Over the last year I have encountered a number of people, mostly alumni from around the globe but also, embarrassingly, our own senior auditor from PEM, who have told me how much they look forward to my annual rant about the otiose nature of Trinity Hall’s statutory accounts.

Apparently, my irreverent and ignorant attitude to our public financial uttering is not held against me, but others (even those in the accounting “business”!) share my frustration and regard my letting off steam as a breath of fresh air. I am both astonished and frightened. The latter because, this year, I don’t know what to do for my next trick. Please don’t worry, it is not that the accounts are suddenly models of helpfulness laying out a clear and accurate picture of the College’s health, or even just its wealth, readily understood by all (or, indeed, anyone). They are not. They continue to be an exercise in sophistry and the attenuation of the value of numbers as far as they relate to actual money. It is just that without the introduction of any new utterly pointless changes to the RCCA or Charities SORP in the year under review, I have failed to manifest the energy to tilt at the absurdity of it all. So, unfortunately for my newly discovered fan base, I am going to make this short and sweet — or, at least, as sweet as I can.

A year in which we spent more than we earned

At the recent presentation of the results to the Finance Committee, a preliminary run through the numbers before they are put before Governing Body, I alarmed my colleagues by stating that the deficit had widened by almost £1.3 million. Unfortunately, this is true regarding our unrestricted funds. If you look at the total, by adding in the lines for restricted monies and endowment gifts, the deficit before investment and pensions gains and losses actually widened by just over £1.6 million. How did this happen? The clue is above in the section heading. In the year to the end of June 2017 the College’s income at £12.85 million was slightly higher than the previous year (£12.3 million). Most income lines were either up a little or broadly flat. “Other” income is 57% lower having benefitted previously from a large currency gain on the US dollar WYNG Gardens donations following the Brexit vote.

Expenditure, on the other hand, was up 17.1% from £12.6 million in 2016 to £14.8 million now. £2.1 million of this was from restricted funds and included an increase of over £300,000 in graduate studentship awards (an increasingly vital activity). Stipend increases reflected greater College financial support within the Fellowship and teaching associates, while staff salary rises were buoyed by the need to restructure kitchen and buttery pay scales in particular. With the new accommodation at WYNG Gardens becoming operational we bore £423,000 of interest costs on the Private Placement loan we took out to help pay for its construction. In future years, these will be more than offset by rents coming back from its use. We also incurred approximately £400,000 of one-off consolidation costs in two subsidiaries, Aula Ltd and Trinity Hall Residences 1, as a result of the conclusion of the Science Park and WYNG Gardens projects.

Other spending included £60,000 more on IT, where we introduced a new EPOS system, upgraded the network and revamped Fellows’ and student accommodation modules. £290,000 is a lot for professional fees (up by £137,000), but they have included legal charges for an exceptional internal issue and architects’ fees on a new building project. All in all, while I believe we must always keep a weather eye on our spending, particularly of unrestricted funds, I do not believe the size of this year’s deficit is pointing towards any structural weakness. It is more the result of a year when we needed to continue spending on important academic programmes.
already begun or anticipated, when, unfortunately, there was unusually little coming back in the other direction – a situation exacerbated by last year’s lunatic changes to the treatment of expected but not yet received philanthropy.

**The picture is not as bleak as it may seem**

One key area of our activities had a very good year indeed. Our endowment investments were up £31 million, or 19.75%, with excellent all round performance and both our property and securities portfolios contributing. There are a number of ways to calculate the value of the endowment. My view is the only correct way is to remove the capital amounts of long-term borrowings from the totals shown in Note 11 of the published accounts. So, if you remove £25 million from 2016’s number and £40 million from this year’s (which includes the recent Private Placement with PRICOA), add any gains on the investments made with borrowed monies (after debt servicing costs) and ignore whether the funds are ostensibly restricted or spendable (we treat capital from all investments as inviolable, other than applying our Total Return spending rule: currently 3.5%), you get a movement of £157 million to £188 million. Trinity Hall is the ‘least poor’ it has ever been!

I am much more concerned about USS, the academics’ national scheme and now the largest surviving Defined Benefit operation in the country. There has been much about this in the press. I will restrict myself to a prediction here: USS will not be able to keep going as currently designed much longer. It is a ‘last man standing’ scheme, depending on the strong Oxbridge covenant to subsidise operational and borrowing costs of the rest of the sector, while making totally unwarranted assumptions about its future investment performance (especially given its heroically wrong bet about the direction of Gilt prices over the last decade) which have now been refuted by the Pensions Regulator. There is little doubt that USS will also have to close to new joiners and become a DC scheme like all the others. Everyone sees this, except, apparently, the Trustees of USS. I anticipate a lot of pain and expense, for Cambridge and the colleges, before this sinks in. It is one of the things that keeps me awake at night.

**Pensions bomb: a big problem on the horizon**

Every year the funding deficit in the staff’s pension scheme CCFPS seems to widen. This year is no exception, despite notably successful investment and de-risking hedging strategies. The liability has grown by £1.1 million to £8.2 million. However, the scheme is closed to new joiners and we will just have to bridge the gap with a little more money until the next valuation and hope that rising inflation helps a little here. The situation is manageable.

**Cambridge & Counties Bank**

Firstly, an apology. Last year neither I nor the auditors noticed that, when calculating Enterprise Value, the level at which we include this investment in our unquoted equities line, we had neglected to remove our co-investor the Local Government Pension Fund’s capital instrument (formerly preference shares) from the totals. Although we benefit from the growth this supplement to the Bank’s capital base enables, the actual investment must still be repaid to them first and in full. As a result of this oversight, we included CCB at £24.5 million in our numbers last year – it should have been £18 million. This year the Bank is in at £26.5 million, which reflects a really strong year of value enhancement by £8.5 million. The auditors have elected to put a line in the accounts to recognise this error but not to change last year’s published figures.

While we are looking at the Bank, and not wanting to anticipate the December year end result, I will share some insights into how well trading is going in 2017. Profit Before Tax (PBT) in the YTD (September) is over £1.5 million ahead of budget. Return on Investment (ROI) is at 52% against a budgeted 47.5% and the Balance Sheet is over £833 million, an almost £40 million improvement on the forecast. Best of all, and almost undreamt of in the banking industry, CCB retains its Customer Satisfaction Score of 99%!

Trinity Hall’s modest investment for 50% of the UK’s fastest growing challenger bank is now covered more than twice over at the most conservative valuation measure we or the auditors could come up with. Some good cheer to end with.