



Royal College of Art

Postgraduate Art and Design

Treasury Management Policy

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1. Scope of the Policy

1.1. Purpose of this policy

The Treasury Management Policy (TMP) forms part of the Financial Regulations of The Royal College of Art (College). It covers the College and all its subsidiary undertakings. The purpose of this policy is to ensure that all treasury management, including management of investments, are undertaken within clear parameters to manage the risks inherent within these activities.

1.2. What is covered by this policy?

This policy sets out:

- how the College conducts treasury management and investment activities
- the internal thresholds for managing risk

The College regards the successful identification, monitoring and control of risk as an important element in measuring the effectiveness of its treasury management activities. The overriding principle guiding the investment of funds is to achieve a satisfactory return while managing risk within parameters acceptable to the Planning and Resources Committee.

The College acknowledges that effective treasury management will provide support towards the achievement of its strategic and operational objectives. It is committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

1.3. Who is covered by the policy

All staff, contractors and suppliers to the College must comply with the Policy.

1.4. Policy ownership and Treasury Management responsibilities

Policy ownership

The College's Planning and Resources Committee (PRC) has delegated authority from Council to approve and monitor this policy. The Investment Subcommittee keeps the Policy under regular review and makes recommendations to PRC.

The Chief Financial Officer is the officer responsible for the Policy. Any questions about the operation of this policy or any concerns that the Policy has not been followed should be referred to the Chief Financial Officer or Deputy Director of Finance, Operations, Accounting and Control.

The Finance Department administers the policy on behalf of the Planning & Resources Committee, including ensuring the cash management criteria are adhered to.

Treasury Management responsibilities

The following table lays out the committee responsibilities in relation to Treasury Management, including Borrowing/ Loans and Investment Management:

Responsible Committee	Delegation	Responsibility
Council	Planning and Resources Committee	Determines the RCA's treasury rules, which are outlined in the Treasury Management Policy and Financial Regulations.
		Recommend the appointment of bankers and other professional financial advisers (such as Investment Managers) to Council.
	No Delegation	Approve substantive changes to the Financial Regulations, including delegated authorities
		Authorise any loans from Third Parties, including Subsidiary Companies. Appointment of bankers and other professional financial advisers (such as Investment Managers)
Planning & Resources Committee	Investment Subcommittee	Annual review, evaluation and monitoring of the Responsible Investment Policy. Biennial review and evaluation of the Treasury Management Policy. Recommend amendments to PRC for approval.
		Recommend appointment of investment managers to PRC & Council.
		Agreeing Investment Strategy, including risk appetite, monitoring investment assets and monitoring performance of investment managers.
	No Delegation	Review cash flow as part of quarterly management accounts, budget setting and five year financial plan.
		Monitor use of Revolving Credit Facility (RCF) and loan covenant compliance.
		Authorise amendments to the Responsible Investment Policy & Treasury Management Policy, including changes to the structure of the Bank Mandate. See Appendix A – Bank Mandates.

The Chief Financial Officer is responsible for the College's Banking Arrangements, including opening and closing Bank Accounts, and making recommendations regarding the structure of the Bank Mandate.

1.5. Related Policies and Procedures

This Policy is implemented and supported by the following policies and procedures:

- Financial Regulations
- Responsible Investment Policy
- Anti-Money Laundering Policy and Procedures and associated training
- Anti-Bribery Policy
- Counter-Fraud Policy and Fraud Response Plan

1.6. Breach of this policy

Any breach of this Policy and its associated procedures by staff will be reported to the Audit & Risk Committee (A&RC) and investigated in accordance with the College's disciplinary procedure. A serious breach may amount to gross misconduct and could therefore result in summary dismissal.

2. The Policy Statement

2.1. Guiding principles

The College's treasury management and investments should match the priorities and values of the College. Further details of the College's approach for investing its endowment funds can be found in the College's [Responsible Investment Policy](#).

The College follows the key recommendations of The Chartered Institute of Public Finance & Accountancy (CIPFA's) Treasury Management in the Public services code (the Code) and has considered the twelve Treasury Management Practices accordingly:

- Risk management
- Performance measurement
- Decision-making and analysis
- Approved instruments, methods and techniques
- Organisation, clarity and segregation of responsibilities and dealing arrangements
- Reporting requirements and management information arrangements
- Budgeting, accounting and audit arrangements
- Cash and cash flow management
- Money laundering
- Training and qualifications
- Use of external service providers
- Corporate governance

These are covered in more detail in the following sections.

2.2. Definitions

General funds. Surplus cash arising from the operational and financing activities of the College, usually short to medium term in nature and managed to ensure that

working capital requirements are met, funding is available to fund the College's capital investment plan.

Unrestricted Donations. Charitable donations received by the College, usually for use within twelve months of receipt e.g. Capital donations. For the purposes of this Policy, donations are treated in the same way as cash.

Specific Donations and Grants. Funds received by the College to be spent against a specific purpose or purposes but where the cash received will be consumed in prescribed spend. For cash management purposes these funds will be treated in the same way as cash, but the required spend will be identified and taken into account when determining the necessary level of cash on hand e.g. Funds linked to Research grants and contracts.

Endowment investments. Funds held and managed in trust for longer than twelve months in accordance with any specified restrictions in use and/or in the preservation of capital, or otherwise, determined by donors.

3. **Risk Management**

The College's risk appetite has been assessed as "low" for treasury management purposes. The College will apply the Security, Liquidity, Yield (SLY) principles as its underlying operational attitude. Where Security of funds takes priority, Liquidity a secondary priority and Yield a third priority.

This is separate from the risk appetite against the College's endowments. The investment risk for each of the College's Endowment Funds is reviewed regularly by the Investment Subcommittee. Fund performance will be reviewed multiple times each year and the risk appetite fully reviewed every three years. The current risk for each fund can be found in Appendix B.

3.1. **Credit and Counterparty Risk Management (Security)**

The College's cash balances should be deposited with institutions that have been approved for use by the College's governing body (Council) and which are also considered to be an "Acceptable Bank", as defined by the College's facility agreement with HSBC:

- "A bank or financial institution which has a rating for its long-term unsecured and non-credit enhanced debt obligations of A or higher by Standard & Poor's Rating Service or Fitch Ratings Ltd or A2 or higher by Moody's Investors Service Limited or a comparable rating from an internationally recognised credit rating agency
- National Westminster Bank PLC, or
- Any other bank or financial institution approved by the Lender".

The College will hold a maximum of £25m of cash with any one counterparty. This means that during periods of peak cash holdings, funds will be split between at least two acceptable banks to reduce the risk of loss if a bank were to become insolvent.

Council is responsible for appointing the College's Bankers and other professional financial advisers (such as Investment Managers) on the recommendation of the Planning and Resources Committee. Further details regarding the management of bank accounts, including the structure and approval process for changes to Bank Mandates and signatory lists can be found in this document at Appendix A – Bank Mandates.

The banks with whom the College currently deposits money are:

- National Westminster Bank Plc
- HSBC UK Bank Plc

3.2. Liquidity Risk Management

The College ensures that it has adequate cash resources, borrowing arrangements or standby facilities, to enable it to at all times have the level of funds available for the achievement of its business operations.

The Office for Students (OfS) does not impose a requirement to hold a certain number of cash days. However, it is an OfS requirement that providers submit a reportable event if they are expecting their liquidity to drop below 30 days average expenditure, unless this is the normal cash management policy, or it is mitigated through an agreed revolving credit facility, overdraft or other financing.

The College has access to a £45m general purpose Revolving Credit Facility (RCF), where funds can be received the same day. This satisfies the OfS requirement and means the College can hold less than 30 liquidity days worth of cash.

The College's policy is to hold a minimum of 14 liquidity days of cash (2 weeks), which is expected to be equivalent to c. £4m. This level of cash is considered to be more than adequate whilst:

- The College has immediate or same day access to cash from its RCF.
- The College maintains a detailed cash flow that provides the information needed to monitor and manage the cash cycle.

This approach to managing cash aims to minimise the amount of debt funded cash held and, during periods when the College has excess cash, maximise the amount that can be placed on deposit. This should minimise interest payable and maximise interest receivable.

The Deputy Director of Finance, Operations, Accounting and Control is responsible for ensuring a detailed cash flow is maintained and appropriate levels of cash retained.

3.3. Interest Rate Risk Management

The College will manage its exposure to fluctuations in interest rates with a view to containing its interest costs. It will achieve this by the prudent use of its approved

financing. Whilst stability and certainty of costs will be prioritised, the College will aim to retain some flexibility to take advantage of unexpected and potentially advantageous changes to the interest rate environment.

The Chief Financial Officer is responsible for monitoring, reporting and recommending the College's interest rate exposure strategy to the Planning and Resources Committee, and for ensuring that the effect of possible fluctuating interest rates has been incorporated into its annual budgets and cash flow forecasts.

3.4. Exchange Rate Risk Management

The College will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on the College's income and expenditure statement.

The College aims to conduct all transactions in UK Sterling (GBP) as its base currency. However, there will be exceptions which include research contracts, whereby the College will need to conduct transactions in other currencies.

No material contractual obligations can be entered into which involve foreign currencies without the prior permission of the Chief Financial Officer or Deputy Director of Finance, Operations, Accounting & Control.

An obligation is considered to be material if one or more of the following apply:

- For a one-off transaction, a sterling equivalent transaction value of £50,000;
- For a term contract, a sterling equivalent value over its full term (or, in the case of a 'rolling' contract, over four years) of £100,000; or
- Of any value, where the subject matter of the contract is considered operationally critical or where the supplier is considered to be of higher risk (as assessed through CreditSafe or an alternative credit score provider).

The College only operates a bank account in GBP. Foreign currency transactions will not be entered into on a speculative basis.

3.5. Inflation Risk

The Chief Financial Officer will be responsible for ensuring that the impact of inflation is taken into account when preparing the College's annual budget and cash flow forecast.

3.6. Borrowing and Refinancing Risk Management

The College will ensure that its borrowing is appropriately negotiated, structured, documented and approved by Council.

Where the College is seeking to enter new funding arrangements it will consider the following (the list is not exhaustive):

- Risk appetite, which is cautious in relation to financial sustainability.

- Financial covenants and security arrangements related to the funding.
- The use of funds and repayment profile of the loan(s) compared to the expected useful economic life of the asset or venture being financed.
- Ability to repay under different scenarios.
- Reputational risk, if any, related to the type of lender. This may be relevant in relation to the lender's ESG credentials.
- The Terms and Conditions of Funding from the Office for Students

3.7. Legal and Regulatory Risk Management

The College will ensure that all of its treasury management activities comply with its statutory powers including the Finance Regulations and other regulatory powers.

The College further recognises that future legislative or regulatory changes may impact its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

3.8. Fraud, Error and Corruption, and Contingency Management

The College will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error or corruption or other eventualities in its treasury management dealings. It will employ suitable systems and procedures and will maintain effective contingency management arrangements.

It will keep a full analysis and records of the processes pursued in making treasury decisions, and in executing transactions, to enable the organisation to create a successful audit trail, and to allow it to assess the need for contingency arrangements.

The College has separate policies for [Counter Fraud](#), [Anti-Money Laundering](#) and [Anti-Bribery](#).

3.9. Market Risk Management

The College will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations.

4. Responsible investment and banking

The Responsible Investment Policy defines the College's commitment to responsible investment. Its purpose is to detail the approach that the College aims to follow in considering environmental, social and governance ('ESG') issues with regards to its investments.

The Policy applies to the full scope of the investments held by the College and is intended to be entirely consistent with the College's duty to yield the best financial return within the level of risk considered to be acceptable by the College. This applies to the full scope of services provided by banking institutions, including deposit

facilities, money market funds, loan facilities and payment processing and chip and pin services.

The College will only engage with banking suppliers who:

- Have a credible ESG and Sustainability Plan
- Are willing to engage with the College in a constructive dialogue on these matters and who are working towards a position where they would fully comply with the College's Responsible Investment Policy.

Where an opportunity exists the College will look to make use of Sustainable financing options.

5. Value for money and performance

The College is committed to the pursuit of value for money in its treasury management activities. In assessing the value added by the providers of external services, account will be taken of all relevant factors, including the cost, quality, reliability and scope of service to be provided.

5.1. General Funds

General funds will be managed proactively to seek the best overall return to the College at the lowest available risk whilst ensuring compliance with this Policy, in particular minimum available cash levels.

It should be noted that Natwest and HSBC, the two banks with whom the College can put money on deposit, have a minimum term of one month for those deposits.

5.2. Endowment investments

■ Types of Endowment

Endowment investments are either:

Permanent: the capital cannot be spent (but can appreciate or depreciate due to capital gains/losses) and only the interest earned can be utilised for the prescribed purpose); or

Expendable - the capital itself (including any capital gains) can be utilised for the prescribed purpose, as can any interest earned.

The Responsible Investment Policy covers the investment requirements of the College's Endowment Funds, the risk stance for each fund and whether the fund is aiming to generate income or provide a total return.

■ Spending rules for Permanent Endowments

The College allows the income generated from permanent endowments, to be distributed (spent) on an ongoing basis.

The budgeted spend for the year is agreed annually in advance. The spend amount is based on an assessment of the accumulated interest to date (or deficit) plus an assumed in-year income estimate informed by the College's investment advisors each year.

■ Liquidity requirements

The college will set its endowment funded expenditure budgets on the basis of the agreed spending rules set out in this policy. This will be funded from annual income returns.

Permanent funds are intended to be held in perpetuity. However, some regard of liquidity is required in case the College changes fund manager. This to ensure the new fund manager is not overly constrained by the transfer of very illiquid assets.

Expendable endowments are intended to be spent over a period of between 10 and 25 years, depending on the fund. Such funds need to be accessible enough to allow for drawing the funds down on a quarterly basis as required. The Chief Financial Officer will be responsible for determining the appropriate liquid holdings to meet that requirement with the College's Investment advisors.

6. **Management and Reporting**

Unless statutory or regulatory requirements demand otherwise, all monies applicable to the College will be monitored and aggregated for cash flow and investment management purposes.

Cash flow projections will be prepared on a weekly basis, and the Deputy Director of Finance, Operations, Accounting & Control will ensure that these are adequate for the purposes of monitoring compliance with treasury management practice.

The Chief Financial Officer will ensure that the College has sufficient cash available to meet the requirements set out in section 3.2. Cash flow projections will be reported in the College's quarterly management accounts, with longer-term projections reported through the College's annual 5-year financial plan, which is presented to Council for approval in the Autumn.

The overriding principle guiding the investment of funds is to achieve a satisfactory return within the constraints of prudence and will be managed in accordance with both this Policy and the Responsible Investment Policy. Funds must be deposited with the approved counterparties as set out in section 3.1.

6.1. Investments

The College will appoint Investment Manager/s to manage its investment assets (excluding excess cash) on a discretionary basis in line with this policy and the Responsible Investment Policy. Investment managers provide custody of assets. Managers are required to produce a valuation and performance report monthly, that is available electronically. Authorised signatories for instructions to the College's investment managers can be found in [Appendix A: Signatories](#).

The Investment Committee, a Subcommittee of the Planning & Resources Committee, has responsibility for agreeing strategy and monitoring the investment assets. The committee meets at least twice a year to review the portfolio, including an analysis of return, risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against the investment objectives outlined in the Responsible Investment Policy.

The College's Investment Managers are required to present to the Investment Subcommittee at least twice a year.

7. Monitoring

The College's Planning and Resources Committee has delegated authority from Council to monitor and approve this Policy. The Planning and Resources Committee keeps the Policy under regular review and makes recommendations to Council.

7.1. Representation Process

The Treasury Management Policy will be published on the College's external website, enabling members of the College community to have an opportunity to engage with the Policy.

Staff and students are also given an opportunity to engage with this Policy via their staff and student representatives at appropriate College committees.

8. Review Process

The Treasury Management Policy is subject to a biennial review, evaluation and monitoring process undertaken by the Investment Subcommittee, with any changes approved by the Planning & Resources Committee.

Appendix A: Signatories

Bank Mandates and Payment Authorisation

The following are the lists of authorised payment approvers and what they can authorise:

List A

President and Vice Chancellor
Chief Financial Officer
Chief Operating Officer
Pro-Vice Chancellor - Academic
Pro-Vice Chancellor - Research and Innovation
Pro-Vice Chancellor - Education and Student Experience
Deputy Director of Finance, Operations, Accounting and Control
Deputy Director of Finance, Financial Strategy, Planning and Analysis

List B

Head of Financial Planning and Analysis
Head of Financial Accounting and Control
Head of Financial Decision Support
Financial Accountant

List C

Chief Financial Officer
Chief Operating Officer
Deputy Director of Finance, Operations, Accounting and Control
Deputy Director of Finance, Financial Strategy, Planning and Analysis
Director of People of Culture
Deputy Director, People & Culture

The signature requirements are as below, two authorisers are always required. List C is only used for Payroll Approvals, all other categories require a combination of List A and List B signatories:

Authorisation Type	Threshold	Signatories
BACS multiple payment run	Up to £1,000,000	Two authorisers, at least one from List A
	Over £1,000,000	Two from list A
Individual BACS payment	Up to £250,000	Two authorisers, at least one from list A
	Over £250,000	Two from list A
Short Term Deposit with Main Banker	Any value	Two authorisers, at least one from List A
External transfers to approved counterparty	Any value	Two from list A
Investments - transactions with the College's investment managers	Any value	Two from list A
Payroll approvals, inc. pension and tax	Any value	Two from list C

CHAPS Processing

CHAPS transfers to External Managers and approved counterparties will be processed by one of the following, after receiving written approval in accordance with the bank mandate. The processor cannot be one of the approvers:

- Head of Finance Accounting and Control
- Financial Services Manager
- Accounts Payable Supervisor
- Deputy Director of Finance, Operations, Accounting and Control

Appendix B: Endowment Fund Risk Stances

Fund	Description	Purpose	Restricted/ Unrestricted	Permanent/ Expendable Timeframe	Investment Objective	Endowment position after expenditure and transfers 31/08/24	Current Investment Stance
RCA001	RCA endowment fund	Scholarships, prizes and awards	Restricted	Expendable - 10 Yrs	Income	4,313	Moderate
RCA002	RCA Unrestricted Investment	General purpose	Unrestricted	n/a	Total Return	7,340	Moderate
RCA003	Helen Hamlyn Chair	Funded academic post	Restricted	Permanent	Total Return	3,246	High
RCA004	Helen Hamlyn Research Centre	Research centre investment	Restricted	Expendable - 10 Yrs	Income	418	Moderate
RCA005	GenerationRCA Scholarship	Scholarships	Restricted	Permanent	Total Return	16,902	High
RCA006	Genesis Chair of Innovation	Funded academic post	Restricted	Permanent	Total Return	514	High
RCA007	Märit Rausing Scholarships	Scholarships	Restricted	Expendable - 25 Yrs	Income	6,374	Moderate
						39,107	