<u>5,042</u>
Other operating expenses include:					
External auditors remuneration in respect of audit services		32	25	29	24
External auditors remuneration in respect of non-audit services		191	191	-	-
- non audit services was assistance with a reclaim of VAT on the concert hall refurbishment on a contingent fee basis (25%), total reimbursement to the college was £630k					
Operating lease rentals					
Pianos		253		235	
Other		13		14	
		<u>266</u>		<u>249</u>	
<b>10 Fixed Assets</b>					
	Total	Land and Buildings	Fixtures, Fittings and Equipment	Musical Instruments	Computer and Recording Equip
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 August 2015	46,685	32,320	7,759	3,651	2,955
Additions	1,209	-	697	401	111
Disposals	(7)	-	-	(7)	-
At 31 July 2016	<u>47,887</u>	<u>32,320</u>	<u>8,456</u>	<u>4,045</u>	<u>3,066</u>
<b>Depreciation</b>					
At 1 August 2015	16,245	7,838	4,110	1,384	2,913
Charge for the year	1,103	644	370	29	60
Disposals	(4)	-	-	(4)	-
At 31 July 2016	<u>17,344</u>	<u>8,482</u>	<u>4,480</u>	<u>1,409</u>	<u>2,973</u>
<b>Net book value</b>					
At 31 July 2016	<u>30,543</u>	<u>23,838</u>	<u>3,976</u>	<u>2,636</u>	<u>93</u>
At 31 July 2015	<u>30,440</u>	<u>24,482</u>	<u>3,649</u>	<u>2,267</u>	<u>42</u>

Included in Land and Buildings is land amounting to £1,025,000 which is not depreciated and which includes land amounting to £225,000 leased to Student Investments (RNCM) Limited. Included within Musical Instruments are string instruments amounting to £2,222,574 and the RNCM Collection of Historical Instruments (RNCM CHMI) amounting to £290,925 which are not depreciated.

The exchequer interest in fixed assets is £3,702,604. Should these assets be sold, the College may be required, under the terms of the Memorandum of Assurance and Accountability with HEFCE, to surrender the proceeds.

## Notes to the Accounts

### for the year ended 31 July 2016

#### 11 Investment in associates

The College, through the Endowment Fund, holds a 25% share in the Associated Board of the Royal Schools of Music (ABRSM).

The ABRSM is a registered charity, number 292182, and a company limited by guarantee, registered number 1926395, established by the four Royal School's of Music for the benefit of music education. The ABRSM has no share capital and the liability of the members in the event of winding up is limited to £1 per member. In the event of a winding up, the ABRSM's constitution requires its board to consider, in the first instance, the transfer of surplus assets to any charitable body that is equipped to carry on the work of the ABRSM.

The ABRSM is an international examining body that offers a system of graded music examination in 80 countries around the world. The company is also a provider of professional development for instrumental and singing teachers. A subsidiary of ABRSM is engaged in the production and sale of music publications.

In the financial statements of the Endowment Fund the interest in the ABRSM is carried at cost. In the consolidated figures the interest in the ABRSM is represented by the Group's share of the net assets / (liabilities) of the ABRSM as at 31 January 2016.

The Group's share of the results of its associate (ABRSM) as at 31 January 2016 are set out below:

	2016 £'000	2015 £'000
Total income	11,034	11,112
Operating Surplus	245	770
Prior year adjustment	(139)	(33)
	106	737
Fixed assets	415	407
Current assets	6,355	6,060
Liabilities due within one year	(2,454)	(2,406)
Liabilities due after more than one year	-	(370)
Provisions	(829)	(167)
Sub total	3,487	3,524
Net pension liability	(3,966)	(5,258)
	(479)	(1,734)

## Notes to the Accounts for the year ended 31 July 2016

### 12 Trade and other receivables

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	College	Consolidated	College
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Other trade receivables	435	386	230	185
Prepayments and accrued income	304	304	284	284
	<u>739</u>	<u>690</u>	<u>514</u>	<u>469</u>

### 13 Creditors : amounts falling due within one year

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	College	Consolidated	College
	£'000	£'000	£'000	£'000
Unsecured loans	231	231	1,213	1,213
Obligations under finance leases	33	33	33	33
Creditors	1,422	1,421	1,079	1,075
Social security and other taxation payable	112	112	87	87
Accruals and deferred income	390	390	370	370
	<u>2,188</u>	<u>2,187</u>	<u>2,782</u>	<u>2,778</u>

### 14 Creditors : amounts falling due after more than one year

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	College	Consolidated	College
	£'000	£'000	£'000	£'000
Deferred income	1,034	1,034	1,108	1,108
Deferred creditor (RGF)	38	38	76	76
Obligations under finance lease	-	-	33	33
Unsecured loans	3,503	3,503	3,723	3,723
	<u>4,575</u>	<u>4,575</u>	<u>4,940</u>	<u>4,940</u>

#### Analysis of secured and unsecured loans:

Due within one year or on demand (Note 13)	231	231	1,213	1,213
Due between one and two years	239	239	230	230
Due between two and five years	767	767	740	740
Due in five years or more	<u>2,497</u>	<u>2,497</u>	<u>2,757</u>	<u>2,757</u>
Due after more than one year	3,503	3,503	3,727	3,727
Total secured and unsecured loans	<u>3,734</u>	<u>3,734</u>	<u>4,940</u>	<u>4,940</u>

### 15 Provisions for liabilities

Consolidated	Obligation to fund deficit on USS Pension £'000	Pension enhancements on termination £'000	Defined Benefit Obligations (Note 23) £'000	Total Pensions Provisions £'000
At 1 August 2015	(71)	(805)	(7,623)	(8,499)
Utilised in year	10	58	2,068	2,136
Interest Charge	(2)	(28)	(954)	(984)
Actuarial loss	-	(11)	(2,891)	(2,902)
At 31 July 2016	<u>(63)</u>	<u>(786)</u>	<u>(9,400)</u>	<u>(10,249)</u>

#### Pension enhancement

The assumptions for calculating the provision for pension enhancements on termination under FRS 102, are as follows:

Discount rate	2.3%
Inflation	<u>1.3%</u>

#### USS deficit

The obligation to fund the past deficit on the University's Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision.

# Notes to the Accounts

## for the year ended 31 July 2016

### 16 Endowment Reserves

Restricted net assets relating to endowments are as follows:

	Restricted permanent endowments	Expendable endowments	2016 Total	2015 Total
	£'000	£'000	£'000	£'000
<b>Balances at 1 August 2015</b>				
Capital	14,015	3,034	17,049	16,550
Accumulated income	132	1,031	1,163	1,370
	<u>14,147</u>	<u>4,065</u>	<u>18,212</u>	<u>17,920</u>
 New endowments	423	1,088	1,511	2
Investment income	8	653	661	780
Expenditure	17	(1,582)	(1,565)	(1,092)
Increase in market value of investments	219	306	525	602
<b>Total endowment comprehensive income for the year</b>	<u>667</u>	<u>465</u>	<u>1,132</u>	<u>292</u>
 <b>At 31 July 2016</b>	<u>14,814</u>	<u>4,530</u>	<u>19,344</u>	<u>18,212</u>
 <b>Represented by:</b>				
Capital	14,657	4,428	19,085	17,017
Accumulated income	157	102	259	1,195
	<u>14,814</u>	<u>4,530</u>	<u>19,344</u>	<u>18,212</u>
 <b>Analysis by type of purpose:</b>				
Scholarships and bursaries			15,241	14,145
General			4,103	4,067
			<u>19,344</u>	<u>18,212</u>
 <b>Analysis by asset:</b>				
Current and non-current asset investments			16,818	16,362
Cash & cash equivalents			2,526	1,850
			<u>19,344</u>	<u>18,212</u>

### Deficit balances

The accumulated income relating to the following permanent endowments is currently in deficit. In both cases income to cover these deficits is expected to be received by 31 July 2017

<b>Balances at 31 July 2016:</b>	<b>Capital</b>	<b>Income</b>
	£	£
AHRC	-	18,883
Waverley	-	46,595
Various small endowments	-	75,367
	<u>-</u>	<u>121,962</u>

Various relates to a number of smaller funds with an original value of less than £15,000

# Notes to the Accounts

## for the year ended 31 July 2016

### 17 Restricted Reserves

Reserves with restrictions are as follows:

	Donations £'000	2016 Total £'000	2015 Total £'000
Balances at 1 August 2015	32	32	97
New donations	122	122	565
Expenditure	(97)	(97)	(630)
Total restricted comprehensive income for the year	25	25	(65)
At 31 July 2016	57	57	32

### Analysis of other restricted funds /donations by type of purpose:

	2016 Total £'000	2015 Total £'000
Scholarships and bursaries	29	-
General	28	32
	57	32

### 18 Investments

	2016 Total £'000	2015 Total £'000
At 1 August 2015	1,202	1,145
Gains in market value of investments	57	57
At 31 July 2016	1,259	1,202

### 19 Cash and cash equivalents

	At 1st August 2,015 £'000	Cash Flows £'000	At 31st July 2,016 £'000
Consolidated	3,278	838	4,116
Cash and cash equivalents	3,278	838	4,116

## Notes to the Accounts

### for the year ended 31 July 2016

#### 20 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2016

	31 July 2016		31 July 2015	
	Consolidated £'000	College £'000	Consolidated £'000	College £'000
Commitments contracted for	85	85	13	13
	<u>85</u>	<u>85</u>	<u>13</u>	<u>13</u>

#### 21 Lease obligations

Total rentals payable under operating leases:

	31 July 2016		Total £'000
	Pianos £'000	Other leases £'000	
Payable during the year	253	13	266
Future minimum lease payments due:			
Not later than 1 year	250	10	260
Later than 1 year and not later than 5 years	729	-	729
Later than 5 years	-	-	-
Total lease payments due	<u>979</u>	<u>10</u>	<u>989</u>

#### 22 Events after the reporting period

There are no events between the end of the reporting period and the date when the financial statements are authorised for issue.

The financial statements are authorised for issue on 21 November 2016 by The Board of Governors

## Notes to the Accounts

### for the year ended 31 July 2016

#### 23 Pension Schemes

The College's employees belong to three principal pension schemes, the Teachers' Pension Scheme, the Universities Superannuation Scheme and the Greater Manchester Pension Fund.

##### Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972.

The pension cost is assessed every five years in accordance with advice from the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31-Mar-12
Actuarial method	Prospective benefits
Investment returns per annum	8.4% per annum
Pension increases per annum	2.0% per annum
Salary scale increases per annum	4.75% per annum
Market value of assets at date of last valuation	£176,600 million

Proportion of members' accrued benefits covered by the actuarial value of the assets 98.88%.  
This is the accrued funding level (prospective funding level for total service is 94%).

Following implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000 the government actuary carried out a further review on the level of employers' contributions. Employer contribution rates were set at 16.48% of pensionable salaries. The total contribution made for the year ended 31 July 2016 was £670,934 of which employers contributions totalled £487,849 and employees contributions totalled £183,084. An appropriate SSAP 24 provision in respect of unfunded pensioners' benefits is included in provisions.

##### Universities Superannuation Scheme

The college participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest available triennial actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future

Liability numbers have been produced for the using the following assumptions:

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Price inflation (CPI)	2.2%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous

Male members' mortality 98% of S1NA ["light"] YoB tables – No age rating

Female members' mortality 99% of S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7
<b>Existing benefits</b>	<b>2016</b>	<b>2015</b>
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

The total pension contributions for the College was £36,572 of which employers contributions totalled £25,054 and employees contributions totalled £11,518. The contribution rate payable by the College was 18 % of pensionable salaries.

## Notes to the Accounts

### for the year ended 31 July 2016

#### 23 Pension Schemes (continued)

##### Greater Manchester Pension Fund

The Greater Manchester Pension Fund (GMPF) is a defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2016 was £897,999 of which employers contributions totalled £657,217 and employees contributions totalled £240,783. The agreed contribution rate was 18.1% (18.9% from April 2016) of pensionable salaries.

The pension cost is assessed every three years in accordance with the advice of a qualified independent actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31-Mar-13
Actuarial method	Projected Unit
Investment returns per annum	4.8% per annum
Pension increases per annum	2.5% per annum
Salary scale increases per annum	3.55% per annum
Market value of assets at date of last valuation	£ 12,590million

Proportion of members' accrued benefits covered by the actuarial value of the assets 96.4%.

The following information is based upon a full actuarial valuation of the Fund at 31 March 2010 updated to 31 July 2013 by a qualified independent actuary.

	31 July 2016	31 July 2015
Inflation	1.90%	2.60%
Rate of increase in salaries	3.20%	3.80%
Discount rate for liabilities	2.40%	3.60%

Default assumption for salary growth is that set for the most recent actuarial valuation for the fund.

Allowing for index returns, the estimated split of assets as at 31 July 16 is shown below :

	Value at 31 July 2016		Value at 31 July 2015	
	£'000		£'000	
Equities	73.0%	13,836	71.0%	13,298
Bonds	17.0%	3,222	18.0%	3,371
Property	5.0%	948	7.0%	1,312
Cash	5.0%	948	4.0%	749
		<u>18,954</u>		<u>18,730</u>

	Year Ended July 2016		Year Ended July 2015	
	£'000		£'000	
College's estimated asset share	21,110		18,730	
Present value of scheme liabilities	(30,321)		(26,150)	
Present value of unfunded liabilities	<u>(189)</u>		<u>(203)</u>	

Deficit in the Scheme	<u>(9,400)</u>	<u>(7,623)</u>
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	Year Ended July 2016		Year Ended July 2015	
	£'000		£'000	
Analysis of the amount charged in the income and expenditure account				
Current service cost	852		729	
Past service cost	-		4	
Curtailment and settlements	<u>-</u>		<u>3</u>	
Total operating charge	<u>852</u>		<u>736</u>	

##### Analysis of net interest on pension scheme

Expected return on pension scheme assets	677	700
Interest on pension scheme liabilities	<u>(954)</u>	<u>(950)</u>
Net interest	<u>(277)</u>	<u>(250)</u>

##### Amount recognised in the statement of comprehensive income

Actuarial gain / (losses) on pension scheme assets	1,574	502
Experience gains and losses arising on the scheme liabilities	314	172
Change in financial and demographic assumptions underlying the scheme liabilities	<u>(3,205)</u>	<u>(1,718)</u>
Actuarial gain / (loss)	<u>(1,317)</u>	<u>(1,044)</u>

##### Movement in deficit during the year

(Deficit) in scheme at 1 August 15	(7,623)	(6,180)
Movement in year:		
Current service charge	(852)	(729)
Contributions	657	574
Contributions in respect of unfunded benefits	12	13
Past service costs	-	(4)
Impact of settlements and curtailments	-	(3)
Net interest / return on assets	(277)	(250)
Actuarial gain / (loss)	<u>(1,317)</u>	<u>(1,044)</u>
Deficit in scheme at 31 July 16	<u>(9,400)</u>	<u>(7,623)</u>

## Notes to the Accounts for the year ended 31 July 2016

### 23 Pension Schemes (continued)

#### History of experience gains and losses

	Year Ended Jul-16 £'000	Year Ended July 2015 £'000	Year Ended July 2014 £'000	Year Ended July 2013 £'000	Year Ended July 2012 £'000
Difference between the expected and actual return on assets	1574	181	15	2079	-468
Value of assets	21110	18730	17483	16363	13479
% of scheme assets	7.5%	0.97%	0.09%	12.71%	-3.47%
Experience gains / (losses)					
on liabilities	314	172	-700	-2	-218
Present value of liabilities	30510	26353	23663	20179	18739
% of scheme liabilities	1.03%	0.65%	-2.96%	-0.01%	-1.16%
Amount recognised in the statement of comprehensive income	-1317	-1365	-2255	1761	-2626
Present value of liabilities	30510	26353	23663	20179	18739
% of scheme liabilities	-4.32%	-5.18%	-9.53%	8.73%	-14.01%

Changes to the fund permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the retirement benefit liabilities as at 31 July 2006 does not include any allowance for this change to the pension scheme.

In calculating the fund assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future. These assumptions represent the best estimate of expected outcomes but it is possible that actual outcomes will differ from those included in the accounts. Any

Pension Charge (see note 7)	2016 £	2015 £	2014 £	2013 £
TPS ERS cash contributions	487,849	373,465	358,051	298,492
USS ERS cash contributions	25,053	25,221	32,609	30,128
GMPP charged to I&E	657,217	572,842	516,075	494,047
Enhanced pension charge (note 14)	27,935	32,995	34,772	35,356
Net adjustment relating to retirement benefits	183,000	149,000	128,000	179,000
	<u>1,381,054</u>	<u>1,153,523</u>	<u>1,069,507</u>	<u>1,037,023</u>

An amount of £784,902 (2015 £804,230) is included in provisions for liabilities and charges representing the extent to which the capital cost charged exceeds actual payments made. The provision will be released against the cost to the College of enhanced pension entitlements over the estimated life expectancy of each relevant retired employee.

Where the institution closes and there is no successor establishment, the Secretary of State becomes the compensation authority.

#### Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2016:	Approximate % increase	Approximate monetary
0.5% decrease in Real Discount Rate	11%	3436
1 year increase in member life expectancy	3%	915
0.5% increase in the Salary Increase Rate	3%	984
0.5% increase in the Pension Increase Rate	8%	2378

#### Notes:

In order to quantify the impact of a change in the financial assumptions used, we have calculated and compared the value of the scheme liabilities as at 31 July 2016 on varying bases. The approach taken is consistent with that adopted to derive the

To quantify the uncertainty around life expectancy, we have calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the

Please note the above figures have been derived based on the membership profile of the Employer as at the date of the most

For further details on the method and assumptions used please refer to the accompanying report 'Actuarial Valuation as at 31 July 2016 for Accounting Purposes.

The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

## Notes to the Accounts

### for the year ended 31 July 2016

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#### 24 Accounting estimates and judgements

This is the first year of producing accounts in accordance with the Statement of Recommended Practice (SORP): Accounting for further and Higher Education (2015). The reader's attention is drawn to the accounting policy notes and in particular income recognition.

The following accounting judgements are considered critical in applying the College's accounting policies:

##### Accounting for retirement benefits

A number of the College's employees are members of the Greater Manchester Local Government Pension Scheme (LGPS). It is possible to identify the College's share of the assets and liabilities within this scheme, therefore the net defined benefit pension liability is recognised within these accounts. Details of the College's share of the net deficit within the LGPS is shown in note 23. The calculation of this net liability is based upon an estimation by the scheme's actuary, Mercer, of the future pension costs and returns on scheme assets, which must then be discounted to the present value using an appropriate discount rate. The various actuarial assumptions adopted by the scheme actuary have a material effect on the value of the net liability recognised in the College's financial statements, insofar as this value is highly sensitive to small changes in the discount rate, inflation and other assumptions. The assumptions adopted therefore represent an area of significant estimation uncertainty within the College's accounts. The Board of Governors is satisfied that the assumptions adopted by the scheme actuary are reasonable.

FRS 102 makes the distinction between a Group Plan and a multi-employer scheme. A Group Plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme, such as that provided by USS. In the case of USS, it is not possible to identify the assets and liabilities associated with the College's members due to the mutual nature of the scheme, and this scheme is therefore accounted for as a defined contribution retirement scheme.

The accounting for a multi-employer scheme, where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit, results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense is recognised in profit or loss. The Board of Governors is satisfied that the scheme provided by USS meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements. Details of this liability are disclosed in note 23.

##### Annual Leave Accrual

Under FRS102 a liability for outstanding leave entitlement at the year end has been introduced. Professional services staff keep leave cards provided by Human Resources, these are checked at year end and the liability calculated from the information gathered. Academic staff do not have leave cards and so a reasonable estimate based on their entitlement and the academic calendar has been used to calculate the liability.

##### Bad Debt Provision

Bad debt provision is calculated based upon an estimation of the total aged debtors at the year end (5%). A thorough analysis and review of the aged debtors is also performed to identify any individual doubtful debts. The total of both is used as the provision.

# Notes to the Accounts

## for the year ended 31 July 2016

### 25 Connected charitable Institutions

A number of charitable institutions are administered by the College and have been established for its general or special purposes. All the connected institutions are included as a subsidiary undertaking in these consolidated financial statements

The RNCM Finance Committee acts as the trustee of each charity.

The movements in the year on the total funds of all connected institutions, as reported in their own accounts, were as follows:

	RNCM Awards Fund	RNCM Endowment Fund	RNCM Annie Ridyard Scholarship	RNCM Eva Turner Scholarship
Income	2,014,076	1,936,577	2,496	2,449
Expenditure	1,249,466	405,543	4,345	4,355
Surplus/(Deficit) for the year	764,610	1,531,034	(1,849)	(1,906)
Assets	14,701,343	11,599,646	287,630	269,602
Liabilities	8,063	115,253	4,345	5,320
Net	14,693,280	11,484,393	283,285	264,282

The objectives of the RNCM Awards Fund is to apply its income to the education of students of the RNCM by the award of prizes, scholarships, exhibitions, grants for travel or for the purchase of musical instruments, maintenance allowances or other similar benefits.

The objectives of the RNCM Endowment Fund is to apply its income in such ways as the trustee considers fit for the general purposes of the RNCM and the Junior School at the RNCM and in the advancement of the education of its students and former students.

The objective of the Annie Ridyard Scholarship is to apply its income to provide scholarships for mezzo sopranos of British nationality who are students at the RNCM, subject to certain rules set out in the will of the late Dame Eva Turner.

The objective of the Eva Turner Scholarship is to apply its income to provide scholarships for dramatic sopranos of British nationality who are students at the RNCM, subject to certain rules set out in the will of the late Dame Eva Turner.

## Notes to the Accounts for the year ended 31 July 2016

### 26 Transition to FRS102 and the 2015 SORP

The financial statements of the College for the year ended 31 July 2016 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 2016, the comparative information presented in these financial statements for the year ended 2016 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 August 2015. In preparing its FRS102, SORP based Statement of Financial Position, the College has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP). An explanation of how the transition to FRS 102 and the SORP has affected the College's financial position and financial performance is set out in the following tables.

Financial position	01 August 2014		31 July 2015	
	Consolidated £'000	College £'000	Consolidated £'000	College £'000
<b>Total reserves under 2007 SORP</b>	36,983	15,778	36,160	16,319
USS pension provision	(77)	(77)	(71)	(71)
Employee leave accrual	(72)	(72)	(146)	(146)
<b>Total effect of transition to FRS 102</b>	<b>(149)</b>	<b>(149)</b>	<b>(217)</b>	<b>(217)</b>
<b>Total reserves under 2015 SORP</b>	<b>36,834</b>	<b>15,629</b>	<b>35,943</b>	<b>16,102</b>

Financial performance	Year ended 31 July 2015	
	Consolidated £'000	College £'000
<b>Surplus for the year under 2007 SORP</b>	1,953	597
USS pension provision	6	6
Capital Grant income	891	1,012
Employee leave accrual	(74)	(74)
Actuarial loss in respect of pension scheme	(3,669)	(1,068)
Endowments received	2	-
<b>Total effect of transition to FRS 102</b>	<b>(2,844)</b>	<b>(124)</b>
<b>Total comprehensive income for the year under 2015 SORP</b>	<b>(891)</b>	<b>473</b>

#### USS

Under FRS102 a deficit recovery plan has been recognised for the USS pension scheme. The initial liability has been charged to the income statement and then is recorded as a liability on the balance sheet, this is then unwound over time until the liability has been discharged.

#### Capital grant income

Under FRS102 capital grants are no longer deferred and, under the performance model, the income is recognised once the conditions of the grant have been met.

#### Employee leave accrual

Under FRS102 a liability for outstanding employee leave as at 31 July has been provided for.

#### Actuarial loss in respect of pension scheme

Under the 2007 SORP actuarial losses in the pension scheme were recognised in the STRGL (Statement of Recognised Gains and Losses) and not in the income statement.

Under FRS102 actuarial losses are recognised on the Statement of Comprehensive Income.

#### Endowments received

Under the 2007 SORP new endowments received were recognised in the STRGL (Statement of Recognised Gains and Losses) and not in the income statement.

Under FRS102 new endowments are recognised on the Statement of Comprehensive Income.