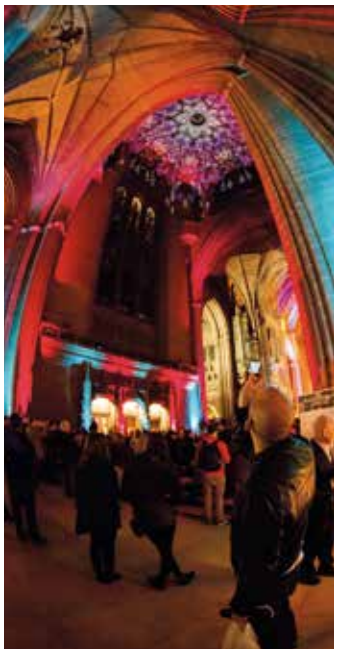
The Church Commissioners for England

Investing in the Church's growth

The Church Commissioners Annual Report 2015



THE CHURCH OF ENGLAND

The Church Commissioners Annual Report 2015
Investing in the Church's growth

Presented to Parliament pursuant to section 12(2)
of the Church Commissioners Measure 1947

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Welcome

The Church Commissioners exist to support the work and mission of the Church of England today and for future generations to ensure a Christian presence in every community.

We manage a diverse investment fund of £7bn in a responsible and ethical way. Our long-term objective is to continue to support the Church through our ongoing responsibilities which include:

- Providing funds to support mission activities
- Supporting dioceses with fewer resources with their ministry costs
- Paying for bishops' ministry and some cathedral costs
- Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings
- Running the national payroll for serving and retired clergy
- Paying clergy pensions for service prior to 1998

The Church of England network:

16,000
church buildings (12,500 parishes)

80,000
volunteers involved in children, young people and families ministry

12,400
clergy, including 1,000 chaplains

76%
of churches help run activities in local schools

66%
of churches help run food banks

60%
of churches offer parent and toddler groups

Children experience messy cathedral at a taster session in Durham Cathedral

Picture by Keith Blundy

Foreword by the Archbishop of Canterbury

2015 was yet another eventful year for the Church of England. There is constantly much to be done and the work of the Church Commissioners is vital in providing necessary financial resources.

The Church Commissioners continue to support the mission and ministry of the Church across the country through the effective stewardship of their investments. This Annual Report demonstrates that they have managed to ensure they can support projects across the country which make a difference. They have accomplished this in the midst of financial market turbulence in a responsible and well governed way.

Effective stewardship has been matched by ethical and responsible investment which takes seriously the Church's wider responsibilities to the common good of our society. The successful launch of a new climate change policy, and the announcement of a review into investment in the extractives industry signal that the Church Commissioners are leaders in thought and action when it comes to responsible investment.

The *Renewal and Reform* process being undertaken by the Church of England has been actively supported by the Commissioners, in partnership with the Archbishops' Council, leading to a renewed sense of confidence and ambition for the dioceses of the Church and the communities they serve.

The purpose of this work is to enable every church to be equipped to make and sustain disciples; every church to focus greater energy on God's mission; every church to be able to have the ministry and leadership it needs; every diocese to have senior leadership which is representative and well equipped for God's mission; and the whole Church, every Christian, communicating faith in word and action in a digital age.

It has been a great personal joy to witness the consecration of many new bishops in the Church of England over the past year, including eight women into the role. But 2015 also brought much suffering from conflicts and destabilisation in large regions of the world.

Through the work of every part of the Church, both in this country and around the Anglican Communion, we are called to respond by emulating the love of Jesus Christ. We look ahead with hope, prayer and confidence, inspired by the life, death and resurrection of Jesus Christ.

Justin Welby
Archbishop of Canterbury

The Church Commissioners at a glance

The Church Commissioners manage a diverse investment fund of £7bn. Our investment objective is to generate a total return averaging RPI +5% per annum over the long term, and our expenditure objective is to distribute funds to support the mission and ministry of the Church of England over the long term, including grants for mission activities and ministry support, support for bishops' and archbishops' ministry and cathedrals costs.

£7bn
Total Commissioners' fund

8.2%
Total return for 2015

£47.5m
Mission activities and ministry support

£122.7m
Pensions expenditure

£42.7m
Bishops' ministry and cathedral costs

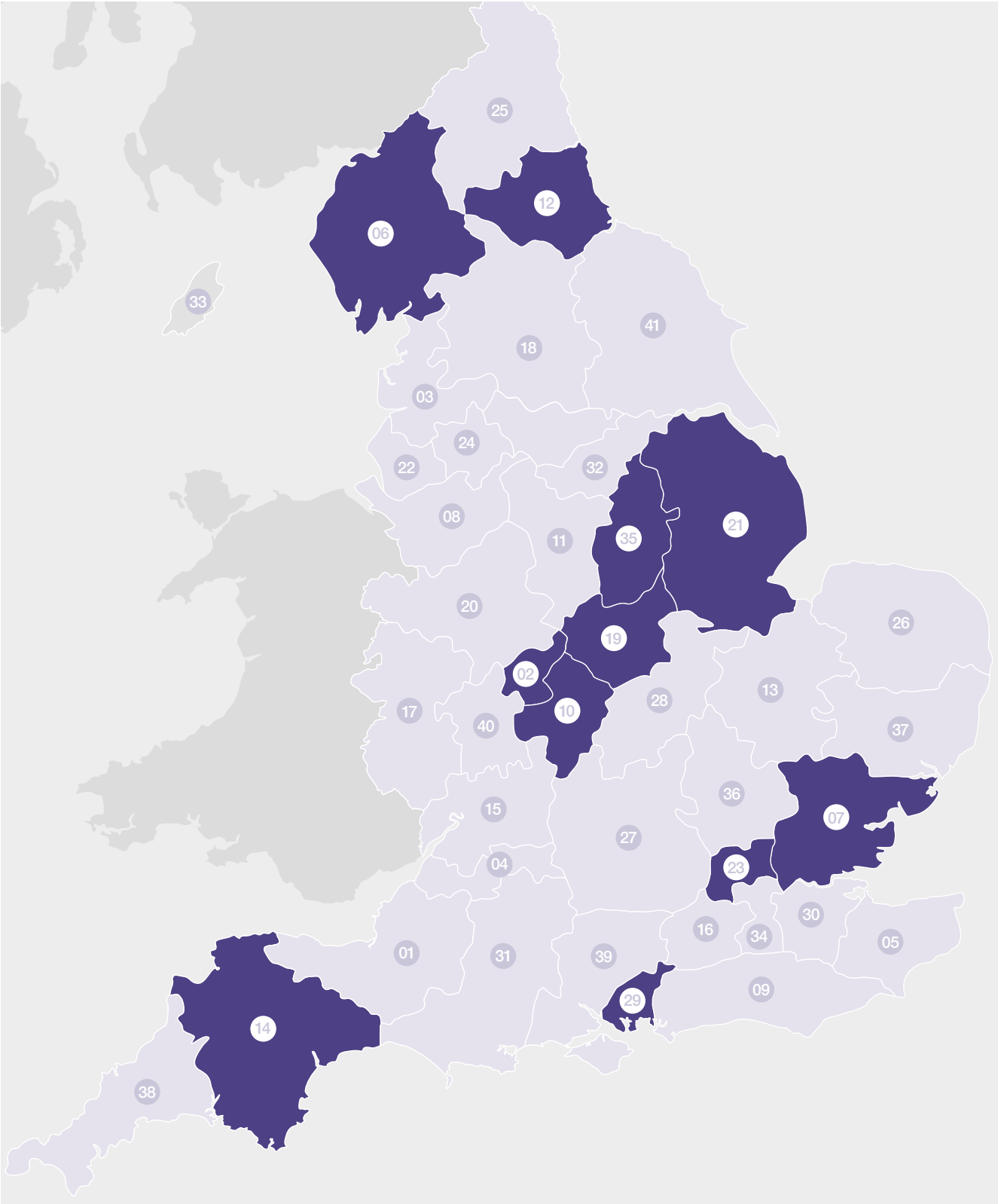
£4.7m
Pastoral reorganisation and closed churches

£0.9m
National payroll for clergy

£218.5m
Total support for the Church of England in 2015

One of the largest charitable givers in the UK

Funding the Church around the country



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21 Lincoln
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23 London
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25 Newcastle
26 Norwich
27 Oxford
28 Peterborough
29 Portsmouth
30 Rochester
31 Salisbury
32 Sheffield
33 Sodor & Man
34 Southwark
35 Southwell & Nottingham
36 St Albans
37 St Edmundsbury & Ipswich
38 Truro
39 Winchester
40 Worcester
41 York

The First Church Estates Commissioner

THE COMMISSIONERS' FUND HAS GROWN BY AN ANNUAL AVERAGE OF 9.7% OVER THE PAST 30 YEARS.

No sooner had the Commissioners completed a satisfactory 2015, with a total return of 8.2%, than global stock markets staged a dramatic setback. Values fell by some 10% in the first six weeks of 2016. And although prices recovered in the second half of February and into March, this warning from the markets is significant.

Indeed stock markets are currently subject to frequent attacks of nerves. There have been sudden downturns every year since 2010, though all were made good in due course. The message for investors is to 'tread carefully'. I shall describe later what actions the Commissioners have taken during the early part of 2016. But caution has been our watchword for some time.

During 2015, for instance, following a period of strong performance, we reduced our holding of smaller companies by £133m, trimming our allocation to our UK specialist manager and exiting completely from smaller company mandates covering continental Europe.

We were even more active in reducing our exposure to real estate. Some £102m was realised from our commercial property portfolio, including the sale of an office block in Kingsway, London for £40m. The Commissioners also reduced their large holdings of rural let land by £30m. With these sales and others our property portfolios generated more than £300m in capital receipts during the year, taking total sales since January 2014 to more than £800m.

Even so, the value of the real estate portfolio remains broadly the same as it was two years ago at some £1.9bn.

At the same time, we have been increasing our investment in areas that are not subject to every twist and turn in stock market prices. This is why we increased our commitments with private equity managers during the year, made further allocations to forestry in the UK, USA and Australia and in addition raised our allocation to 'defensive' equity managers, so-called because they pay special attention to protecting asset values during downturns. These investments amounted to over £100m.

While these cautious measures were being undertaken, the portfolio as a whole continued to prosper. As a baseline we can compare ourselves with the performance of both the London stock market and the global market. The former eked out a 1% rise in 2015 while the latter advanced by just over 3%. Our holdings did somewhat better with our defensive asset managers achieving growth of 8%.

However, many of our non-stockmarket investments were considerably more successful. Our private equity managers, for instance, returned 20.2% during 2015. Real estate was up by more than 14% and our new timberland holdings advanced by 13%. Yet it is important to note that such good returns are partly compensation for the illiquid nature of such investments. You cannot sell a forest with the same ease as disposing of shares on the stockmarket.

Now we know that our beneficiaries seek consistency. They don't want a brilliant performance one year and a disaster the next. Moreover, taking one year with another, it is essential that the growth of the fund does better than the rate of inflation. For a high proportion of the costs of the church bodies to which we make grants are related to staffing levels. That is why we have set ourselves the demanding target of exceeding the rate of inflation by at least 5%.

I am glad to say that we have jumped this hurdle in every relevant time span for the past 30 years. The Commissioners' fund has grown by an annual average of 9.7% over the past 30 years compared with an annual inflation rate during the same period of 3.4%.

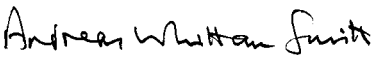
Unfortunately it may be harder in the future to achieve such a satisfactory performance. My message to the wider Church is – don't count on it.

The nervousness of investors is explained by the feeling that governments have lost the power to reverse any slowdown in economic activity. In earlier times they would reduce interest rates, but now that rates hover around zero, that remedy is unavailable. And it's hard to believe that negative interest rates can provide the necessary boost, or governments would let the supply of money expand.

But doing that on a grand scale recently through the so-called 'quantitative easing' has had more impact on the prices of assets, especially real estate, than it has had on business activity.

In other words, the risk is that economic activity slows down across the world and remains stuck at a low level. It is for that reason that the Assets Committee at its meeting in March this year approved the sale of some £250m from our global shares portfolio. That disposal takes our cash holdings up to just over 11% of total assets.

That is the best measure of our cautious mood.



Sir Andreas Whittam Smith
The First Church Estates Commissioner

Mission

The Church Commissioners support the mission and ministry of the Church of England by providing funding to parishes and dioceses to maintain a Christian presence in every community.

Revd Annie McTighe, Pioneer Minister for the Queen Elizabeth Olympic Park, Chelmsford Diocese

Our objectives

- To manage our financial commitments
- To provide sustainable financial support to our beneficiaries
- To target resources on areas of need
- To identify and help to meet new needs
- To research and share news of effective spending
- To provide an administrative resource and skills base to the Church

Managing our strategic objectives

"In all of our work we partner with the wider Church to contribute to strategic decision making, funding and exercising stewardship of the Church of England's historic assets to the best of our ability."

The Church of England's three goals:

1. Advancing spiritual and numerical growth
2. Reimagining ministry for the 21st century to help ensure there is a growing and sustainable witness in every community
3. Contributing towards the common good

The Church Commissioners exist to support the work and the mission of the Church of England. We achieve this in a variety of ways – from paying the pensions of many of its clergy, contributing to the funding of dioceses and parishes, supporting the ministry of our archbishops and bishops and contributing substantially to the work of cathedrals, to list but a few. In all of this we work in partnership with the wider Church contributing to strategic decision making, funding and exercising stewardship of the Church of England's historic assets to the best of our ability.

During the past 12 months we have worked with the wider Church in implementing parts of the *Renewal and Reform* process, which seeks to join in the work of God in renewing His Church and enabling churches to focus on mission. Our work on *Resourcing The Future* has been a particular emphasis. In November the Board of Governors gave their support for the principle of the plans, supportive of the momentum and commitment to build on this opportunity to ensure the Church of England is growing, vibrant and as relevant today as it will be for future generations.

Renewal and Reform is at its heart led by the dioceses of the Church and implemented by them. Our role has been to provide strategic counsel in sharing ideas and supporting processes that would lead to best practice across the church. This builds upon our work with the Archbishops' Council in recent years providing Strategic Development Funding to support major change projects.

Other significant activities that the Commissioners have undertaken this year include the development of a new stream of funding for city centre resourcing churches, providing Strategic Development Funding to Coventry and London Dioceses, and appointing Wright & Wright architects to lead the redevelopment of the Lambeth Palace Library to preserve the collections for generations to come. Alongside these activities, we celebrate the day-by-day work that churches and congregations do across England sharing the love of God and meeting social needs in their communities.

I am enormously grateful to the Church Commissioners, our staff and partners within the Church of England. Without this teamwork the financial results which drive the impact would not be possible. I want to congratulate the investment team for the continued strong performance, delivering more than 8% in a challenging financial climate. Without this leadership and good stewardship it would not be possible to support the Church as we do.

But we must not forget the generous support from parishes, dioceses and cathedrals which provide around three quarters of the Church's annual spending on ministry and mission.

Our priority is to continue to meet our objectives, support the Church of England in its wider mission to ensure the Gospel of Jesus Christ is lived and proclaimed, in word and deed. Being more intentional and strategic in our activities will help us to continue to serve the Church, learning and growing for generations to come.

Andrew Brown
Secretary to the Church Commissioners

Supporting the Church's ministry

In 2015 the Church Commissioners achieved their funding objective through distributing £218.5m to support the work of the Church of England across the country, representing 15% of overall spending across the Church.

A significant shift in the distribution of funding for mission activities and dioceses and ministry support will begin in 2017. One of the Commissioners' long-term goals is to facilitate spiritual and numerical growth in the Church through targeted funding for mission to areas of the country with the greatest need. Through *Renewal and Reform*, all of the national funding given to dioceses by the Church Commissioners and Archbishops' Council will be explicitly directed to mission and growth.

The current funding streams for providing dioceses and ministry support and mission activities will be replaced with two new funding streams: lowest income communities funding; and Strategic Development Funding which any diocese can apply for to invest in new growth opportunities. The aim is for the combined funding for dioceses from the Church Commissioners and Archbishops' Council to be split equally between these two funding streams, moving away from the current allocation system (known as the Darlow Formula) to focus more squarely on encouraging investment in growth.

In 2015 we carried out work to explore how to make these changes. Dioceses currently receiving ministry support funding which require interim support will receive transitional funding from 2017 for up to 10 years. These dioceses will also receive one-off funding at the beginning of the transitional period to help them move away from their current level of support.

Charitable Expenditure 2015 (£m)

At the Archbishops' Council's request we are considering making additional time-limited distributions to maximise the impact of the Strategic Development Funding during the transitional period.

More information about *Renewal and Reform* can be found at www.churchofengland.org/renewal-reform

Spending plans

The Church Commissioners work together with the Archbishops' Council to develop joint three-year spending plans with the advice of the Joint Spending Plans Task Group commissioned by the Archbishops of Canterbury and York. The current plan for 2014–16 set an increase in funding for each of the main expenditure categories – for mission activities, dioceses', bishops' and cathedrals' ministry – by 1% in 2015, with a further increase by 1% in 2016.

A development funding stream of £0.5m has also been earmarked for cathedrals in 2014–16.

The funding distributed to the Church is 0.4% less than 2014 (£219.4m). The main reductions in spending for 2015 were a decrease of £1.9m in interest and other charges in relation to paying clergy pensions and a reduction of £0.5m in pensions payments. The most significant increase was an additional £0.9m distributed as diocese and ministry support.

Funding was distributed through six streams (see above), including £35.8m spent on diocese and ministry support and £11.7m to support mission activities. The combined amount (£47.5m) represents a 0.6% increase on funding from 2014 (£47.1m), which includes the effect of reaching the ongoing objective of a year on year increase of 1% in grants to dioceses in the spending plans for 2014–16.

Going forward into 2017–19, the Church Commissioners and Archbishops' Council will be looking to ensure that spending plans support the most effective use of nationally held funds to achieve the Church's goal of growth.

> **THEY ARE BEING CHANGED AND SO ARE WE. IN FACT, THERE IS NOT SO MUCH A SENSE OF 'US' AND 'THEM', BUT 'WE' TOGETHER LEADING PEOPLE TO THE TRUE SOURCE OF REFRESHMENT – JESUS.**

REVD PAUL HINTON, ST HILDA'S WARLEY WOODS, SMETHWICK – ON MISSION WORK FUNDED AS PART OF *GROWING YOUNGER* STRATEGY, BIRMINGHAM DIOCESE

MISSION ACTIVITIES

Strategic Development Funding

Strategic Development Funding is designed to support major growth and change projects in dioceses. £15.0m was made available for the 2014–16 period, with a further £3.5m being subsequently allocated from unspent research and development funding from 2011–13. The money for dioceses is being allocated in four tranches, and in 2015 a second round of £1.64m (2014: £4.6m) was allocated as follows:

- Coventry Diocese received £640,000 to expand its parish development strategy with the *Acceler8* programme to reach out to 20 and 30-year olds, with a focus on deprived areas.
- London Diocese was awarded £1.0m to accelerate its plan of forming 100 new worshipping communities, including providing seed-corn funding for 55 church plants.

This brings the total number of dioceses currently supported by Strategic Development Funding to eight including Birmingham Diocese's *Growing Younger* strategy (see right). Funding from the third tranche will be awarded in July 2016 and we have invited applications for the fourth tranche for submission by the end of October 2016.

Up to £2.0m of Strategic Development Funding is also being made available to dioceses to help them ensure their plans are more strategic to target growth in the future.

Strategic Development Funding
People and Places: *Growing Younger* 2015–19 (Birmingham Diocese)

Birmingham Diocese has used £1m of Strategic Development Funding, alongside £1.7m of its own funds, to launch *Growing Younger*. Beginning in 2014, the initiative aims to see 2,000 new regular worshippers join churches around Birmingham over five years by focusing on engagement with children, young people and families.

During the year, the diocese has appointed missioners to selected parishes to train, equip and inspire congregations to connect with younger generations and provide help to parishes which currently have very few children or families. In addition, 10 mission apprentices are now working in more deprived areas in the diocese.

Mandy was appointed as a Children and Families Missioner at St Hilda's Warley Woods in Smethwick. Revd Paul Hinton from the parish said:

"The impact of having an 'authorised' role cannot be underestimated. Mandy now has credibility as an evangelist to overcome barriers and draw people in. She is also empowering others to join in the enterprise of bridge-building and relationship forming. Children and adults are coming into safe wondering spaces to explore faith in Christ. They are being changed and so are we. In fact, there is not so much a sense of 'us' and 'them', but 'we' together leading people to the true source of refreshment – Jesus."

In addition, a new city centre church, St Luke's, Gas Street, was launched in September 2015, specifically to reach people in their 20s and 30s. The church has now grown to 300 members and moved into a converted warehouse in the city centre, aiming to engage with students and young adults and bring 'light for the city'.

Supporting the Church's ministry

Developing Church Growth in Deprived Areas
Twenty-eight projects around the country have continued to receive grants from the £2.9m Developing Church Growth in Deprived Areas fund, including *OpShops* in Carlisle Diocese (see right). This stream was first made available in 2011–13, and has been invested in projects around the country that were already proving to be effective drivers of mission and growth in deprived areas.

Funding for more than half of the projects concluded at the end of 2015, with other projects receiving ongoing funding. £143,000 of funding (just under 5% of that allocated) was either unspent or returned, due to projects not proceeding as anticipated, for a variety of reasons. The unspent funding was reallocated to other development projects.

This funding stream is designed with the aim of scaling the individual impact of mission projects across the Church. To ensure we deliver on this, an external evaluation of the programme was commissioned in 2015 to capture learning from all the projects and to identify areas of improvement in programme management. We expect the evaluation to be completed in 2016.

City Centre Resourcing Churches
This new stream to support City Centre Resourcing Churches was allocated £1.45m of unspent research and development funding from 2011–13. Funding for these churches is intended to support them to develop other new congregations in their area, thereby stimulating growth across major cities. By the end of 2015 we had awarded a total of £800,000 — £150,000 each to St Swithun's, Bournemouth, St Swithin's, Lincoln (see p17), Manchester Diocese (to support a new church in Salford), and St Luke's, Gas Street Birmingham (with an additional £200,000 to fund a new building); and the remaining £650k will be allocated in 2016.

Funding for mission in new housing and other development areas
In 2008–10, together with the Archbishops' Council we allocated £7.25m to 15 dioceses to support their mission in new housing and other development areas. Although this funding was accounted for by the end of 2010, it hasn't all yet been drawn down due to the economic downturn.

This funding aims to extend the Church of England's mission in new housing developments and to grow sustainable Christian communities there.

Church Growth Research Programme
In 2015 we continued the Church Growth Research Programme with the launch of *From Evidence to Action*, a toolkit to help parishes reflect and act on the research findings from *Anecdote to Evidence*. The publication includes a guide book (which contains worksheets for use by small groups) and a website www.fromevidencetoaction.org.uk. More than 4,600 copies of the guide book have been distributed in response to requests from dioceses and parishes.

Developing Church Growth in Deprived Areas *OpShops* (Carlisle Diocese)

OpShops received funding to build on the existing model of a community-based charity shop. There are now seven shops running as self-sustaining businesses providing goods, community support and developing mission and ministry, with a particular focus on estates where other retailers and service providers have withdrawn.

OpShops provides opportunities for local people to volunteer and to receive training, helping them to grow in confidence and enhance their employability. They also provide a venue for community programmes such as money advice and support, hosting parenting groups, and victim and bereavement support organisations to provide social interaction.

Several staff and customers from *OpShops* have started attending local churches, and two of the shops are holding weekly meetings as fresh expressions of church.

During the year we carried out further work on fresh expressions of church, the experiences of young adults who attend church, congregation profiles, and the impact of benefice structure on numerical growth. More information can be found at www.churchgrowthresearch.org.uk

Mission Development Funding
Mission Development Funding totalling £6.7m (2014: £6.0m) was distributed across all dioceses to invest in new mission opportunities, although it may also be used for clergy stipends. Funding has been used in the Chelmsford Diocese to support a Pioneer Minister for the Queen Elizabeth Olympic Park in Stratford, East London (see page 18). Dioceses report annually on their use of the mission development funding and this information is shared with the General Synod and published on the Church of England website.

DIOCESE AND MINISTRY SUPPORT
Funding for diocese and ministry support is provided through the Darlow formula which aims to target funding to dioceses with the least resources, and is distributed through block grants made by the Archbishops' Council. The Council distributed £35.2m (2014: £34.3m) in block grants to 25 (2014: 25) dioceses, who usually use their grant to support clergy stipends, targeting it on those parishes which are least able to meet their ministry costs.

This funding stream will be replaced as part of the plans under *Renewal and Reform* with funding to support and develop mission in the lowest income communities.

City Centre Resourcing Churches
St Swithin's Lincoln (Lincoln Diocese)

City Centre Resourcing Churches funding has supported the replanting of St Swithin's Church in Lincoln to develop new forms of mission and ministry in the city.

In its first year, St Swithin's developed work with students, children and young people, ran termly Alpha courses and began mission work in Lincoln city centre.

The church has established discipleship groups which meet on different days and different locations throughout the city and they run several community outreach projects including a clothes bank, hub café and an open youth club. It has also begun working in partnership with other local churches across the city to 'join the dots' between all the community services.

Funding is now supporting the church with a grant of £150,000 towards employing a part-time children's and young families outreach worker, improving the church building to make it a more flexible and welcoming space and setting up a community hub.

St Swithin's is now seeking further significant growth in its congregation and in ministries to those with particular needs, including homeless people and ex-offenders.

The church aims to be a missional hub for the area – facilitating and providing opportunities with Lincoln diocese for networking with and resourcing smaller parishes, both in urban and rural contexts.

Supporting the Church's ministry

The Bishop of Hull and Bishop of Stockport taking part in the Crossroads Mission in September 2015

BISHOPS' MINISTRY AND CATHEDRAL COSTS

Grants for bishops' ministry in dioceses	£19.3m
Archbishops' stipends, office and working costs and other national costs	£5.7m

The Commissioners meet the ongoing stipends, office and working costs of archbishops and bishops to support their ministry. Grants to diocesan bishops enable them to manage resources according to local needs, including decisions on the level of funding to their area and suffragan bishops.

Lambeth Palace

Lambeth Palace is owned by the Commissioners. It is a focal point of the world wide Anglican Communion, and the home and office of the Archbishop of Canterbury. In 2015, the Great Hall at the Palace was refurbished at a cost of £1.7 million. This was the first major repair of the Hall since its restoration in the late 1940s. Much of the rest of the Palace requires major expenditure in the provision of new services (water, gas, electricity and heating) which will be addressed in future years.

Bishops' housing

The Commissioners have a statutory duty to support diocesan bishops with housing, providing suitable accommodation which facilitates the bishops' work and mission. In 2015, four new diocesan bishops were appointed. We took advantage of houses being vacant prior to appointment to undertake repair and maintenance works in Gloucester, Ipswich, Newcastle, and Southwell and Nottingham, as well as in Guildford whose bishop was appointed in 2014.

As part of the 2014–16 spending plans, we have agreed a limit on the funding spent on bishops' housing. We have ongoing concerns over the high cost of maintaining the varied portfolio of bishops' housing including large and historic properties, without having ultimate control under Church legislation over decisions as to whether individual properties should be retained.

Following the creation of the new Diocese of Leeds, the former house at Bradford was sold. We also agreed on behalf of the Diocese of Canterbury to provide housing for the new Suffragan Bishop of Maidstone who has a national remit, and a former vicarage is to be rented from the Diocese of Southwark and adapted for the Bishop.

Cathedral costs

We support the ministry of cathedrals through two funding streams. £5.7m

Mission Development Funding Pioneer Minister for the Queen Elizabeth Olympic Park (Chelmsford Diocese)

Mission Development Funding is supporting pioneer ministry for the Queen Elizabeth Olympic Park in Stratford on the southern edge of Chelmsford Diocese. The Revd Annie McTighe lives in the East Village (the Athletes' Village during the 2012 Olympics) and is based at St Paul's Stratford.

In 2014, residents began moving into the East Village, mainly from the five surrounding London boroughs. The area and local community were unknown to them, resulting in little social cohesion, and no obvious sense of community. When Annie moved into the village in the summer of 2014 with the help of the Mission Development Funding grant, the Church was ideally placed to support the development of a community.

Annie said:
"Building relationships has been key to all ministry that is taking place. From there, a level of trust has been able to grow across the whole community, enabling the church to be engaged in all areas of the community."

Funding is now supporting Annie to plant Church E20, a missional community in a restaurant in the Park.

of funding provided under section 21 of the Cathedrals Measure supported stipends and pension costs of the dean and two residentiary canons at all cathedrals except Oxford. Any part of the grant unused as a result of a vacancy can, at our discretion, be used to support the employment costs of other cathedral staff.

A further £3.5m of grant funding was provided under section 23 of the Measure to fund staff costs for cathedrals with the lowest unrestricted income. This funding frees up cathedral resources and helps facilitate their mission and ministry to local communities, including education programmes such as the *Time-travelling Pilgrimage* at Southwell Minster (see right).

PASTORAL REORGANISATION

We have an ongoing responsibility in administering the legal framework for pastoral reorganisation and providing support for dioceses in this work. Following local consultation and approval by the diocesan bishop, proposals are sent to us for validation. Proposals are then published as a draft scheme for further consultation, including the opportunity for objections. Reorganisation includes the closure of some church buildings. During 2015, 12 church buildings were declared closed for regular public worship and we saw a number of churches opened.

The Commissioners' Mission and Pastoral Committee heard eight cases during 2015 with input from supporters and objectors to the schemes. Five of these were allowed to proceed and two were not, with one deferred in order to obtain further information. Other objections were resolved without the need for a decision by the Commissioners, either by the objection being withdrawn after further consultation or the scheme being withdrawn or amended. Objectors are entitled to seek permission to appeal to the Judicial Committee of the Privy Council against any aspect of a decision by the Commissioners to allow a scheme to proceed. There was one such application in 2015 but leave to appeal was not given.

In 2016 a trial period for the 'sifting' of cases is to take place to determine whether to hold a hearing or make a decision on the papers and written views of objectors and supporters alone. This process has been introduced to support the Committee to focus on cases which require additional scrutiny, and to reduce the burden of a full committee meeting for each case.

Clergy housing and glebe land

The Commissioners also provide a supporting role to oversee sales and other transactions relating to clergy housing and glebe land. Objections to transactions are also handled through the Mission and Pastoral Committee. Specific objections were received to one parsonage sale and three glebe sales during 2015, all of which were overruled after consideration by the Committee. Six glebe transactions (three in 2014) involving a connected person, were approved, including two where the terms of the transactions needed the Commissioners' approval. There were no clergy housing transactions (three in 2014) in 2015.

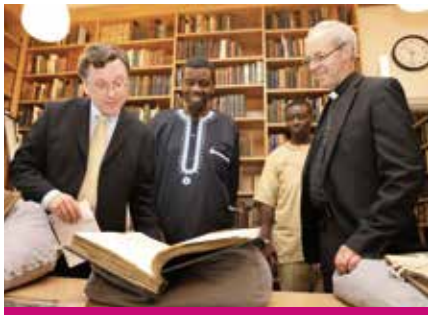
Time-travelling Pilgrimage Southwell Minster

Southwell Minster invites primary school pupils from across Nottinghamshire to attend a Time-travelling Pilgrimage, an educational activity day for up to 350 children each day around the Minster, exploring aspects of Christian worship and traditions through the ages as part of RE teaching.

Emma Anderton, Cathedral Education Officer at Southwell Minster, said: "The project would not be possible without the enthusiasm and commitment of more than 200 talented volunteers from across the diocese, and schools really value the opportunity to hear faith stories from the Christians they meet."

We also approved the release of covenants in four cases (six in 2014) where the Commissioners were historically a party to the sale of land which at one time was owned by the local parish priest as a parsonage or glebe land.

Supporting the Church's ministry



Lambeth Palace Library

Planning for a new library building to protect and preserve Lambeth Palace's nationally and internationally important collections continued during 2015 with the appointment of Wright & Wright as architects for the project, for which approval is likely to be sought in late 2016.

The library continued to welcome users from around the world and provided direct support to the work and mission of the Archbishop of Canterbury. The 1663 Great Hall was refurbished during the year and is now expected to see much greater use by the Archbishop, and will increasingly be used for external events.

For more information, visit: www.lambethpalacelibrary.org

CHURCH BUILDINGS CLOSED FOR REGULAR PUBLIC WORSHIP

The Commissioners have an ongoing responsibility for settling the future of church buildings closed for regular public worship. Our locally based specialist casework team works closely with dioceses to secure suitable alternative uses. In the minority of cases where such a use cannot be found, we normally have to decide, following advice, between preservation of the building in the Churches Conservation Trust and demolition.

In 2015, the Church Buildings Review was set up jointly by the Commissioners and the Archbishops' Council. Part of the *Renewal and Reform* programme, its report on the Church's stewardship of its church buildings was welcomed by General Synod in November and was commended for wider consultation.

Contribution to the Church's mission

More than £2.5m was raised in net proceeds from the disposal of closed church buildings and sites during the year. These proceeds support the mission and ministry of the Church of England and contribute towards its share of funding the Churches Conservation Trust.

During 2015 we made 21 schemes determining the future of closed church buildings: 17 provided for alternative use, three for demolition or site disposal and one closed church building was restored for worship.

The Church Buildings (Uses and Disposals) Committee considered objections in four cases, deciding in each that the scheme should go ahead.

The chart on page 21 shows how the future of 302 closed church buildings has been settled over the last ten years.

In June, with diocesan colleagues and representatives from various heritage bodies, the Committee visited churches in Lincoln Diocese, including several for which the Commissioners are responsible under the Fen Chapels Act, and also a number with small congregations in multi-church benefices. Such visits inform our work on closed church buildings and provide insights into the context in which parishes care for and use their buildings for mission.

Where a qualifying body objects to the proposed demolition of a listed church or an unlisted church in a conservation area, the Department for Communities and Local Government may hold a hearing or public inquiry. An inquiry about the future of St Peter's, Birch in the Diocese of Chelmsford is expected to be heard in 2016.

Churches Conservation Trust

With the government, we co-sponsor the Churches Conservation Trust which, in the interests of the nation and the Church of England, preserves outstanding closed church buildings for which no suitable alternative use has been found.

Following General Synod's approval in July 2014, the payment to *The Churches Conservation Trust Order 2014* took effect, providing for our grant to the Trust to be maintained at the existing level of £1.36m per annum

for the three year funding period up to 31 March 2018. We work closely with the Trust in a difficult funding climate to maintain our ability to vest suitable buildings while also looking to identify opportunities to lease or divest buildings already in its care.

The Benington Community Heritage Trust was supported in 2015 by the Church Commissioners and the Churches Conservation Trust to successfully bid for £1.8m of funding to restore All Saints Benington, an 800-year old Grade I listed closed church for use as a community, events and heritage centre serving the local area.

Alternative use	2006–2010	2011–2015
Adjuncts to adjoining estates	0	0
Arts, crafts, music or drama	5	2
Civic, cultural or community	21	17
Educational	5	4
Light industrial	0	2
Monument	7	16
Museums	0	0
Office or shopping	13	5
Other	0	0
Parochial or ecclesiastical	14	7
Private and school chapel	1	2
Residential	27	36
Sports	2	1
Storage	0	1
Worship by other Christian bodies	31	17
Alternative Use Sub-Total	**126**	**110**
Demolition and Site Disposal		
Additions to churchyards	0	6
Housing associations	3	2
Local authorities	2	1
New places of worship	3	4
Not yet decided	5	2
Other community purposes	1	2
Other purchasers	17	3
Demolition Sub-Total	**31**	**20**
Preservation		
Churches Conservation Trust	7	8
Diocesan Board of Finance	0	0
Secretary of State	0	0
Preservation Sub-Total	**7**	**8**
Grand Total	**164**	**138**

Stewardship

The Church Commissioners manage a diverse investment fund of £7bn in a responsible and ethical way. Over the last 30 years we have met our return objective of RPI +5%, and this year we returned 8.2%.

Objectives

- To manage the fund so as to ensure sustainable distributions for our beneficiaries
- To achieve a total fund return of RPI +5% per annum measured over the long term
- To meet performance benchmarks for individual asset classes
- To manage financial risks appropriately
- To act within our ethical investment guidelines

Beth Harris, Ministry and Mission Facilitator at St Swithin's Lincoln, a city centre resourcing church

Fund performance

The Commissioners' fund was valued at just over £7bn at the end of 2015, nearly £300m higher than at the end of 2014, after charitable distributions of £218.5m.

Tom Joy
Director of Investments

Fund strategy

The investment objective is to generate a return of inflation (RPI) +5.0% per annum, on average, over the long term. We have managed to match or exceed this objective over 3, 5, 10, 20 and 30 years and our investment performance continues to be recognised by industry awards. Over the last 30 years the fund has achieved an average return of 9.7% every year: 6.3% ahead of RPI inflation.

Meeting or exceeding our performance objective allows us to meet our pension obligations and to grow, in real terms, our support for the Church, balancing the needs of both current and future beneficiaries. In 2015 our charitable distributions were £218.5m.

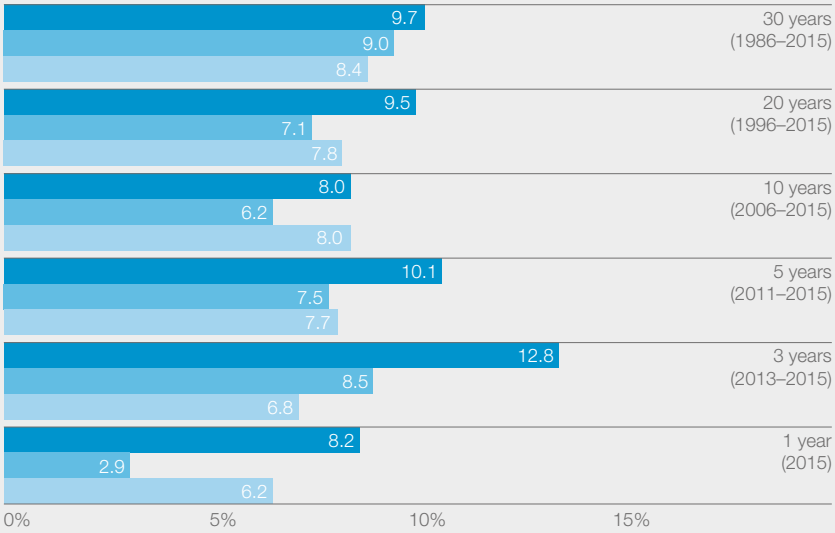
The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes consistent with our ethical guidelines. The chart on page 24 shows our asset weightings at the end of 2015 and how these have changed in recent years. In 2015 we focused on making selective sales from our property portfolio following several years of strong returns and on further diversification to ensure the portfolio is more defensive in the expectation of market headwinds.

Fund performance

The Commissioners' fund returned 8.2% during 2015. Our longer-term performance, which are significantly more important in terms of determining our distributions, also remain strong. Our 3, 5, 10, 20 and 30 year numbers are all ahead of or match both our inflation plus 5% p.a. target and the average fund as measured by the WM All Funds Universe.

2015 was an unusual year for investment returns. Barely any liquid global asset class had a positive

Total Returns per Annum
(against an independent comparator and Commissioners' target return)



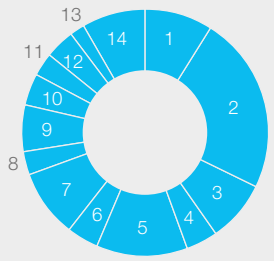
Church Commissioners' fund
WM All Funds Universe
RPI +5% per annum

Fund strategy

Asset returns, total fund and by asset class: 1, 3, 5, 10, 20 and 30 year averages

Total returns % per annum	1 year 2015	3 years 2013–2015	5 years 2011–2015	10 years 2006–2015	20 years 1996–2015	30 years 1986–2015
Commissioners' total assets	8.2	12.8	10.1	8.0	9.5	9.7
Retail price index + 5%	6.2	6.8	7.7	8.0	7.8	8.4
WM All Funds Universe	2.9	8.5	7.5	6.2	7.1	9.0
CC return v RPI	7.0	11.0	7.4	5.0	6.7	6.3
Asset classes:						
UK equities	3.6	10.2	7.6	6.3	7.7	9.9
Global equities	3.5	11.9	8.8	7.2	7.6	8.9
Private equity	20.2	16.4	12.8	12.5	n/a	n/a
Rural property	9.0	12.3	14.8	15.8	14.9	13.4
Strategic land	19.8	19.6	16.4	13.2	n/a	n/a
Residential property	19.5	18.9	17.3	14.9	18.0	16.4
Commercial property	13.5	25.2	17.0	9.8	11.8	11.7
Indirect property	12.8	12.3	10.8	6.3	10.8	n/a
Value linked loans	26.8	25.2	17.0	6.6	11.1	9.1

Commissioners Asset Allocation
(as at 31 December 2015)



1	UK equities	**9%**
2	Global equities	**23%**
3	Defensive equities	**8%**
4	Private equity	**4%**
5	Multi-asset strategies	**12%**
6	Credit strategies	**4%**
7	Rural property	**9%**
8	Strategic land	**3%**
9	Residential Property	**6%**
10	Commercial property	**4%**
11	Indirect property	**3%**
12	Timberland	**4%**
13	Value linked loans	**2%**
14	Cash and cash like assets	**8%**

real return in local currency terms. The weakness in sterling meant that unhedged global equities and bonds made modest positive returns for a UK-based investor. Despite this challenging environment the Commissioners delivered good absolute and relative performance driven by active management by their external managers and the internal property team as well as profits from selective property sales.

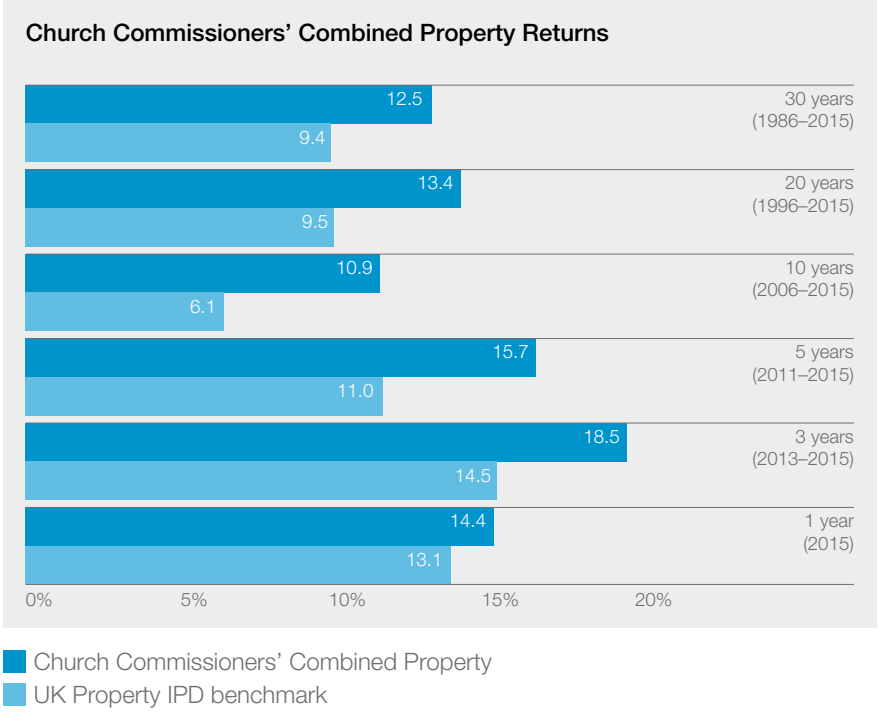
Performance was strong with the majority of the Commissioners' asset classes producing a return ahead of our inflation +5% target.

Notable performance was delivered in property, private equity and forestry. Within equities our high allocation to what we call defensive equity also delivered strong returns despite challenging market conditions.

Distribution strategy

In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries. Every three years the actuaries, Hymans Robertson LLP, carry out a detailed assessment of how much of our fund should be held to meet our pension obligations and how much we can afford to spend for other purposes given our aim to maintain and grow such distributions over time. In the years between full reviews, the actuaries assess whether existing plans remain affordable.

The key conclusions of a full review of the fund as at the end of 2015 were that it was estimated that 24.3% of the fund will be required to meet the Commissioners' clergy pension obligations and that an increase in our ongoing non-pensions distributions above the level of £94.6m per annum in the 2014–2016 triennium is affordable. Detailed work on spending plans for the 2017–2019 triennium is currently under way and, subject to the usual annual checks of affordability, we expect to be able to increase our grants in each year of the triennium.



EQUITIES

Public equities

In 2015 the Commissioners' equity portfolio generated returns of 4.4% and outperformed its benchmark, which recorded 2.4%. Performance was again helped by our exposure to smaller companies, particularly in the UK where our UK smaller companies portfolio returned 13.3% against its benchmark of 10.6% and 1.0% for the broader UK benchmark.

Elsewhere, our global growth managers performed particularly strongly and outperformed. However while our value managers outperformed the custom benchmark, they underperformed the broader market. Our exposure to emerging markets equities was a drag on portfolio performance over the year as these markets and currencies underperformed.

The defensive equity portfolio comprises managers who are expected to generate good relative performance in weak markets and to capture enough upside in periods of positive equity market performance to provide attractive returns over the long run. During the year the portfolio delivered the defensive hedge it is there to provide, generating a return of 8.0% and significantly outperforming both quoted and peer group benchmarks.

Our allocation to equities was broadly stable over the year, though we rebalanced away from smaller companies and took profits towards the end of the year.

Private equity

The private equity portfolio, which invests in unlisted companies, achieved a total return of 20.2% in 2015. We made further commitments totalling £87.7m to the portfolio during the year. Over the long term our private equity portfolio has significantly outperformed quoted equity markets and we plan to expand the allocation to the asset class over the next few years.

Multi-asset

The multi-asset absolute return portfolio represents around 12% of the total portfolio. It is designed to generate attractive positive returns independent of the external environment but we would normally expect it to lag equities in periods of strong growth. These strategies generated a total return of 9.1% in 2015.

Fixed income

Our fixed interest portfolio, which includes investments in global high yield bonds and emerging market debt, returned -1.6% in 2015 as credit markets sold off due to concerns over defaults from the collapse in commodity prices. We continue to maintain a low weighting to this area, so while the headline return was low its impact on the wider portfolio was limited.

Our private credit portfolio was started in 2012 to allocate capital to interesting opportunities which could further diversify and improve the return profile of the fixed income portfolio. We continued to increase our allocation in this area during 2015 making commitments totalling £85.6m. In aggregate these strategies generated a combined return of 14.6% in 2015.

Property performance

John Weir, Head of Strategic Land

"The Strategic Land team's work delivers much needed housing whilst maximising the support for the Church across the country.

"The portfolio continues to deliver strong performance with total returns of 19.8% this year."

PROPERTY

The property portfolio delivered strong performance in 2015 across the board. We received two IPD industry awards based on three year and 10 year performance. This shows the benefit of our long-term approach and stewardship of well-diversified and high quality holdings.

Rural

The focus for the portfolio has continued across three main areas: working with our farmer tenants to maximise the capital and rental value of the holdings, exploring value-adding opportunities, and completing a number of selected sales across the portfolio. 2015 was a productive year and we successfully completed a number of tenancy restructures, to the benefit of both parties. This has enabled additional capital investment into the portfolio with much of this targeting drainage and irrigation to help protect against adverse weather. We also invested in horticultural processing and packing facilities to enable the Commissioners to generate additional value in higher yielding agricultural facilities.

Our minerals interests continue to generate important revenue and capital, and in working with a minerals operator over the last six months, we have made a planning application for a new quarry site in the Midlands which will operate for ten years. We continue to explore opportunities in the renewable energy sector and secured planning consent for a 5MW solar farm near Carlisle, which will generate electricity for around 1,200 homes.

All of this work helped to support the investment performance of our agricultural holdings, which generated a return of 9.0% in 2015.

Strategic land

Planning permission was granted in Ely, Cambridgeshire for 800 new houses on the edge of the city. Committee approvals were received for 500 new houses on the edge of Lincoln and up to 50 homes at Wetheral, Carlisle and also at Coxhoe, Co. Durham. Each site will see the delivery of much-needed market and affordable homes.

In 2015 housing allocations were confirmed by local authorities for approximately 3,500 new residential and employment opportunities across the Commissioners' portfolio at Hereford, Chichester, Ely, Gateshead and Humberside Airport. Draft allocations for a further 2,600 new dwellings were made in the year.

Sales throughout the year provided capital receipts of £11.4m, including Paston, Peterborough and at Bishop Auckland, Co. Durham where the construction of new homes is well under way. We also sold land at Ryhope, Sunderland for the development of 300 new homes. The Commissioners' landholdings south of Ashford continue to deliver a range of new dwellings, in total 1,100 market and affordable homes in the coming years. The first phase of development has nearly completed and construction work has begun on the second phase.

The strategic land portfolio delivered a return of 19.8% in 2015.

Residential

Our Hyde Park Estate generated £27.0m from lease extensions and sales, and we reinvested £14.6m buying flats and houses to let at Alleyn Court, Sussex Gardens, Kendal Street and Connaught Square. We completed eight refurbishments and 12 service charge projects, the largest being the recladding of 10–72 Sussex Square, a block of 62 flats.

At Connaught Village, we continued work to secure lettings to independent retailers, galleries and restaurants, helping to create a vibrant destination for visitors and residents. We secured new lettings to three new boutiques: Kokoru, The Place and Buttiku (with the last on a 'pop up' basis), Lucy Choi (designer shoes), Salt and Honey (restaurant), and the Barbara Stanley Gallery (specialising in Irish contemporary art).

We continue to make improvements to the public realm and the first phase of the reinstatement of iron railings was completed in Sussex Gardens.

Outside of the Hyde Park Estate, we sold Hartlebury Castle for £2.27m to the Hartlebury Castle Preservation Trust, who plan to use the former See House of the Bishops of Worcester for education, as an events venue and for community activities.

This portfolio generated a total return of 19.5%.

Commercial

We successfully completed the sale of five assets: Reedswood Retail Park, Walsall; Imperial House, Kingsway, London WC2; 17 Moorgate, London EC4; 26 Throgmorton Street, London EC4; and Carina Court, Queens Road, Reading, taking advantage of strong markets and achieving good prices. We also completed 11 new lettings and two rent reviews, all of which resulted in a total return of 13.5%.

Indirect property

Our focus in the year was on achieving key sales and seeing a return of capital as well as considering bespoke opportunities with trusted managers. We undertook well timed sales of our global REIT exposure in early February 2015 and a majority of our student housing in the fourth quarter.

The indirect property portfolio delivered a return of 12.8% in 2015.

ALTERNATIVES

Timberland and forestry

The Commissioners' forestry estate now covers almost 120,000 acres here in the UK, the United States and Australia. All of our UK and US forests are operated to the highest standards and all wood produced is fully certified as sustainable to international standards.

We acquired two new investments in Australia, taking our total Indian Sandalwood holding to 1,675 acres. Sandalwood is a long-term investment which within 15 years will provide high quality natural oil to be sold to pharmaceutical and perfume manufacturers.

We won a national award presented at the Royal Highland Show for the quality of a new forest we established in Perthshire. We are also exploring renewable energy opportunities across the portfolio, and own two wind farms in Scotland, providing 32MW of renewable power.

Our timberland and forestry portfolio delivered a 13.0% return in 2015.

Carol Hawkey, Head of Rural Property

"We are pleased to continue to see strong returns in rural land to support the ministry and mission of the Church, and working with tenants such as the Hall Hunter Partnership to see best-in-class environmental standards and biodiversity practice (pictured below)."

Responsible Investment review

The Church Commissioners' ambition is to be at the forefront of responsible investment practice. In 2015 we took further, significant steps toward this goal.

The Commissioners' work on responsible investment in 2015 was dominated by climate change. One of my abiding memories of the year is the day I joined the Church of England's Pilgrimage2Paris to walk from Brighton to Newhaven to show my solidarity with those walking for climate change justice ahead of COP21.

Earlier in the year, in May, the Commissioners, advised by the Church's Ethical Investment Advisory Group (EIAG), adopted a new climate change policy. The policy sets out a comprehensive approach to climate change, explaining: when we divest, how we seek out low-carbon investments, and how we engage with companies and public policy; all of which demonstrates our commitment to a transition to a low carbon economy.

The other personal highlight for me was the success of the shareholder resolutions on climate change disclosure that we co-filed with BP and Shell. It was quite unprecedented to see these resolutions pass almost unanimously at both companies with the support of their respective boards. As a result, the way oil and gas companies manage the risks and opportunities arising from climate change has been established as a key component of their corporate reporting. This year the Commissioners have filed similar resolutions at the AGMs of some of the largest global mining companies.

A key feature of my work in 2015 was the completion and implementation of a Responsible Investment Framework which highlights the importance of integrating environmental, social and governance (ESG) issues into the way we invest. The framework outlines our expectations of investment managers.

The Commissioners' ambition remains to be at the forefront of responsible investment practice, and we are excited to continue our journey into 2016. Our two key priorities are playing a leading role in investor action to realise the ambitious goals of the Paris climate change agreement, and working to embed the Responsible Investment Framework.

Edward Mason
Head of Responsible Investment

Responsible investment – exclusions
The Commissioners adopted one new category of ethical investment exclusion in 2015 on the advice of the EIAG. Under our new climate change policy, we no longer make direct investments in companies deriving more than 10% of their revenues from the extraction of thermal coal or oil sands. We divested £9m in high carbon fossil fuel companies on the adoption of the new policy.

In addition, a new company-specific exclusion, SOCO International, was introduced after SOCO failed to address our concerns about the company's activities in Virunga National Park in the Democratic Republic of Congo and allegations of human rights abuses, bribery and corruption.

We continue to prohibit direct investments in companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending and human embryonic cloning, subject to revenue thresholds.

Further progress was made in 2015 implementing our new policy on alcohol, under which companies deriving revenues from alcohol are only eligible for investment if they meet EIAG standards for responsible marketing and retailing. We saw further examples of improvements in corporate practice in the course of the year as a direct result of the policy and associated engagement work. SABMiller Plc passed our assessment process for responsible marketing and retailing

Helen Wildsmith, Stewardship Director, climate change at CCLA (second from left) with Edward Mason on the Pilgrimage2Paris climate walk.

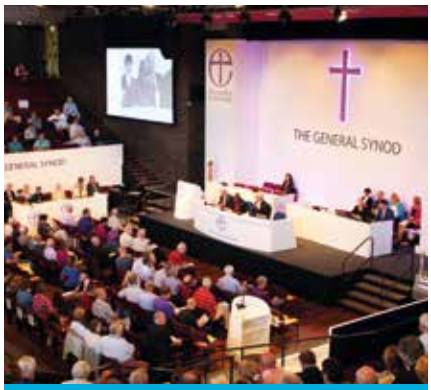
Driving the transition to a low carbon economy through engagement

The Commissioners are founder members of the *Aiming for A* coalition which is engaging on climate change with the ten largest UK-listed extractives and utilities companies. In 2015 the group filed shareholder resolutions at the BP and Shell AGMs setting out a new, comprehensive regime for disclosure to investors on their response to the transition to a low carbon economy. The resolutions received 'yes' votes of over 98% at the BP and Shell AGMs.

This year with a coalition of co-filers with assets of over $8tn we have filed resolutions at Anglo American, Glencore and Rio Tinto. At Anglo American, the owners of over 5% of the issued share capital of the company have joined the filing. This is the first time that this threshold has ever been reached for an environmental or social resolution filed at a UK company. *Aiming for A* is signalling to companies, in a way that has never been done before, the importance that shareholders attach to the transition to a low carbon economy.

We are now taking our engagement work stateside and have co-filed our first ever shareholder resolution in the US calling on ExxonMobil to be more transparent about climate change reporting.

Responsible Investment review



Climate Change Policy

In June 2015, the Church's General Synod unanimously supported the National Investing Bodies' Climate Change Policy, with 255 votes for and none against. Rooted in theology, the policy outlines the low-carbon investments we look for, when we divest, and how we engage with companies and policymakers.

in 2014 after detailed examination and engagement and appears as one of our larger investments in this year's financial statements.

Responsible investment – engagement

"Climate change is the most pressing moral issue in our world," said the Bishop of Salisbury, the Rt Revd Nicholas Holtam, lead bishop on the environment, in the Financial Times in support of the announcement of our new climate change policy.

The policy is a good example of the importance of active ownership in our approach to responsible investment.

Our active ownership activities comprise voting our directly held shares as well as engaging key companies.

In 2015 we:

- voted on 30,463 resolutions at 2,455 company meetings globally;
- supported only 32% of UK remuneration resolutions at company AGMs;
- held engagement meetings with 20 companies on environmental, social and governance issues; and
- provided funding to help the Institutional Investors Group on Climate Change recruit a new Head of Policy in the run-up to the COP21 meeting in Paris.

Integrating environmental, social and governance (ESG) factors into investment

In July 2015, the Commissioners adopted a Responsible Investment Framework setting out the way we integrate ESG issues into our investment decisions. Our Responsible Investment Framework sets out what we expect of our external asset managers and how we promote industry best practice.

We use third party data to monitor the non-financial characteristics of as much as possible of our public equities portfolio and to make a comparison against our blended UK/global listed equities benchmark.

Data from MSCI ESG Research indicates that, at the end of 2015, our public equity portfolio had a significant tilt towards companies with better social characteristics compared to its combined benchmark, and less significant tilts towards companies with poorer environmental and governance characteristics.

Trucost data indicates that the carbon footprint of our portfolio was 163 tonnes of 'carbon dioxide equivalent' per £1m of corporate revenue compared to 217 tCO_2e for our benchmark.

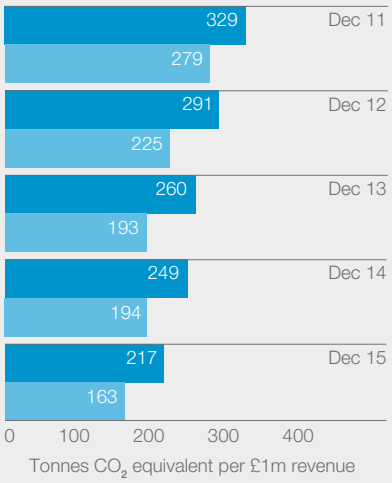
Sustainability

At 31 December 2015, £301.5m of the Commissioners' investment portfolio (approximately 4.3%) qualified for inclusion in the Low Carbon Investment Registry maintained by the Global Investor Coalition on Climate Change:

- The Commissioners' £251m sustainably certified forestry portfolio.
- The Commissioners' £29m investment in two green office buildings in Singapore.
- The Commissioners' £21.5m holding in the Impax Environmental Markets plc Fund.

We are actively searching for further low carbon investment opportunities as well as pursuing all opportunities to add to commercial renewable power generation – both wind and solar – on our rural and forest land. At the end of 2015 we had operational wind farms with 32MW of capacity on our UK forest estate, and in the course of the year received planning permission for one new 5MW solar scheme in 2015.

Listed Equities Carbon Footprint

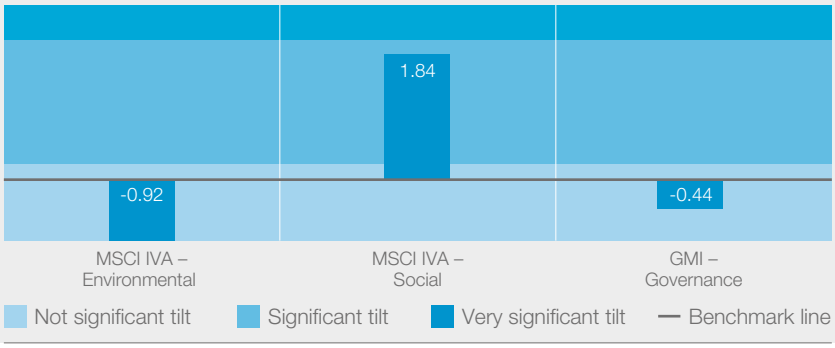


Benchmark
Church Commissioners

We continue to have one of our largest listed equity mandates, valued at £323m at 31 December 2015, with Generation Investment Management, which was co-founded by former US Vice-President Al Gore, and all of whose investments must meet sustainability criteria. This represents a further 4.6% of the Commissioners' overall investment portfolio.

External assessment and awards
In our 2015 assessment report, the Principles for Responsible Investment (PRI) Secretariat assessed the Commissioners for our implementation of the UN Principles. The Commissioners were awarded A+ for our overarching approach to Responsible Investment.

Church Commissioners' Portfolio Style Skyline™ Report



In April 2015 we were awarded the Portfolio Institutional Award for Best Implementation of Responsible Investment and in November 2015 shortlisted for the ESG and climate risk management categories at the Investment & Pensions Europe awards.

Signatory of:
PRI Principles for Responsible Investment

Winner 2015 Best implementation of responsible investment portfolio institutional awards

Signatory of:
PRI Montréal PLEDGE
Principles for Responsible Investment

Looking ahead
Ahead of UN Climate Change Conference of Parties (COP21) in December 2015, we signed the PRI Montreal Pledge – committing to measure and publicly disclose the carbon footprint of our investment portfolios on an annual basis.

COP21 has changed the landscape. Investors need to revisit their stewardship of companies and companies need to look hard at their business plans for climate change.

In 2016 we will be doing all we can to help make the ambitions of the Paris Agreement reality, while continuing to take forward implementation of our Responsible Investment Framework.

Wisdom

The Church Commissioners are committed to transparency and good governance as a charity as we fulfil our ongoing responsibilities to support the work of the Church of England.

Objectives

- To ensure cost-effective administration of the Commissioners' responsibilities
- To identify and manage organisational risk
- To be transparent and accountable in all organisational activity and internal governance
- To ensure trustees are properly resourced for their role
- To apply ethical investment policy guidelines

Claire and her son, residents on the Newcourt Development, Exeter which is funded by a grant for mission in new housing and other development areas

Trustees and Governance

The Church Commissioners for England (the Church Commissioners) are a statutory body created by the Church Commissioners Measure 1947. They are a registered charity (number 1140097) under the Charities Act 2011.

Public benefit
As trustees, the Church Commissioners are mindful of the Charity Commission's guidance on public benefit 'Charities and Public Benefit' and, in particular the supplementary guidance for charities whose aims include advancing religion 'The Advancement of Religion for the Public Benefit' and have regard to that guidance when reviewing the Commissioners' aims and objectives and in planning future activities.

We are confident that, by providing financial resources to support the work of parishes, bishops and cathedrals, it helps to promote the whole mission of the Church (pastoral, evangelistic, social and ecumenical) more effectively, at a national level, in the dioceses, and in individual parishes, and that in doing so it provides a benefit to the public by:

- providing facilities for public worship, pastoral care and spiritual, moral and intellectual development both for its members and for anyone who wishes to benefit from what the Church offers; and
- promoting Christian values, and service by members of the Church in and to their communities, to the benefit of individuals and society as a whole.

This report seeks to give examples of that public benefit in action.

Trustees and the Board of Governors
There are 33 Church Commissioners and they have the trustee responsibility for meeting our charitable obligations. Six of the Commissioners hold offices of state and the other 27 make up the Board of Governors, the main policy-making body.

Thirteen Board members are elected either by General Synod or the cathedral deans, and other members are appointed either by the Crown or the Archbishops for professional expertise of various kinds (e.g. actuarial, legal, investment). Board members are organised into five committees (Assets, Audit & Risk, Bishoprics & Cathedrals, Church Buildings (Uses & Disposals) and Mission and Pastoral) which fulfil the Commissioners' various responsibilities to the Church. They are joined by other, non-trustee, members, and the Board and all the committees are supported by an executive team led by the Secretary (Chief Executive), Andrew Brown.

The day-to-day management of the Commissioners is delegated to Andrew Brown. He is supported in his role by a senior management group comprising the Heads of Investment, Finance, Resource, Strategy & Development, Human Resources, IT, Pastoral & Closed Churches, Libraries & Archives and Bishoprics & Cathedrals departments as well as a small secretariat. He is also regularly advised by the Official Solicitor (and Deputy Official Solicitor) and others.

Trustees
During 2015 we were sorry to say farewell to Sir Tony Baldry, the Bishop of Bristol, the Dean of Wells, Simon Picken QC and Sally Muggeridge. They had served the Commissioners faithfully and expertly and they all have our gratitude.

We are fortunate that they have been succeeded by Caroline Spelman MP (see top right), the Bishop of Lincoln, the Dean of Gloucester (see right), William Featherby QC, and Gavin Oldham who returned following a short break in his service. All of them bring great skill, experience and strong commitment to the Church and are valuable additions to the Board and their respective committees.

We were especially pleased when the First Church Estates Commissioner, Sir Andreas Whittam Smith, was knighted for public service, particularly to the Church of England.

Second Church Estates Commissioner, Rt Hon Caroline Spelman, is the Member of Parliament for Meriden

Caroline Spelman is the first Second Church Estates Commissioner with Cabinet-level experience having served as Secretary of State for the Environment, Food and Rural Affairs and Party Chair. She has also held a number of Shadow ministerial roles, is Vice Chair of Tearfund and Patron of a drug and alcohol rehabilitation charity. See page 36 for more detail on the work of the Second Commissioner.

The Very Revd Stephen Lake, Dean of Gloucester

Stephen Lake was elected to the Commissioners on 1 January 2016, replacing the Dean of Wells who stepped down at the end of 2015. Stephen has been Dean of Gloucester since 2011, is a trustee of the Scout Association, Chair of the Gloucester Regeneration Advisory board, and has previously served as a member of General Synod for seven years.

Stephen is a member of the Board of Governors and sits on the Bishoprics & Cathedrals Committee.

Attendance at Board and Committee meetings

Board/Committee	Board	Assets	Audit & Risk	Bishops & Cathedrals	Pastoral	Church Buildings (Uses & Disposals)
Number of meetings	**4**	**5**	**3**	**5**	**6**	**4**
Archbishop of Canterbury, Justin Welby	The Archbishop of Canterbury chairs the Annual General Meeting. By arrangement he does not attend meetings of the Board of Governors. The Bishop of London is the Archbishop's appointed deputy.					
Archbishop of York, Dr John Sentamu	3					
Sir Andreas Whittam Smith CBE, First Church Estates Commissioner	3	5				
Sir Tony Baldry MP, Second Church Estates Commissioner (to April 2015)	1 of 1					
Caroline Spelman MP, Second Church Estates Commissioner (appointed in May 2015)	1 of 2					
Andrew Mackie, Third Church Estates Commissioner	4			5	5	4
Bishop of Bristol, Mike Hill (to September 2015)	0 of 2	2 of 4				
Bishop of Chichester, Dr Martin Warner	2			4		
Bishop of Doncaster, Peter Burrows				2 of 2		
Bishop of Lincoln, Christopher Lowson (elected in November 2015)	1 of 1				0 of 1	
Bishop of London, Dr Richard Chartres	4					
Bishop of Manchester, David Walker	3				2 of 5	
Bishop of Truro, Tim Thornton					0	
Dean of Wakefield, Jonathan Greener	4			5	5	
Dean of Wells, John Clarke (to December 2015)	1			1		
Ven Penny Driver					4	
Revd Mary Bide				5		
Revd Stephen Evans					5	
Revd Amanda Fairclough	4	4				
Revd Anne Hollinghurst				1 of 3		
Revd Simon Talbott						2

Board/Committee	Board	Assets	Audit & Risk	Bishops & Cathedrals	Pastoral	Church Buildings (Uses & Disposals)
Revd Stephen Trott	3					2
Revd Canon Bob Baker	4				6	3
Revd Canon Peter Cavanagh						2
Canon Peter Bruinvels	4	3			6	
Canon Elizabeth Renshaw				3		
April Alexander	3		3			4
Ian Ailles			3			
Poppy Allonby	3	5				
Rosemary Butler				1		
Jeremy Clack	4		3			
Margaret Davies						1
Stephen East			2			
Julia Flack					5	
Harry Hart	4	4				
George Lynn			2			
Sally Muggeridge (to September 2015)	2 of 2					3 of 3
Gavin Oldham (elected in September 2015)	2 of 2					
Graham Oldroyd	3	4				
Simon Picken QC (to May 2015)	2 of 2				1 of 3	
Susan Pope					4	
Hywel Rees-Jones	3		3			
John Steel						4
Jacob Vince	4			3		
Ian Watmore	4					4
Mark Woolley	4	5				
John Wythe	4	4				

* Those listed in italics are non-Commissioners

National administration

Rt Hon Caroline Spelman MP

The Second Church Estates Commissioner

The office of the Second Church Estates Commissioner maintains the statutory accountability of the Church Commissioners to Parliament through the regular answering of questions in the House of Commons on the work of the Church. Following the general election of May 2015, Rt Hon Caroline Spelman MP was appointed as the new Second Church Estates Commissioner.

During 2015 a wide range of questions were responded to, the most frequent being on: persecuted Christians overseas, Syria, investments and climate change. The Second Church Estates Commissioner has also engaged with government ministers on ethical investment, housing strategies, the detrimental impact bats have on church buildings and the government's proposals to regulate supplementary schools.

The most high profile work which Mrs Spelman has been engaged in so far has been the Education and Adoption Bill to protect the religious character of Church schools which join multi-academy trusts, leading the opposition debate to the Assisted Dying Bill and moving the Church Measures relating to safeguarding and diocesan stipends through the House of Commons. Mrs Spelman has also introduced a Private Member's Bill regarding the modernisation of marriage registration on behalf of the government and the Church of England.

Full details of the questions answered by Mrs Spelman in 2015 are available on the dedicated Church of England in Parliament website: churchinparliament.org

People and employment

The Commissioners have a responsibility to work with the other National Church Institutions (NCIs) to serve the wider Church and ensure effective use of the Church's money. The work of *Renewal and Reform* has focused this responsibility and is placing an even higher premium on effective collaboration. An element of the *Optimising the NCIs* workstream is to develop and implement a shared set of values and behaviours and a clear aligned purpose. This work will enable better leadership of teams to drive more effective delivery of each organisation's specific objectives and improved collaboration across the NCIs and work with stakeholders and dioceses.

Across the NCIs the number of staff who class themselves as Black and Minority Ethic (BME) is 14.5% – a marginal increase from 2014 and above our declared target of 14% overall, although not all NCIs are at the minimum 8%. There has been consistency with women in senior bands (0–2) reaching 40% in 2014 and increased to 41.5% in 2015. Measures have been taken to seek to diversify our applicant base; including actively recruiting through social media, including Twitter and LinkedIn, to new and different potential candidates.

This year also saw the signing of the *Armed Forces Corporate Covenant* demonstrating the Church's support for the Armed Forces community, including providing positive action for recruiting veterans. In 2016 work will be done to develop the use of apprentices as part of our diversity and inclusion strategy.

RUNNING THE NATIONAL PAYROLL FOR SERVING AND RETIRED CLERGY

The Commissioners administer the national clergy payroll for the Church of England and are responsible for ensuring accurate and timely stipend payments to 8,000 serving clergy, including canons on behalf of 14 Cathedrals. MyView for clergy enables users to access pay documents, change bank details, view their personal details and submit forms online.

The MyView feature, launched in 2014 allowing clergy to submit online HLC returns, has seen an increase in take up with 5,500 clergy submitting their figures using this new feature in 2015.

PAYING CLERGY PENSIONS FOR SERVICE PRIOR TO 1998

The national clergy payroll is also used to pay pensions to retired clergy. The Commissioners are financially responsible for meeting the cost of pensions earned from service until the end of 1997 with subsequent service being met from a funded scheme operated by the Church of England Pensions Board.

In 2015 the Commissioners' expenditure on clergy pensions was £122.7 million (2014: £123.4 million). At the end of 2015 the Commissioners were funding – in full or in part – the pensions of 9,725 retired clergy and 3,661 surviving spouses. Pensions in payment increase every year in line with the retail price index.

Staff remuneration and executive pay

Other than staff involved in asset management who are on separate contracts of employment, all the staff in the Church Commissioners and those working for Church of England Central Services who provide support functions to the Commissioners are covered by a unified pay policy that operates across all the NCIs. The policy is designed to ensure the same level of pay for all staff in posts with work of equal value which is based on a comprehensive job evaluation scheme, with staff being placed in one of eight 'bands'. For certain staff with specialist skills, typically those whose role requires them to hold a professional qualification, a market adjustment may be applied, the value of which is determined by reference to the lower quartile and median of market related salaries and is subject to annual review. The NCIs retain the services of AON Hewitt to advise on market rates. Staff pay is reviewed annually and any increases as a result of the annual pay negotiations are awarded with effect from 1 January each year. No staff member employed by the Church Commissioners earns less than the London Living Wage.

Certain senior roles, including that of the Chief Executives, sit outside the banding system, as the skill set required to fulfil the role is not readily measured within the NCIs' standard job evaluation system. Salaries for these roles are set individually with reference to the wider marketplace, typically comparing to the charity and public sector market, and is overseen by the Remuneration Committee comprising senior trustees from each of the main NCIs. In general these staff can expect the same percentage annual uplift for cost of living (see further analysis below).

During 2015 the highest paid member of staff earned 11 times the salary (excluding LTIP payments – see below for further details) received by the lowest paid member of staff and 5.6 times the median salary.

Asset management staff

Staff engaged directly in the management of the Church Commissioners' investment portfolio sit outside the general NCI pay arrangements described above. The Church Commissioners are a large and sophisticated institutional investor investing in a broad range of asset classes, including significant property holdings, and as such seek to attract and retain high calibre investment professionals. Accordingly, salaries are designed to reflect the market for investment specialists and incorporate an element of Long Term Incentive Payment (LTIP) which encourages consistent outperformance of the Commissioners' target investment return of RPI plus 5% p.a. over a sustained period of five years. The level of pay and the value of LTIPs is overseen by a Remuneration Committee comprising trustees on the Assets Committee supported by independent benchmarking data. The scheme is reviewed for consistency with the executive remuneration policy adopted by the Church's National Investing Bodies on the recommendation of the Ethical Investment Advisory Group.

Amounts payable in relation to the fund performance are spread over three years, and the full amounts are only payable if the recipient remains in post during that time. By this method the Commissioners seek to ensure incentives are directly aligned with their objectives and are also long term in nature. In the year to 31 December 2015, nine asset management staff for the Commissioners received LTIP payments totalling more than £837,000 based on the long term performance of the fund. The highest paid member of staff received an LTIP payment of £208,000 (see page 63 for further details).

The Secretary to the Church Commissioners does not participate in the LTIP scheme.

Staff pensions

All staff members are eligible to join the Church Administrators Pension Fund – those whose employment commenced before July 2006 accrue pension on a defined benefit basis, and those employed subsequently are part of the defined contribution section with employer contribution rates ranging from 8% to 18% depending on the age of the employee.

Risk management

1. The Church Commissioners' risk management process assists management by facilitating the identification and assessment of significant risks to the achievement of objectives. The process is supported by a risk management policy which outlines the roles and responsibilities of Commissioners, management and staff.
2. The Board of Governors reviews the risk register and risk management arrangements annually. The Board is supported by the Audit & Risk Committee, which regularly reviews the content of the risk registers and seeks assurance over the adequacy of arrangements in place to manage the risks. Operational risks, related to investment operations, are also subject to regular review by the Assets Committee.
3. Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. Risks are prioritised using an agreed scoring methodology and are assessed at an inherent and residual level. The risk management process is facilitated and monitored by the Internal Audit and Risk Management Department. The management of key risks are subject to independent review and assurance through the internal audit process, which reports to the Audit & Risk Committee.

Major Risks

The major inherent risks which the Board of Governors considers most significant are:

Principal Risk Area	Key Management Actions and Plans
Poor long-term market returns (below the level assumed by Church Commissioners' actuaries) impacting on the ability to provide stable and sustainable distributions.	• Disciplined evaluation driven investment process. Supported by a high calibre/experienced non-executive members of the Assets Committee. • Significant portfolio diversification strategy and diversification of fund managers managed by a well-resourced internal investment team. • Regular review of overall portfolio asset allocation, performance monitoring and reporting to trustees in the Assets Committee and subcommittees. • Actuarial advice and guidance on distribution capacity. • Forward planning process to identify spending plans and identify potential issues due to investment performance.
Responses to significant increases in support costs impact on the level of distributions'.	• Review, approval and governance arrangements to control costs. • Ongoing communication with stakeholders to assist the early identification of emerging costs. • Discretion over the allocation of funds to allow the protection of distributions.
Loss of Church or societal confidence in the Commissioners' ethical investment policy.	• Theologically grounded ethical investment policies by independent Ethical Investment Advisory Group and commitment to the UN Principles for Responsible Investment. • Responsible Investment team which overseas implementation of ethical and responsible investment and leads communication to the Church and wider society. • Robust monitoring arrangements with third parties to review compliance with ethical investment requirements.
The cost and effectiveness of works to ensure the maintenance of Lambeth Palace.	• Ongoing and detailed surveys of work required and the commencement of high priority works. • Ensuring adequate funding is available to undertake works. • Plans to ensure that disruption to the work of the Palace is minimised.
IT robustness and security and the effective management of data.	• Policies, training and monitoring processes to assist compliance with legal and regulatory requirements. • Improvements to IT infrastructure and IT security have been undertaken and further developments are planned. • IT Governance Group to review the robustness of processes.

Long-term financial strategy

Reserves policy
Under the terms of a Total Return Order from the Charity Commission obtained in 2012, the Church Commissioners account and report returns (whether capital or income) and charitable expenditure on a total return basis. Having considered the level of unapplied total return, which at the end of 2015 was £4,250m (end 2014: £3,873m) (set out in more detail in note 15 to the financial statements), the trustees consider this to be sufficient in the light of their expenditure plans and distribution policy and that a general reserve is not needed.

In addition to being able to spend unapplied total return the Commissioners have a time limited power, currently extended to December 2025, to spend capital on its clergy pension obligations (described in more detail in note 14 to the financial statements).

Distribution policy
In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries. Every three years the actuaries, Hymans Robertson, carry out a detailed assessment of how much of our fund should be held to meet our pension obligations and how much we can afford to spend for other purposes given our aim to maintain and grow such distributions over time. In the years between full reviews, the actuaries assess whether existing plans remain affordable. Following their most recent full review of the fund as at the end of 2012, we informed beneficiaries of our plan to make non-pensions distributions of £94.6m per annum throughout the 2014–2016 triennium, which continues to be affordable. An update of the valuation work as at the end of 2015 is currently under way.

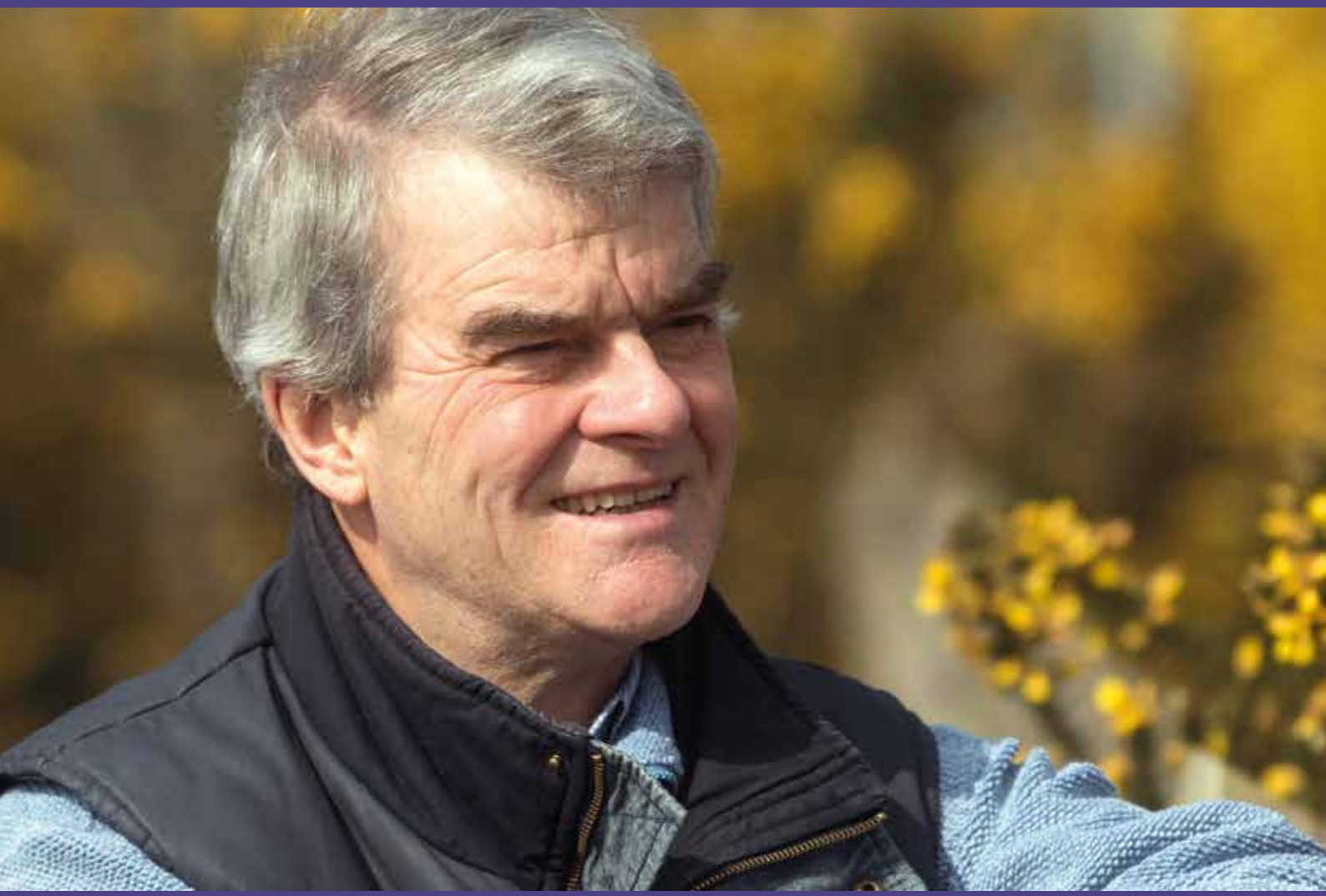
Transparent governance
The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the charity and of the incoming resources and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply in all material respects with the Charities Act 2011. The trustees are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the organisational and financial information included on the Commissioners' section of the Church of England website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Financial statements

The Church Commissioners are committed to being a transparent and well-governed charity supporting the work of the Church of England.

Our ongoing responsibilities:

- Providing funds to support mission activities
- Supporting dioceses with fewer resources with their ministry costs
- Paying for bishops' ministry and some cathedral costs
- Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings
- Running the national payroll for serving and retired clergy
- Paying clergy pensions for service prior to 1998

John Arkell, Mission Enabler at Newcourt Development, Exeter, and is funded by a grant for mission in new housing and other development areas

Foreword by the Chief Finance Officer

This year more than ever before we have been able to show through our accounts how the Church Commissioners generate income and support the spending for the mission and ministry of the Church of England across the country. The new SORP requirements have helped us articulate this better. I am delighted to see how our accounts show positive growth in income ahead of our own and industry benchmarks in a challenging financial market and how we are demonstrating the public benefit that our expenditure supports.

Looking ahead, the finance team is keen to support the Church Commissioners with their intention to fund the programme of *Renewal and Reform* as it transitions over a 10-year period and the team looks forward to ensuring the continued focus on Strategic Development Funding and the more deliberate measurement of results. This will allow us to ensure we are making the right decisions to support growth.

A key aim through improved reporting and measurement is to help dioceses identify where funding is not creating the right results and divert it to where it is most needed and will have greater impact. Through better measurement and financial intelligence we can continue to make better decisions about what is working well to ensure long-term growth.

Good performance is about supporting the Church in its mission and ministry work. It is also about preserving cultural and historic assets for future generations including our listed buildings and libraries. The Lambeth Palace Library which has the second largest religious collection in Europe after the Vatican is a good example of this.

Ian Theodoreson
Chief Finance Officer

Independent Auditor's Report

To the Church Commissioners for England

We have audited the financial statements of The Church Commissioners for England ("the Commissioners") for the year ended 31 December 2015 which comprise the Consolidated Statement of Financial Activities, the Consolidated and the Commissioners Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 18. 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". The accounting policy in respect of the clergy pension obligation, and the reasons why the Commissioners do not make provision for this obligation, are explained in note 1(a).

This report is made solely to the charity's trustees, as a body, in accordance with section 144 of the Charities Act 2011 and regulations made under section 154 of that Act. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them 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 charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement, the trustees are responsible for the preparation of the financial statements which give a true and fair view.

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act. 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 the parent charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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's and the parent charity's affairs as at 31 December 2015, and of the group's incoming resources and application of resources, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011 and the Church Commissioners Measure 1947 (as amended).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept by the parent charity; or
- the parent charity financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 April 2016

Deloitte LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006 and consequently to act as the auditor of a registered charity.

Consolidated statement of financial activities

For the year ended 31 December 2015

	Notes	2015 General fund £m	2015 Endowment £m	2015 Total £m	2014 (restated) General fund £m	2014 (restated) Endowment £m	2014 (restated) Total £m
Income from:							
Investments	2	–	143.4	**143.4**	–	137.9	**137.9**
Other		2.5	2.1	**4.6**	2.5	–	**2.5**
Transfer to income	15	93.6	(93.6)	**–**	94.0	(94.0)	**–**
Total		96.1	51.9	**148.0**	96.5	43.9	**140.4**
Expenditure on:							
Raising funds	2(c)	–	(57.7)	**(57.7)**	–	(52.9)	**(52.9)**
Charitable activities	3	(96.1)	(122.4)	**(218.5)**	(96.5)	(122.9)	**(219.4)**
Total		(96.1)	(180.1)	**(276.2)**	(96.5)	(175.8)	**(272.3)**
Total net expenditure before investment gains		–	(128.2)	**(128.2)**	**–**	**(131.9)**	**(131.9)**
Gains on investment assets	2	–	424.4	**424.4**	–	752.2	**752.2**
Gains on investment current assets		–	1.1	**1.1**	–	0.6	**0.6**
Losses on derivative financial instruments		–	(14.4)	**(14.4)**	–	(14.5)	**(14.5)**
Gains on foreign currency		–	7.8	**7.8**	–	14.4	**14.4**
Net income		–	290.7	**290.7**	–	620.8	**620.8**
Other recognised gains and losses							
Transfers out of Church of England Pensions Scheme (clergy pre 1998)	14(a)	–	(0.2)	**(0.2)**	–	(0.6)	**(0.6)**
Actuarial gains/(losses) on defined benefit pension schemes (staff pre 2000)	14(c)	–	11.1	**11.1**	–	(13.8)	**(13.8)**
Total other recognised gains and losses		–	10.9	**10.9**	–	(14.4)	**(14.4)**
Net movement in funds		–	301.6	**301.6**	–	606.4	**606.4**
Reconciliation of funds:							
Total funds brought forward (restated)		–	6,703.1	**6,703.1**	**–**	6,096.7	**6,096.7**
Total funds carried forward		–	7,004.7	**7,004.7**	–	6,703.1	**6,703.1**

The income, expenditure and other recognised gains and losses all relate to continuing operations, none of which were acquired during the year.

Changes to the opening funds resulting from the introduction of FRS 102 and the new Charity SORP are shown in the table below.

	General fund £m	Endowment £m	**Total £m**
Funds brought forward at 1 January 2014 as previously reported	–	6,125.3	**6,125.3**
Changes arising from FRS 102:			
Recognition of pension deficit recovery plan (clergy post 1997)	–	(9.5)	**(9.5)**
Recognition of pension deficit recovery plan (staff post 1999)	–	(18.1)	**(18.1)**
Recognition of provision for unpaid Long Term Incentive Payments ("LTIP")	–	(1.0)	**(1.0)**
Total funds brought forward at 1 January 2014 (restated)	–	6,096.7	**6,096.7**

Balance sheets

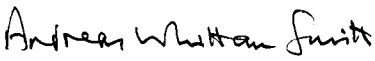
As at 31 December 2015

	Notes	Consolidated 2015 £m	Consolidated 2014 (restated) £m	Commissioners 2015 £m	Commissioners 2014 (restated) £m
Fixed assets					
Tangible assets	10	**95.7**	98.0	**95.7**	98.0
Heritage assets	11	**3.4**	3.2	**3.4**	3.2
Investments	2	**6,330.4**	6,268.4	**6,067.4**	6,007.5
Total fixed assets		**6,429.5**	**6,369.6**	**6,166.5**	**6,108.7**
Current assets					
Debtors	12	**42.2**	44.6	**317.4**	337.4
Current asset investments		**353.6**	205.7	**353.6**	205.7
Cash at bank and in hand		**391.6**	295.5	**389.1**	294.0
Total current assets		**787.4**	**545.8**	**1,060.1**	**837.1**
Liabilities					
Creditors: amounts falling due within one year	13	**(76.1)**	(59.8)	**(85.8)**	(90.2)
Net current assets		**711.3**	**486.0**	**974.3**	**746.9**
Net assets excluding staff pension liability		**7,140.8**	**6,855.6**	**7,140.8**	**6,855.6**
Pension liability (staff pre 2000)	14(c)	**(113.1)**	(125.8)	**(113.1)**	(125.8)
Provision for pension deficit liability (clergy post 1997)	14(b)	**(8.9)**	(9.5)	**(8.9)**	(9.5)
Provision for pension deficit liability (staff post 1999)	14(d)	**(14.1)**	(17.2)	**(14.1)**	(17.2)
Total net assets		**7,004.7**	**6,703.1**	**7,004.7**	**6,703.1**
Funds of the charity					
Endowment funds		**7,140.8**	6,855.6	**7,140.8**	6,855.6
Pension reserves	14	**(113.1)**	(125.8)	**(113.1)**	(125.8)
Pension deficit reserves	14	**(23.0)**	(26.7)	**(23.0)**	(26.7)
Net endowment	15	**7,004.7**	6,703.1	**7,004.7**	6,703.1
General fund	15	**–**	–	**–**	–
Total charity funds		**7,004.7**	**6,703.1**	**7,004.7**	**6,703.1**

The changes to the consolidated and Commissioners net assets resulting from the introduction of FRS 102 and the SORP are shown in the table below.

	£m
Net assets at 31 December 2014 as previously reported	6,739.9
Changes arising from FRS 102:	
Revaluation of see houses deemed to be cost	(8.6)
Recognition of pension deficit recovery plan (clergy post 1997)	(9.5)
Recognition of pension deficit recovery plan (staff post 1999)	(17.2)
Recognition of provision for unpaid LTIP	(1.5)
Total funds carried forward at 31 December 2014 (restated)	**6,703.1**

By order of the Board



Sir Andreas Whittam Smith
First Church Estates Commissioner

Consolidated cash flow statement

For the year ended 31 December 2015

Reconciliation of net income to net cash inflow from operating activities

	Notes	2015 £m	2014 (restated) £m
Net income for the reporting period		**290.7**	620.8
Adjustments for:			
Depreciation of tangible assets	10	**0.4**	0.3
Expenditure on raising funds paid from endowment capital	2	**57.7**	52.9
Expenditure on charitable activities paid from endowment capital	3	**122.4**	122.9
Income from investments	2	**(143.4)**	(137.9)
Less			
(Gains) on investments	2	**(424.4)**	(752.2)
(Gains) on foreign currency		**(7.8)**	(14.4)
Add			
Movement in debtors	12	**2.4**	9.5
Movement in current asset investments		**(147.9)**	(130.0)
Movement in creditors	13	**16.3**	21.4
Movement on pension deficit provision clergy post 1997	14	**(0.6)**	–
Movement on pension provision staff pre 2000	14	**(1.6)**	(0.8)
Movement on pension deficit provision staff post 1999	14	**(3.1)**	(0.9)
Net cash provided by operating activities		**(238.9)**	(208.4)

Statement of cash flows

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Net cash provided by operating activities		**(238.9)**	(208.4)
Cash flows from investing activities			
Income from investments	2	**143.4**	137.9
Expenditure on raising funds paid from endowment capital	2	**(57.7)**	(52.9)
Tangible assets: additions	10	**(0.2)**	(0.9)
Tangible assets: sale proceeds	10	**1.9**	2.4
Investments: additions	2	**(1,078.0)**	(1,789.6)
Investments: sale proceeds	2	**1,440.4**	2,039.6
Net cash provided by investing activities		**449.8**	336.6
Cash flows from financing activities			
Transfers out of Church of England Pensions Scheme	14	**(0.2)**	(0.6)
Charitable expenditure paid from endowment capital	3,14	**(122.4)**	(122.9)
Net cash provided by financing activities		**(122.6)**	(123.5)
Change in cash and cash equivalents in the reporting period		**88.3**	4.7
Cash at the start of the reporting period		**295.5**	276.4
Change in cash due to exchange rate movements		**7.8**	14.4
Cash at the end of the reporting period		**391.6**	295.5

Notes to the financial statements

For the year ended 31 December 2015

1. Accounting policies

(a) Legal status

The Church Commissioners for England ("the Commissioners") are a statutory body established by the Church Commissioners Measure 1947 (as amended) and have been regulated by the Charity Commission since registration on 27 January 2011.

(b) Basis of preparation

The consolidated and charity financial information has been prepared in accordance with:

- Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102");
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) ("the SORP"); and
- the Charities Act 2011.

The accounts ("financial statements") have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

The Commissioners meet the definition of a Public Benefit Entity ("PBE") as set out in FRS 100, and therefore apply the PBE prefixed paragraphs in FRS 102. The date of transition to FRS 102 was 1 January 2014.

The financial information has been prepared on the historical cost basis (except for the revaluation of investments) and on the accruals basis.

A summary of the accounting policies, which have been applied consistently across the group, is set out below.

The Commissioners adopt a total return approach to investments. Note 15 explains how the unapplied total return and the use thereof is calculated.

(c) Reconciliation with previous Generally Accepted Accounting Practice

In preparing the financial statements, the trustees have considered whether in applying FRS 102 and the SORP, a restatement of comparative items was needed.

Recognition of pension deficit recovery plans

Section 28 of FRS 102 requires an entity to recognise liabilities arising from an agreed deficit recovery plan for a multi-employer defined benefit pension scheme. At the date of transition, the Commissioners had agreements in place to contribute towards the deficit recovery plan of both the Church of England Funded Pension Scheme (for bishops, their chaplains and cathedral clergy) and the Church Administrators Pension Fund (for staff, both directly and through Church of England Central Services). The initial liability recognised at the date of transition was £9.5m in respect of the Church of England Funded Pension Scheme and £18.1m in respect of the Church Administrators Pension Fund.

Change in measurement basis of see houses

Section 35.10(d) of FRS 102 allows first time adopters of FRS 102 to use fixed assets' revaluation amounts as their deemed cost at the transition date of 1 January 2014. The Commissioners have taken advantage of this to re-base the 'cost' of its operational see house properties and change the accounting policy to cease revaluing them going forward and instead hold them at deemed cost.

Disclosure of biological assets

Section 34.2-34.10 of FRS 102 require biological assets to be disclosed separately. Trees within directly owned timberland meet the definition of biological assets and are therefore shown separately in note 2. FRS 102 has not resulted in a change to the measurement or recognition of timberland and the biological assets within this investment asset category.

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

(c) Reconciliation with previous Generally Accepted Accounting Practice (continued)

Categorisation of unrealised gains/losses on open derivative financial instruments

Previously included within the investment asset category, derivatives held to manage the risk of the fair value of any open forward foreign currency contracts are now included within debtors or creditors depending on the mark to market position at the balance sheet date. Investments, debtors and creditors are thus restated.

Recognition of LTIPs provision

In previous years, LTIPs were recognised in the year in which they were paid. While FRS 102 has not changed the recognition basis, the terms of these payments create a constructive obligation which should be provided for. As such other creditors and cost of raising funds are restated.

In accordance with FRS 102 a reconciliation of opening balances and net income for the year is provided. Net income under previous GAAP has been adjusted for the presentation of investment gains as a component of reported income.

(d) Going concern

After considering the Commissioners' role in funding the Church's ministry (described on pages 2–39 of the annual report), spending strategy, application of total return, and the legislation to allow endowment to be spent for specific pensions purposes, the trustees have reasonable expectation that the Commissioners have adequate resources and cash flows to meet their spending commitments for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

(e) Basis of consolidation and subsidiary undertakings

The consolidated statement of financial activities ("SOFA") and balance sheet include the financial statements of the Commissioners and all their subsidiary undertakings made up to 31 December each year. The subsidiaries have been consolidated on a line by line basis in accordance with Section 9 of FRS 102. Intra-group transactions are eliminated on consolidation.

Further details about the Commissioners' significant subsidiaries are given in note 2(e).

The Commissioners, together with the Archbishops' Council and the Church of England Pensions Board are equal partners in Church of England Central Services ("ChECS"), a joint venture. Further details are given in note 2(f). This jointly controlled entity is included in the Commissioners consolidated financial statements using the equity method. The Commissioners' share of profits or losses from ChECS is included in the SOFA and its share of net assets is included in the balance sheet.

The Commissioners have a number of joint ventures that are held as part of their investment portfolio (for investment purposes). These jointly controlled entities are held at fair value. Changes in fair value are recognised in the consolidated SOFA. More detail is shown in note 2(d).

The Commissioners do not present their non-consolidated statements of financial activities in these financial statements.

(f) Income

Securities portfolio

Income is recognised on the accruals basis. Dividends and interest, including any recoverable tax, are credited to income on the ex-dividend date of the underlying holdings.

Other investment income

Income from investment properties, property funds, value linked loans, directly held timberland, timberland funds and infrastructure funds is recognised on the accruals basis.

Loans

Interest on loans is recognised on the accruals basis.

Legacies and donations

Legacies are recognised when the conditions for entitlement, probability of receipt and measurability have been met.

1. Accounting policies (continued)

Legacies and donations (continued)

Items donated to the Commissioners for Lambeth Palace Library are recognised at the market value of the gift at the time of donation.

(g) Expenditure

The SOFA has been presented on an activity basis. Costs have been distinguished between charitable activities and those incurred to raise funds.

Expenditure and liabilities are recognised when a legal or constructive obligation exists as outlined in Section 7 of FRS 102.

The Commissioners' charitable activities are described in note 3. Direct costs and grants are allocated directly to activities and are described in more detail in notes 4 and 5. Grants are recognised when a firm commitment to provide funding is made and there is evidence of a constructive obligation to the beneficiary. Support costs are apportioned directly to the activity which they relate (as shown in note 6).

Cars for the use of bishops are normally obtained under four year leases, the full cost of which is paid at commencement. The cost of such leases is spread on a straight line basis over the period of the lease. The balance of the lease payments not yet charged to expenditure is included in prepayments.

(h) Pensions

Pensions are described in note 14.

The Commissioners' obligation to pay clergy pensions for pensionable service up to 31 December 1997 is not recognised as a liability on the balance sheet as it does not meet the FRS 102 requirements for an employer liability. This is consistent with the Commissioners' status and their power under the Pensions Measure 1997, as amended.

Defined benefit schemes of which the Commissioners are an employer or a 'responsible body' are considered to be multi-employer schemes as described in FRS 102 paragraph 28.11 and consequently are accounted for as if they were defined contribution schemes, where employer contributions payable in the year are charged to expenditure.

Where schemes have deficit recovery contribution plans in place, FRS 102 paragraph 28.11A requires the present value of these agreed payments to be recognised as a liability. Amounts paid during the year are charged against this liability.

(i) Fixed assets: tangible assets

Gains (or losses) resulting from the sale of fixed assets are recognised as income (or expenditure for losses) in endowment capital.

Costs incurred on acquiring, improving or adding to assets are capitalised. Repair and maintenance costs are charged to the SOFA in the period they are incurred.

Depreciation is charged on a straight line basis over the estimated useful life of the asset, calculated on the opening balance sheet value, on the following fixed assets:

Fixed asset	*Estimated useful life*
Leasehold office improvements	10 years
IT systems	5 years

No depreciation is charged on see houses and their historic content due to the anticipated high residual value, which would result in immaterial depreciation for each asset and in aggregate.

An impairment review is carried out annually and where the recoverable amount is materially less than historic cost, the assets are impaired to the lower amount.

As explained in note 1(c) operational see house properties are now held at deemed cost.

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

(j) Fixed assets: Heritage assets

The Commissioners own a number of assets that they consider to be heritage assets, which are held on an ongoing basis for their contribution to knowledge and culture, in particular relating to the history of the wider Church of England. The Commissioners' heritage assets have been grouped together in the following categories:

Lambeth Palace

Lambeth Palace is recognised at its historic deemed cost of £1. The Commissioners have chosen to recognise this class of heritage asset at cost, as allowable under Section 18 of FRS 102. They have chosen to adopt this policy as whilst it is believed that the market value, both at the time of acquisition and at the balance sheet date, was significantly in excess of the deemed cost, it is not possible to obtain a reliable estimate of the market value at either date, as conventional valuation techniques are inappropriate for the unique and historical nature of the building.

Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Maintenance costs are charged to the SOFA in the period they are incurred.

Historic contents of Lambeth Palace

Historic items are recognised at cost, deemed to be the value attributed to them in a valuation carried out in 2007. Under the previous UK GAAP items were revalued every 10 years but the adoption of FRS 102 (paragraph 35.10(d)) allows revaluation under UK GAAP to be used as the deemed cost under FRS 102. The Commissioners are taking advantage of this to re-base the deemed cost of these asset at their 31 December 2013 carrying value, at the date of transition of 1 January 2014.

Any additional items purchased or donated are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred.

The collection is reviewed for impairment at each accounting date.

Contents of Lambeth Palace Library

The Trustees consider that the vast majority of items in the library would be difficult, if not impossible, to value. The library contains a number of historical books and records with no obvious market value and no comparable sale records to use as the basis for valuation. As a result, no value is reported for these assets in the charity's balance sheet.

The exception is for books, manuscripts and other items purchased or donated since 1 January 2015, which are capitalised if the cost is greater than £1,000. Items in the collection that are capitalised are stated at cost but are not depreciated as the amount of depreciation is regarded as immaterial due to their anticipated high residual value. The collection is reviewed for impairment at each accounting date.

Historic contents of former see houses

Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost, deemed to be the value attributed to them in a valuation carried out in 2007. Under the previous UK GAAP items were revalued every 10 years but the adoption of FRS 102 (paragraph 35.10(d)) allows revaluation under UK GAAP to be used as the deemed cost under FRS 102. The Commissioners are taking advantage of this to re-base the deemed cost of these assets at their 31 December 2013 carrying value, at the date of transition of 1 January 2014.

Any additional items purchased or donated since 1 January 2015 are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred.

The collection is reviewed for impairment at each accounting date.

(k) Fixed assets: Investments

Properties

In accordance with Section 16 of FRS 102, investment properties are recognised at cost upon acquisition and then recognised at fair value at each balance sheet date. Changes in fair value are recognised in the SOFA. Fair value is determined through reference to each property's market value in accordance with the Appraisal & Valuation Manual issued by the Royal Institution of Chartered Surveyors ("RICS").

1. Accounting policies (continued)

(l) Financial instruments

The Commissioners have chosen to adopt sections 11 and 12 of FRS 102 in respect of recognition and measurement of financial instruments.

Basic financial instruments

Basic financial assets, including **cash at bank** and **trade and other receivables** are recognised and held at transaction price. They are de-recognised when the rights to the cash flows from the financial assets expire or are settled.

Listed and unlisted investments are initially measured at fair value. Such assets are subsequently held at fair value at each balance sheet date. The changes in fair value are recognised in the SOFA. The fair value of listed investments is determined using bid price in accordance with the practice of the appropriate stock exchange. Unlisted investments are valued by reference to latest dealing prices, valuations from reliable sources or net asset values.

Basic financial liabilities, including **trade and other payables** and **intra-group balances** are initially recognised at transaction price. Bank loans are subsequently measured at the amortised cost, using the effective interest rate.

Financial liabilities are de-recognised, when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Non-basic financial instruments

All non-basic financial instruments, including instruments used for hedging, are measured at fair value. Any changes to fair value are recognised in the SOFA.

Value linked loans are valued annually at portfolio level taking into account indexed values of the properties, estimated future house prices growth and income flows and the anticipated dates of repayment.

Property funds and **subsidiary undertakings:** annually valued at the Commissioners' share of the underlying net assets. Underlying assets are valued on the same bases as those held directly, that is in line with International Valuation Standards ("IVS"), on a rolling three year programme or more frequently.

Timberland (including biological assets): timberland is valued externally at least every three years at market value in line with IVS, which is calculated on the timber maturity profile, the species, the geographic location and other environmental considerations. In intermediate years timberland is valued by in-house professionals at brought forward market value adjusted for capitalised expenditure and decreases caused by harvesting during the year. Changes in fair value in the year resulting from both net growth and change in the market value of standing timber are reported in the gains and losses on investments in the SOFA. At point of harvesting, the carrying value of forestry assets is valued at fair value less estimated point-of-sale costs. The revenue from the sale of standing timber is recognised as income.

Indirect timberland: annually valued at the Commissioners' share of the underlying net assets.

Infrastructure: annually valued at the Commissioners' share of the underlying net assets.

All changes in fair value and gains or losses on disposal of investment assets, including related foreign currency transactions, are shown in other gains and losses in endowment capital in the SOFA.

Stock lending programme

The Commissioners' global custodian is authorised to enter into stock lending arrangements, whereby securities are loaned to external counterparties for a set period of time. The Commissioners receive collateral of greater value than the securities loaned from each counterparty for the duration of the loan period.

Interest is received on the reinvestment of the collateral cash held and is disclosed in note 2.

Where securities are loaned at the balance sheet date, the securities loaned are included in the balance sheet as the Commissioners retain the risks and rewards of ownership of the securities and also retain the contractual rights to any cash flows relating to the securities. The value of the securities on loan at the balance sheet date is disclosed in note 2.

Notes to the financial statements (continued)

For the year ended 31 December 2015

1. Accounting policies (continued)

(l) Financial instruments (continued)

Derivatives

The Commissioners use forward foreign currency and option contracts as part of their investment portfolio risk management, to reduce the impact of changes in foreign currency exchange rates in relation to their investment in overseas securities, property funds, timberland and infrastructure funds. In accordance with their investment policy, forward foreign currency, option contracts and any other derivatives are not entered into for investment gain or trading purposes.

Contracts relating to hedged assets outstanding at the balance sheet date are stated at fair value at the forward contract rate. Fair value is obtained using a pricing model where inputs are based on market data at the balance sheet date. Realised and unrealised gains and losses arising from these contracts are charged to endowment capital in the SOFA. The unrealised gain on forward currency contracts is included as a debtor, and the unrealised losses as a creditor on the balance sheet.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate.

Profits and losses on sales of overseas investments are translated at the rate ruling on the date of the transaction. Unrealised gains and losses on overseas investments arising on translation are included in the net gains and losses on realisation and on revaluation in endowment capital in other gains and losses in the SOFA.

Income received in foreign currencies is converted into sterling and recorded at the rate ruling on the date of the conversion. If retained in foreign currencies, amounts are translated at the rate ruling on the date of the transaction. Subsequent gains or losses on conversion into sterling are included in other gains and losses in the SOFA.

Current investment assets

Current investment assets are investments in treasury bills which have maturity periods of less than one year that are held for investment purposes rather than to meet short term cash commitments as they fall due.

Cash

Cash at bank and in hand is held to meet short-term cash commitments as they fall due rather than for investment purposes and includes all cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will normally have a short maturity of, say, three months or less from the date of acquisition.

(m) Taxation

The Commissioners, as a registered charity, are exempt from taxation on their income and gains falling within Part 11 of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that they are applied to their charitable purposes.

The Commissioners' subsidiary undertakings are non-charitable subsidiaries and are subject to taxation, but do not generally pay UK Corporation Tax because their policy is to pay taxable profits as Gift Aid to the Commissioners. Foreign tax incurred by subsidiaries operating overseas is charged as it is incurred.

In common with many other charities, the Commissioners are unable to recover the majority of Value Added Tax ("VAT") incurred on expenditure. The amount of VAT that cannot be recovered is included within the underlying cost to which it relates.

(n) Related parties

The Church of England is governed by a large number of legally independent bodies in its parishes, cathedrals and dioceses as well as at national level. These bodies are not related parties as defined in the Charities SORP or FRS 102. Transactions and balances with these bodies are accounted for in the same way as other transactions and, where material, are separately identified in the notes to the financial statements.

1. Accounting policies (continued)

(n) Related parties (continued)

The Commissioners are related to ChECS, as they are a partner in this joint venture. Details are given in note 2(f).
The Commissioners are also related to the following pension funds, administered by the Church of England Pensions Board: Church of England Funded Pension Scheme; Church Administrators Pension Fund; and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 3, 9 and 14.

2. Investments

(a) Summary of movement on investments

	At 1 January £m	Net additions £m	Sale proceeds £m	Realised gains £m	Unrealised gains/ (losses) £m	Harvesting £m	**Total £m**
Consolidated							
Securities portfolio	4,036.2	1,008.9	(1,131.2)	231.5	(54.8)	–	**4,090.6**
Properties	1,524.1	33.8	(169.9)	84.2	90.5	–	**1,562.7**
Indirect property	305.9	4.0	(88.9)	21.6	(2.1)	–	**240.5**
Value linked loans	144.7	0.2	(48.6)	26.8	(4.6)	–	**118.5**
Timberland*	209.8	18.1	–	–	30.5	(2.1)	**256.3**
Indirect timberland	45.6	4.7	(0.6)	0.1	3.1	–	**52.9**
Infrastructure	2.1	8.3	(1.2)	1.2	(1.5)	–	**8.9**
Total	**6,268.4**	**1,078.0**	**(1,440.4)**	**365.4**	**61.1**	**(2.1)**	**6,330.4**

	At 1 January £m	Net additions £m	Sale proceeds £m	Realised gains £m	Unrealised gains/ (losses) £m	Harvesting £m	**Total £m**
Commissioners							
Securities portfolio	3,900.2	1,032.9	(1,129.7)	227.8	(66.5)	–	**3,964.7**
Properties	1,427.6	23.4	(158.6)	78.8	84.1	–	**1,455.3**
Indirect property	257.4	3.0	(79.8)	17.3	(2.8)	–	**195.1**
Value linked loans	144.7	0.2	(48.6)	26.8	(4.6)	–	**118.5**
Timberland*	105.1	1.7	–	–	6.4	–	**113.2**
Indirect timberland	–	–	–	–	–	–	**–**
Infrastructure	–	–	–	–	–	–	**–**
Subsidiaries	172.5	4.6	–	–	43.5	–	**220.6**
Total	**6,007.5**	**1,065.8**	**(1,416.7)**	**350.7**	**60.1**	**–**	**6,067.4**

* Timberland includes biological assets, which are described in more detail in following pages.

FRS 102 requires investments values to be shown for the charity as well as consolidated. There is no similar requirement for income and expenditure.

Future commitments are disclosed in note 16.

The significance of financial instruments to the ongoing financial sustainability of the Commissioners is considered in the Financial Review and Investment Policy and Performance section of the Report of the Commissioners.

The Commissioners use forward foreign currency and option contracts as part of their investment portfolio risk management, to reduce the impact of changes in foreign currency exchange rates in relation to their investment in overseas securities, property funds, timberland and infrastructure funds. In accordance with their investment policy, forward foreign currency, option contracts and any other derivatives are not entered into for investment gain or trading purposes. Forward contracts are also used by some fund managers to manage the risk of not achieving overall performance benchmarks.

Open derivative financial instruments at the balance sheet date are included at fair value in debtors or creditors, depending on their mark to market position, and not within investment assets. The net surplus from operating the hedging programme was £0.8m (2014: £23.2m), after deducting fees of £1.3m (2014: £1.4m).

Notes to the financial statements (continued)

For the year ended 31 December 2015

2. Investments (continued)

(a) Summary of movement on investments (continued)

Securities portfolio

The securities portfolio consists of listed public equities, private equity investments in unlisted companies, multi asset funds, fixed income bonds, emerging market debt and private credit.

The market value of listed investments includes stock on loan of £130.9m (2014: £35.5m).

Unlisted UK equities include £0.2m invested in shares in Churches Mutual Credit Union, which is a mixed motive investment, as defined in section 21 of the SORP.

Net additions and sale proceeds during the year exclude the purchase and sale of foreign currency for the purposes of conversion and currency hedging.

Investment properties

All directly owned properties are located in the United Kingdom. The portfolio consists of rural and strategic land, residential and commercial properties. Rural land also includes mineral interests.

Indirect property

Indirect property is minority investments by the Commissioners and its subsidiaries in property partnerships, where the partnership is managed by a third party and the Commissioners receive distributions from the partnerships.

Value linked loans

Value linked loans are granted for the purchase of residential properties. On disposal of the property, the Commissioners are entitled to a share of the proceeds corresponding to the proportion of the original purchase price which was financed by the loan.

Timberland

Timberland includes land, its standing timber and other assets. Standing timber meets the definition of biological assets, as described in FRS 102. Section 34.7 of FRS 102 requires biological assets to be disclosed separately:

	Consolidated		Commissioners	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Land and other assets	**65.7**	54.3	**28.9**	23.2
Biological assets – standing timber	**190.6**	155.5	**84.3**	81.9
Total timberland	**256.3**	209.8	**113.2**	105.1

Indirect timberland

Indirect timberland is the Commissioners and its subsidiaries' investments in timberland partnerships or joint ventures, which are managed by a third party and where distributions are received from the partnerships and joint venture managers.

Infrastructure

Infrastructure is an alternative investment class, where the Commissioners' subsidiaries hold a minority interest in a partnership investing in infrastructure projects.

2. Investments (continued)

(b) Detail of investments and investment income

	Fair value				Investment income	
	Consolidated		Commissioners		Consolidated	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Securities portfolio						
Listed UK equities	**915.9**	1,138.4	**915.9**	1,138.4	**29.4**	29.1
Listed overseas equities	**1,736.8**	1,743.3	**1,736.8**	1,743.3	**31.4**	28.4
Unlisted UK equities	**367.7**	141.2	**366.5**	141.2	**3.7**	1.0
Unlisted overseas equities	**966.8**	770.1	**842.1**	634.1	**9.0**	5.0
Listed UK fixed interest securities	**30.3**	174.6	**30.3**	174.6	**2.2**	6.0
Listed overseas fixed interest securities	**73.1**	58.0	**73.1**	58.0	**1.2**	3.2
Unlisted overseas fixed interest securities	**–**	10.6	**–**	10.6	**–**	–
Interest on cash and stock lending income	**–**	–	**–**	–	**2.2**	1.0
Total securities	**4,090.6**	4,036.2	**3,964.7**	3,900.2	**79.1**	73.7
Investment properties						
Freehold interests	**1,557.2**	1,503.5	**1,449.9**	1,407.0	**40.8**	40.9
Leasehold properties with more than 50 years to run	**5.5**	20.6	**5.4**	20.6	**0.4**	0.9
Total investment properties	**1,562.7**	1,524.1	**1,455.3**	1,427.6	**41.2**	41.8
Indirect property						
Shared interests	**–**	–	**–**	–	**–**	3.0
Unquoted UK funds	**85.2**	104.1	**44.1**	72.5	**7.0**	4.3
Unquoted overseas funds	**155.3**	176.2	**151.0**	159.3	**1.4**	0.5
Quoted overseas funds	**–**	25.6	**–**	25.6	**–**	0.8
Total property funds	**240.5**	305.9	**195.1**	257.4	**8.4**	8.6
Value linked loans						
To provide and improve Church property and for other purposes	**32.4**	32.0	**32.4**	32.0	**1.0**	1.2
To Church of England Pensions Board	**86.1**	112.7	**86.1**	112.7	**3.6**	4.2
Total value linked loans	**118.5**	144.7	**118.5**	144.7	**4.6**	5.4
Timberland						
UK timberland	**113.2**	105.1	**113.2**	105.1	**4.5**	4.6
Overseas timberland	**143.1**	104.7	**–**	–	**4.8**	3.5
Total timberland	**256.3**	209.8	**113.2**	105.1	**9.3**	8.1
Indirect timberland						
Overseas timberland	**52.9**	45.6	**–**	–	**0.5**	0.3
Total indirect timberland	**52.9**	45.6	**–**	–	**0.5**	0.3
Infrastructure						
Unquoted overseas funds	**8.9**	2.1	**–**	–	**0.3**	–
Total infrastructure	**8.9**	2.1	**–**	–	**0.3**	–
Subsidiaries						
Total subsidiaries	**–**	–	**220.6**	172.5	**–**	–
TOTAL	**6,330.4**	6,268.4	**6,067.4**	6,007.5	**143.4**	137.9

Notes to the financial statements (continued)

For the year ended 31 December 2015

2. Investments (continued)

(c) Expenditure

	2015				2014 (restated)			
	Direct costs £m	**Internal manage-ment costs £m**	**Support costs £m Note 6**	**Total £m**	Direct costs £m	Internal manage-ment costs £m	Support costs £m Note 6	Total £m
Securities	24.1	2.5	2.7	**29.3**	20.1	2.4	3.3	**25.8**
Properties	12.1	1.9	1.0	**15.0**	14.0	1.8	1.2	**17.0**
Indirect property	0.1	0.3	0.2	**0.6**	0.3	0.3	0.3	**0.9**
Value linked loans	–	0.1	0.1	**0.2**	–	0.2	0.1	**0.3**
Timberland	12.0	0.4	0.2	**12.6**	8.4	0.3	0.2	**8.9**
Infrastructure	–	–	–	**–**	–	–	–	**–**
Total	48.3	5.2	4.2	**57.7**	42.8	5.0	5.1	**52.9**

Direct costs include investment management fees, performance fees, property and timberland running costs and other fees.

Internal management costs include costs of employing in-house investment managers, operational support staff costs and associated department running costs.

Detail of support costs, including the methodology for allocating costs between activities, is shown in note 6 where the method of allocating these costs is described.

(d) Valuation of investments

The original cost of investments is not disclosed given the historic nature of many of the property investments.

The Commissioners have investments denominated in foreign currencies and are impacted by changes in foreign currency exchange rates. Non-sterling assets exposed to currency risk represented 49.4% (2014: 44.3%) of the investment portfolio. However a currency overlay programme, utilising forward foreign exchange contracts, is used to hedge back into sterling 38.6% (2014: 47.5%) of these non-sterling assets.

Investment properties

The valuers of the properties were:

- Rural and strategic land properties: Savills
- Commercial properties: Cushman & Wakefield
- Residential properties: Jones Lang LaSalle
- Mineral portfolio: Wardell Armstrong

Property funds

Property funds are valued independently by valuers appointed by the partnerships.

Value linked loans

All value linked loans were valued by Cushman & Wakefield.

Timberland (including biological assets)

UK timberland was valued by Bidwells. Overseas timberland was valued by local qualified valuers.

Timberland funds

Timberland is valued independently by valuers appointed by the partnerships in line with the accounting policy described in note 1(l).

Infrastructure

Infrastructure is valued in line with the accounting policy described in note 1(l).

2. Investments (continued)

(e) Subsidiaries

The Commissioners' principal subsidiary companies are wholly owned and are held to undertake property purchase, development and management and certain property, securities, infrastructure and timberland investments.

Registered in	Subsidiary (company number)
England and Wales	CC Trading Ltd (2080054), CC Lincoln Ltd (3687102), CC Projects (1765782), Cedarvale (2220037), CC Licensing (2245961), Quivercourt (1807330), Easton Tree Ltd (8135237) and Weston Tree Ltd (7859221).
US	Cherry Tree Timber LLC (5108048), Arbol Tree LLC (5423402).
Australia	Jarh Tree Co Pty Ltd (600392667)

The Ashford Great Park Partnership, held through intermediate companies, has its principal offices at 29 Great Smith Street, London SW1P 3PS.

The Commissioners also own 80% interests in Lone Rock Timber Investments MBD-Landco Limited Partnership and Lone Rock Timber Investments MBD-Logco Limited Partnership, both of which are registered in the US. These entities are not solely controlled by the Commissioners and therefore meet the definition of "joint venture" in FRS 102 section 15, but fall within the definition of investment funds in paragraph 15.9B of FRS 102.

(f) Joint ventures

ChECS is a charitable company limited by guarantee and is a joint venture between the Commissioners, the Archbishops' Council and the Church of England Pensions Board, who are equal partners. The purpose of ChECS is to enhance the efficiency and effectiveness of the charitable national and diocesan institutions of the Church of England and of other charities with a church ethos, by facilitating the provision of cost-effective shared financial, legal and other services.

The charity was registered with the Charity Commission on 31 December 2013 and started operating from 1 April 2014. Prior to this, the responsibility for the provision of shared services was split between the three main NCIs. The previous management arrangements continued into the new structure.

The Commissioners' share of net assets of ChECS was £nil.

As at 31 December 2015, £476,000 (2014: £348,000) was owed to the Commissioners by ChECS.

The Commissioners have no associated undertakings.

3. Charitable activities

	Grant funding £m Note 4	Direct funding £m Note 5	Support costs £m Note 6	**2015 Total £m**	Grant funding £m Note 4	Direct funding £m Note 5	Support costs £m Note 6	**2014 (restated) Total £m**
Mission activities	10.9	0.6	0.2	**11.7**	11.0	0.6	0.2	**11.8**
Diocese and ministry support	35.2	0.2	0.4	**35.8**	34.3	0.3	0.7	**35.3**
Bishops' ministry and cathedral costs	28.5	11.7	2.5	**42.7**	28.1	11.3	3.3	**42.7**
Clergy pensions (pre 1998)	–	122.4	0.3	**122.7**	–	122.9	0.5	**123.4**
National payroll for clergy	–	–	0.9	**0.9**	–	–	1.2	**1.2**
Administering the legal framework and other	1.5	0.4	2.8	**4.7**	1.5	0.7	2.8	**5.0**
Total costs of charitable activities	76.1	135.3	7.1	**218.5**	**74.9**	**135.8**	**8.7**	**219.4**

Mission activities

Mission activities comprise direct grants to dioceses and parishes for strategic development initiatives (see Note 4 for details of individual grants).

Notes to the financial statements (continued)

For the year ended 31 December 2015

3. Charitable activities (continued)

Diocese and ministry support

Diocese and ministry support includes grants to the Archbishops' Council to assist with their support for low income dioceses that are allocated in accordance with their Selective Allocations formula in accordance with the National Institutions Measure 1998. Payments are also made directly to clergy and for national support purposes.

Bishops' ministry and cathedral costs

The Commissioners are responsible for stipends, providing housing and office space for the diocesan bishops and archbishops and for the maintenance of those buildings including Lambeth Palace.

The Commissioners provide diocesan bishops and archbishops with an annual block grant to cover their stipend and working costs and that of their suffragan bishops. Pensions contributions are paid from this to the Church of England Funded Pensions Scheme for bishops and their chaplains, and the Church Administrators Pension Fund for bishops' support staff (see note 14).

The Cathedrals Measure 1999 enables the Commissioners to make grants to cathedrals: section 21 and 22 grants are made towards the stipend and other costs of a dean and two residentiary canons of each cathedral; section 23 grants are made towards the stipend of any other clerk or salary of any lay person employed in connection with the cathedral; section 25 grants are made towards the repair of any chancel, other than that of the cathedral, which the cathedral is wholly or partly liable to repair.

Clergy pensions (pre 1998)

The Commissioners are obliged to pay pension benefits to clergy who accrued years of pensionable service until 31 December 1997 as members of the Church of England Pensions Scheme. Pensions are described in more detail in note 14.

The Pensions Measure 1997, as amended, enables the Commissioners to spend endowment until 31 December 2025 to meet the costs of paying clergy pensions. The Total Return Order (see note 15) does not affect this.

National payroll for clergy

The Church Commissioners are responsible for running the national payroll for most serving and retired clergy on behalf of dioceses, cathedrals and other Church bodies. This is a statutory responsibility of the Commissioners and one of its charitable objectives, with the cost of providing this service paid for by the Commissioners and not passed on to the bodies it operates the payroll on behalf of.

Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings

The Commissioners have a legal and advisory role in:

- the reorganisation of parishes;
- sales and other transactions relating to clergy housing and glebe land; and
- settling the future of church buildings that have been closed for public worship.

The costs incurred while carrying out this charitable objective include staff costs, committee costs and costs associated with holding scheme hearings.

If a closed church building is sold, the proceeds are shared between the relevant diocese (two thirds) and the Commissioners (one third), to be spent on certain purposes, including offsetting the cost of the annual grant to the Churches Conservation Trust. The amount paid to the Trust is set out in the Churches Conservation Trust Order 2011, and granted to support its work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality.

The Commissioners also contribute to their share of the liability for chancel repairs arising from their former and current ownership of rectorial property.

4. Grant making

All grants are made to institutions

	2015 £m	2014 £m
Mission activities		
Grant to The Archbishops' Council for Mission Development Funding	**6.7**	6.0
Grant to The Archbishops' advisors for Growth Research and Development	**0.8**	0.3
Grants to 5 (2014: 3) dioceses for Growth Research and Development	**0.7**	0.1
Grants to 8 (2014: 5) dioceses for Strategic Development Fund	**2.7**	4.6
Total grants to support mission activities	**10.9**	11.0
Diocese and ministry support		
Grant to The Archbishops' Council	**35.2**	34.3
Total grants for diocese and ministry support	**35.2**	34.3
Bishops' ministry and cathedral costs		
113 Grants to Bishops in 42 Dioceses	**19.3**	19.0
84 Grants to 42 Cathedrals	**9.2**	9.1
Total grants to pay for bishops' ministry and cathedral costs	**28.5**	28.1
Administering the legal framework and other grants		
Statutory grant to Churches Conservation Trust	**1.4**	1.4
Other grants	**0.1**	0.1
Total grants for administering the legal framework	**1.5**	1.5
Total grant funding	**76.1**	74.9

A full list of grant recipients is available upon request in writing from the Commissioners' registered office.

Notes to the financial statements (continued)

For the year ended 31 December 2015

5. Direct funding

	2015 £m	2014 £m
Mission activities		
National research and development costs	**0.6**	0.6
Total mission activities	**0.6**	0.6
Diocese and ministry support		
Payments direct to parish clergy	**0.2**	0.2
Total Diocese and ministry support	**0.2**	0.2
Bishops' ministry and cathedral costs		
Bishops and archbishops' housing and office premises	**4.9**	4.7
Lambeth Palace Library	**1.1**	0.9
Archbishops' stipends, office and working costs and other national costs	**5.2**	5.0
Archbishops' advisors	**0.5**	0.7
Total bishops' ministry and cathedral costs	**11.7**	11.3
Clergy pensions (pre 1998)		
Benefits under the Church of England Pensions Scheme		
Pensions to clergy	**85.6**	85.7
Lump sum payments on retirement	**7.5**	8.1
Pensions to clergy widows and children	**29.0**	28.8
Total benefits under the Church of England Pensions Scheme	**122.1**	122.6
Benefits under the Deaconesses and Lay Workers (Pensions) Measure 1980		
Pensions to deaconesses and licensed lay workers	**0.3**	0.3
Total clergy pensions	**122.4**	122.9
Administering the legal framework		
Chancel repair liability	**0.4**	0.7
Total costs of administering the legal framework	**0.4**	0.7
Total direct costs	**135.3**	135.7

6. Support costs

	Investment activities £m Note 2(c)	Charitable activities £m Note 3	2015 Total £m	Investment activities £m Note 2(c)	Charitable activities £m Note 3	2014 Total £m
Department costs	–	1.8	**1.8**	–	1.8	**1.8**
Shared services	2.4	2.9	**5.3**	2.1	2.7	**4.8**
Governance costs	0.4	0.5	**0.9**	0.4	0.4	**0.8**
Pensions costs (note 14):						
Interest on provision for staff pension pre 2000	2.1	2.1	**4.2**	2.3	2.4	**4.7**
Interest on provision of pension deficit (staff post 1999 and clergy post 1997)	0.2	0.4	**0.6**	0.3	0.6	**0.9**
Other changes on pension deficit provision (staff post 1999 and clergy post 1997)	(1.0)	(0.6)	**(1.6)**	–	0.8	**0.8**
Total support costs	**4.1**	**7.1**	**11.2**	**5.1**	**8.7**	**13.8**

Department costs are costs incurred by the Commissioners for administering their charitable activities. These costs include salaries including pension contributions (see note 14), other running costs. Overheads are apportioned according to an activity based time split.

Shared services include the Commissioners' share of the costs incurred by ChECS.

Governance costs comprise staff and non-staff costs relating to the general running of the Commissioners including supporting the work of their Board and committees and audit costs paid to Deloitte LLP.

Allocation of costs

Most of the Commissioners' expenditure can be directly attributed to its various activities, however some costs are not directly attributable and need to be allocated across the Commissioners' investment and charitable activities.

Support costs are collected under the headings in the table above. Where any of these can be directly attributed to any of the investment or charitable activities they are allocated as such. The remaining costs are assigned following an allocation methodology. Costs are initially split depending on the type, by either headcount numbers, usage rates, or equally between investment and charitable activities. They are then further apportioned between the separate underlying activities in proportion to either the investment activity asset value or charitable activity expenditure.

Notes to the financial statements (continued)

For the year ended 31 December 2015

6. Support costs (continued)

Fees paid to Deloitte LLP are shown in the table below:

	2015 £000	2014 £000
Audit of Church Commissioners	**144**	122
Audit of subsidiary undertakings	**45**	51
Audit-related assurance services	**2**	2
Total audit fees	**191**	175
Taxation compliance services	**55**	36
Taxation advisory services	**32**	205
Planning services (Deloitte Real Estate)	**220**	57
Total non-audit fees	**307**	298
Total fees	**498**	473

7. Staff numbers and remuneration

The Commissioners are a joint employer, together with the other National Church Institutions ("NCIs"), of most of the staff of the NCIs. The Secretary and staff employed to manage the Commissioners' investment assets are employed directly by the Commissioners.

In addition to staff employed directly, the work of the Commissioners is supported by staff in shared service departments provided by ChECS which provides finance, HR, communications, legal, IT and internal audit services to the NCIs. The SORP requirements are that the costs of staff employed by third parties who operate on your behalf should be disclosed in the accounts. In order to comply with the spirit of the SORP, the costs of all ChECS staff are shown in aggregate in the tables below – the Commissioners' share of which was £3,616,000 (2014: £3,222,000).

The cost of staff for which the Commissioners are the managing employer and for ChECS (in aggregate) was:

	Church Commissioners' own staff						ChECS	
	Asset management		Church functions and secretariat		Local property management		Shared services	
	2015 Number	2014 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number
Average number employed	**36**	33	**35**	34	**–**	41	**133**	121
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Salaries	**3.3**	3.1	**1.6**	1.6	**–**	0.4	**5.8**	4.9
National Insurance costs	**0.3**	0.3	**0.2**	0.2	**–**	–	**0.6**	0.5
Pension contributions	**0.3**	0.3	**0.2**	0.3	**–**	–	**1.4**	1.4
Total cost of staff	**3.9**	3.7	**2.0**	2.1	**–**	0.4	**7.8**	6.8

Costs are restated in the prior year to include Long Term Incentive Payments ("LTIPs") and remove pension deficit contributions which are now provided for (see note 14). Salaries includes £66,000 (2014: £70,000) paid by way of redundancy costs to one (2014: one) individual following a restructuring, the costs of which are accounted for in full in the year in which the restructure is announced.

Asset management and national Church functions

The cost of the planning and management of the Commissioners' assets is included in external management costs (note 3) and for the administration of national Church functions is included in support costs (note 4).

7. Staff numbers and remuneration (continued)

Local property management

The net cost of on site management and servicing of residential blocks of flats is included in direct investment costs (note 2(c)).

Staff loans

In addition to the amounts shown above, the Commissioners provide loans under the staff house mortgage scheme. These loans are included in loans (note 12) at £0.2m (2014: £0.2m). The scheme, which was closed to new business in 2004, has seven (2014: eight) loans outstanding to seven (2014: eight) members of staff.

Interest free loans are made for travel season tickets and green travel loans for the purchase of bicycles and electric scooters.

Staff emoluments

The numbers of staff whose emoluments for the year fell in the following bands:

	Church Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2015 Number	2014 Number	**2015 Number**	2014 Number	**2015 Number**	2014 Number
£60,001 to £70,000	**1**	3	**1**	1	**8**	9
£70,001 to £80,000	**2**	3	**1**	1	**2**	3
£80,001 to £90,000	**1**	–	**1**	1	**7**	6
£90,001 to £100,000	**–**	–	**–**	–	**1**	–
£100.001 to £110,000	**–**	–	**–**	–	**1**	–
£110,001 to £120,000	**–**	1*	**–**	–	**1**	–
£120,001 to £130,000	**–**	1*	**–**	–	**1**	1
£130,001 to £140,000	**1***	–	**–**	–	**3**	–
£140,001 to £150,000	**1***	1*	**–**	–	**2**	1
£150,001 to £160,000	**1***	1*	**1****	1**	**–**	–
£160,001 to £170,000	**2***	–	**–**	–	**–**	–
£190,001 to £200,000	**–**	1*	**–**	–	**–**	–
£200,001 to £210,000	**1***	–	**–**	–	**–**	–
£240,001 to £250,000	**–**	1*	**–**	–	**–**	–
£260,001 to £270,000	**1***	–	**–**	–	**–**	–
£300,001 to £310,000	**1***	–	**–**	–	**–**	–
£340,001 to £350,000	**–**	1*	**–**	–	**–**	–
£400,001 to £410,000	**–**	1*	**–**	–	**–**	–
£460,001 to £470,000	**1***	–	**–**	–	**–**	–

* Including LTIP
** Secretary to the Church Commissioners (Chief Executive)

All of the staff above are members of the Church Administrators Pension Fund (note 9). Of those managed directly by the Commissioners, nine (2014: 10) accrue benefits under a defined contribution scheme for which contributions for the year were £134,000 (2014: £143,000). The remaining eight (2014: eight) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, ten (2014: ten) accrue benefits under a defined contribution scheme for which contributions for the year were £118,000 (2014: £58,000). The remaining 16 (2014: 10) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Director of Investments who earned £255,000 (2014: £250,000) and a LTIP of £208,000 (2014: £160,000) based on the long term performance of the fund. Eight (2014: seven) other members of staff received LTIPs in the year totalling £629,000 (2014: £509,000). Further details of the Commissioners' remuneration policy are included in the Governance Section of the Board's report on page 37.

The Commissioners' senior executive leadership team comprises eight individuals, three of whom are employed directly by the Commissioners and five by ChECS. Their aggregate remuneration, including LTIPs and pension contributions, is £1,306,000.

Notes to the financial statements (continued)

For the year ended 31 December 2015

8. Trustees' emoluments and expenses

The First Church Estates Commissioner is paid a salary in accordance with the Ecclesiastical Commissioners Act 1850, as amended by the Ecclesiastical Commissioners (Powers) Measure 1938, although he waives his entitlement to a pension. Legislative provision is made for payment of a salary to the Third Church Estates Commissioner, but the Commissioners in agreement with HM Treasury have determined that no salary should be paid. Other trustees have no entitlement to a salary or pension in their capacity as trustees.

	2015 £000	2014 £000
First Church Estates Commissioner		
Salary	**59**	58
National Insurance costs	**7**	7
Total Church Estates Commissioners' costs	**66**	65

Pensions paid to former First and Third Church Estates Commissioners of £24,000 (2014: £69,000) were charged to the staff pension provision (note 9).

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 28 (2014: 29) trustees claimed expenses or had their expenses met by the Charity totalling £16,000 (2014: £16,000) in respect of travel and subsistence.

9. Staff pensions

The Commissioners are obliged to pay pension benefits to staff, former First and Third Church Estates Commissioners, bishops' staff and staff of the Church of England Pensions Board who accrued years of pensionable service until 31 December 1999 as members of the Church Commissioners Superannuation Scheme ("CCSS").

Pension benefits earned on or after 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee.

Pensions are described in more detail in note 14.

10. Tangible assets

Consolidated and Commissioners	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	**Total £m**
Cost or valuation				
Balance at 1 January	1.9	2.1	97.1	**101.1**
Disposals	–	–	(1.9)	**(1.9)**
Balance at 31 December	**1.9**	**2.1**	**95.2**	**99.2**
Accumulated depreciation				
Balance at 1 January	(1.4)	(1.7)	–	**(3.1)**
Charge for the year	(0.2)	(0.2)	–	**(0.4)**
Balance at 31 December	**(1.6)**	**(1.9)**	**–**	**(3.5)**
Net book value				
Balance at 1 January	0.5	0.4	97.1	**98.0**
Balance at 31 December	**0.3**	**0.2**	**95.2**	**95.7**

The original cost of tangible fixed assets is not disclosed given the historic nature of many of the assets owned.

10. Tangible assets (continued)

The deemed cost of operational see house properties was the valuation at the FRS 102 transition date. This valuation was carried out by Knight Frank LLP as at 31 December 2013.

Operational properties includes the contents of see houses, which were valued by Gurr Johns as at 31 December 2007.

All tangible fixed assets are located in the United Kingdom.

11. Heritage assets

Analysis of Heritage Assets

	Lambeth Palace £m	Contents of Lambeth Palace Library £m	Historic contents of Lambeth Palace £m	Historic contents of former see houses £m	Total £m
At 1 January 2015	–	–	1.1	2.1	3.2
Additions	–	0.2	–	–	0.2
At 31 December 2015	–	0.2	1.1	2.1	3.4

Lambeth Palace

Lambeth Palace has been the historic London residence of the Archbishops of Canterbury since the 13th Century. Ownership of the building and contents became vested in the Ecclesiastical Commissioners in 1946 and passed subsequently to the Church Commissioners at its original deemed cost. At the time of acquisition, the Commissioners' best estimate of the historic deemed cost was £1. Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Whilst the building continues to have operational use, being used as the Archbishop's London residence and including a team of staff employed to support him in his work, it continues to be maintained by the Commissioners as a result of its significant historical and cultural importance as an important exhibit to the public of the history of the work of the Archbishops of Canterbury and the Church of England. The grounds of Lambeth Palace are also home to the Lambeth Palace Library, the historic library and record office of the Archbishops of Canterbury and the principal repository of the documentary history of the Church of England. The Commissioners are responsible for the on-going upkeep and maintenance of the building. Maintenance costs are charged to the SOFA in the period they are incurred.

Contents of Lambeth Palace Library

Lambeth Palace Library was founded in 1610 when Archbishop Richard Bancroft bequeathed to his successors as Archbishops of Canterbury his extensive collection of books and manuscripts. Ownership of the building and contents became vested in the Ecclesiastical Commissioners in 1946 and passed subsequently to the Church Commissioners. Responsibility for the maintenance of Lambeth Palace Library lies with the Church Commissioners. The collections of Lambeth Palace Library were designated by the Museums, Libraries and Archives Council in 2005 as outstanding in their national and international importance. The Library exists to preserve this unique heritage of the Church and the nation and to make it freely available for all to study and enjoy.

Historic contents of Lambeth Palace

Included within heritage assets are the historical contents of Lambeth Palace. These items are held primarily for their historical and artistic value. The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents of Lambeth Palace, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2015 and the full professional valuation obtained as at 31 December 2007.

Historic contents of former see houses

Included within heritage assets are the historical contents of former see houses that are on loan to various bodies. This includes the Hurd Library and other heirlooms at Hartlebury Castle and various objects at Fulham Palace. These items are held primarily for their historical and artistic value.

The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2015 and the full professional valuation obtained as at 31 December 2007.

Notes to the financial statements (continued)

For the year ended 31 December 2015

11. Heritage assets (continued)

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Purchases					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace Library	–	–	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Donations					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace library	0.2	–	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Total additions	0.2	–	–	–	–

12. Debtors

	Consolidated		Commissioners	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade debtors	15.4	5.5	10.5	4.9
Subsidiary undertakings	–	–	282.0	294.7
Joint venture (ChECS)	0.3	0.3	0.3	0.3
Dioceses (Clergy Stipends and Diocesan Debtors Accounts)	1.7	1.7	1.7	1.7
Loans	4.7	6.3	4.7	6.3
Other debtors	3.8	3.1	0.7	1.7
Prepayments and accrued income	11.2	15.5	12.4	15.6
Derivative open contracts	5.1	12.2	5.1	12.2
Total debtors	42.2	44.6	317.4	337.4

Consolidated trade debtors of £15.4m (2014: £5.5m) is after deducting a provision for bad and doubtful debts of £0.4m (2014: £0.6m).

Other loans, which are interest bearing and consist of mortgages to Church bodies and staff and car loans to clergy, are reported within debtors. Of the £4.7m total (2014: £6.3m), £3.9m (2014: £3.7m) is due after one year.

Unrealised gains on derivatives financial instruments are described in note 2.

13. Creditors

	Consolidated		Commissioners	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade creditors	11.9	9.1	11.8	8.9
Subsidiary undertakings	–	–	27.3	40.4
Dioceses and other Church bodies	6.5	7.1	6.5	7.1
Other creditors	2.3	2.1	1.9	1.7
Taxation and National Insurance contributions	15.3	8.6	6.3	4.8
Accruals and deferred income	28.7	28.3	20.6	22.7
Derivative open contracts	11.4	4.6	11.4	4.6
Total creditors	76.1	59.8	85.8	90.2

Unrealised losses on derivatives financial instruments are described in note 2.

14. Pensions

Changes to the way pensions are funded were made effective from 1 January 1998 (for clergy) and 1 January 2000 (for staff). Prior to these changes, the Commissioners were responsible for paying the pensions benefits for staff employed by the Church Commissioners and the Church of England Pensions Board, and all clergy. By the late 1990s this financial burden had become unsustainable and legislation was enacted to provide for new pensions schemes to be established and administered by the Church of England Pensions Board, with contributions for future service to be paid by all responsible bodies and employers (dioceses, cathedrals, the NCIs, and other church organisations).

The legal status and accounting and disclosure requirements under FRS 102 and the SORP for each pension schemes is different and is explained in the subsections to this note below.

The table below shows the pensions reserves:

	Clergy		Staff		Total
	Pre 1998 service £m Note 14(a) £m	Post 1997 service £m Note 14(b) £m	Pre 2000 service £m Note 14(c) £m	Post 1999 service £m Note 14(d) £m	£m
Pension reserve – 31 Dec 2015	**–**	**8.9**	**113.1**	**14.1**	**136.1**
Pension reserve – 31 Dec 2014 (restated)	–	9.5	125.8	17.2	152.5

14 (a) Clergy pensions pre 1998: Church of England Pension Scheme

The Commissioners are obliged to pay pension benefits to clergy who accrued years of pensionable service until 31 December 1997 as members of the Church of England Pensions Scheme. The Scheme is administered by the Church of England Pensions Board on behalf of the Commissioners.

As described in note 1(h) no provision is made in the financial statements for the obligation to pay clergy pensions that fall due after the balance sheet date. The obligation is estimated each year by Hymans Robertson LLP, independent qualified actuaries, with a full valuation being carried out every third year and rolled forward in other years. A full valuation was carried out as at 31 December 2015.

Using the projected unit method, and assuming all benefits including post retirement increases continue to be paid in accordance with current practice, the obligation is estimated to be £1,710.2m (2014: £1,788.6m). The amount of the obligation represents 24.3% (2014: 26.5%) of the market value of the Commissioners' assets, excluding tangible and heritage assets.

Financial assumptions reflecting the term structure of interest rates and inflation have been used to estimate the value of the obligation. These assumptions include the prospective rate of investment returns, future increases in the RPI, the starting level of pensions and the rate of post retirement pension increases. The averages of these assumptions at the approximate term of the obligation are shown in the table below.

The principal assumptions were:

	2015 %	2014 %	2013 %	2012 %	2011 %
Prospective annual rate of return on investments	**5.0**	5.0	5.9	4.9	6.3
Rate of future stipend and increases in the starting pension	**2.3**	2.3	3.3	2.6	4.1
Rate of post retirement pension increases	**2.3**	2.3	3.3	2.6	2.6
Retail price inflation	**2.3**	2.3	3.3	2.6	2.6

The assumptions were made on a best estimate basis over a time period reflecting the long-term nature of the fund and its objectives over 30 years, which did not include the margins of prudence which would normally be included in similar calculations for determining technical provisions for an occupational pension scheme. This is because of the level of asset cover provided by the endowment funds and the need to maintain intergenerational equity in the rate at which non-pension related distributions can be made.

Notes to the financial statements (continued)

For the year ended 31 December 2015

14. Pensions (continued)

14 (a) Clergy pensions pre 1998: Church of England Pension Scheme (continued)

In their assessments of the pensions obligation, Hymans Robertson LLP have used bespoke Club Vita mortality tables. In respect of future improvements in mortality rates the projection model from the 2010 Continuous Mortality Investigation has been used with advanced parameters with starting rates calibrated to the July 2012 Club Vita dataset.

Transfers out of the scheme amounted to £0.2m (2014: £0.6m) during the year.

14 (b) Clergy pensions post 1997: Church of England Funded Pensions Scheme

Pensions in respect of service from 1 January 1997 are provided by the Church of England Funded Pensions Scheme, administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee.

The Commissioners are one of the 'responsible bodies' in the Scheme, as they pay the stipends, National Insurance and pensions costs of bishops, archbishops, bishops' chaplains and cathedral clergy.

The Scheme is considered to be a multi-employer scheme as described in Section 28 of FRS 102. This means that it is not possible to attribute the Scheme's assets and liabilities to specific employers and that contributions are accounted for as if the Scheme were a defined contribution scheme. The pension costs charged to the SOFA in the year are contributions payable plus any impact of deficit contributions (see below).

The most recent valuation of the Scheme was carried out by an independent qualified actuary using the projected unit method at as 31 December 2012. This revealed a deficit of £293m, based on assets of £896m and a funding target of £1,189m.

In light of this, the contribution rate was increased from 38.2% to 39.9% of pensionable stipends with effect from 1 January 2015. The contribution rate is made up of the following components:

	From 1 January 2015 %	From 1 January 2012 %
Normal contributions	**24.6**	22.6
Deficit contributions	**14.1**	14.7
Contributions towards administration expenses	**1.2**	0.9
Total contribution	**39.9**	38.2

Normal contributions relate to providing the benefits in relation to ongoing pensionable service. Deficit contributions relates to recovery of the deficit over the 12 years to 31 December 2025. Administration expenses are the day-to-day expenses of running the scheme.

Section 28.11A of FRS 102 requires agreed future deficit recovery payments to be recognised as a liability. The movement in the provision is set out in the table below.

	At 1 January (restated) £m	Contributions paid £m	Interest on liability £m	Remeasurement of liability £m	**At 31 December £m**
Bishops and archbishops	4.6	(0.5)	0.1	0.3	**4.5**
Bishops and archbishops' chaplains	0.7	(0.1)	–	(0.1)	**0.5**
Cathedral clergy	4.2	(0.4)	0.1	–	**3.9**
Total	**9.5**	**(1.0)**	**0.2**	**0.2**	**8.9**

This liability represents the present value of future deficit contributions and has been valued using the following assumptions set by reference to the duration of the deficit recovery payments.

The next valuation of the scheme, as at 31 December 2015, is currently being carried out.

14 (c) Staff pensions pre 2000: Church Commissioners Superannuation Scheme

The Commissioners are obliged to pay pension benefits to staff, former First and Third Church Estates Commissioners, bishops' staff and staff of the Church of England Pensions Board who accrued years of pensionable service until 31 December 1999 as members of the Church Commissioners Superannuation Scheme ("CCSS").

Pensions that fall due after the balance sheet date are provided for in the balance sheet in accordance with Section 28 of FRS 102. The provision is estimated each year by Hymans Robertson LLP, independent qualified actuaries, with a full valuation being carried out every third year and rolled forward in other years. The last full valuation was carried out as at 31 December 2014.

Using the projected unit method, and assuming all benefits including post retirement increases continue to be paid in accordance with current practice, the provision is shown in the table below:

The movements on the provision during the year were:

	2015 £m	2014 £m
At 1 January	**125.8**	112.8
Pensions and lump sums paid	**(5.8)**	(5.5)
Interest on provision – charged to general fund	**4.2**	4.7
Actuarial (gain)/loss – charged to endowment capital	**(11.1)**	13.8
At 31 December	**113.1**	125.8

Analysis of actuarial loss charged to endowment capital:

	2015 £m	2014 £m
(Gain)/Loss due to effect of change in financial assumptions	**(11.1)**	13.8
Actuarial (gain)/loss	**(11.1)**	13.8

Financial assumptions reflecting the term structure of interest rates and inflation have been used to estimate the value of the obligation. These assumptions include the prospective rate of investment returns, future increases in the RPI, the starting level of pensions and the rate of post retirement pension increases. The principal assumptions used in estimating the provision were:

	2015 %	2014 %	2013 %	2012 %	2011 %
Discount rate (annual rate of return on AA rated corporate bonds)	**3.75**	3.4	4.3	4.4	4.8
Rate of salary increases	**4.25**	4.25	4.3	4.0	4.6
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	**2.25**	2.25	2.3	2.3	2.6
for service since 1 April 1997 (RPI)	**3.25**	3.25	3.3	3.0	3.1

In their assessments of the pensions liability, Hymans Robertson LLP used bespoke Club Vita mortality tables. In respect of future improvements in mortality rates, the projection model from the 2010 Continuous Mortality Investigation has been used, with advanced parameters with starting rates calibrated to the July 2012 Club Vita dataset.

History of experience gains and losses:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Actuarial (gain)/loss	**(11.1)**	13.8	1.6	7.8	4.0

Notes to the financial statements (continued)

For the year ended 31 December 2015

14. Pensions (continued)

14 (d) Staff pensions post 2000: Church Administrators Pension Fund

Pensions in respect of service from 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board. The Board publishes the Fund's financial statements, and is its custodian trustee.

The Commissioners are one of the employers in the Fund, as they pay the salaries, National Insurance and pensions costs of their own staff, bishops' staff and indirectly for their share of staff employed by ChECS.

The Fund has two sections: the defined benefit and the defined contributions schemes. Staff who commenced service before 1 July 2006 are members of the defined benefit section of the scheme and staff who commenced service after 30 June 2006 are members of the defined contributions section.

The defined benefit section is considered to be a multi-employer scheme as described in Section 28 of FRS 102. This means that it is not possible to attribute the Fund's assets and liabilities to specific employers and that contributions are accounted for as if the Fund were a defined contribution scheme. The pension costs charged to the SOFA in the year are contributions payable for both defined contribution and defined benefit sections, plus any impact of defined benefit deficit contributions (see below).

The most recent valuation of the Fund was carried out by an independent qualified actuary using the projected unit method at as 31 December 2014. This revealed a deficit of £25.1m, based on assets of £96.3m and a funding target of £121.4m.

As a result, the employers agreed to pay £2.4m per annum in total from 1 January 2013 over 13 years to 31 December 2025, increasing each year by 5%. The contributions to the Fund are assessed by an independent qualified actuary using the projected unit method of valuation.

Section 28.11A of FRS 102 requires agreed future deficit recovery payments to be recognised as a liability. The movement in the provision for the Commissioners' share of the agreed deficit payments is set out in the table below.

	At 1 January (restated) £m	Contributions paid £m	Interest on liability £m	Remeasurement of liability £m	**At 31 December £m**
Commissioners' staff	13.1	(1.1)	0.3	(1.6)	**10.7**
ChECS staff	4.1	(0.3)	0.1	(0.5)	**3.4**
Total	**17.2**	**(1.4)**	**0.4**	**(2.1)**	**14.1**

This liability represents the present value of future deficit contributions and has been valued using assumptions set by reference to the duration of the deficit recovery payments.

15. Transfers between funds

An Order was made by the Charity Commission on 19 June 2012, at the request of the trustees, to enable them to account and report income and capital returns and charitable expenditure on a total return basis.

The Order requires the unapplied total return to be calculated at the point which the Order is made, and subsequent movements are shown in the table below. The unapplied total return is the amount of the fund over and above the base level of endowment. The trustees agreed this base level should be the book value of assets of the Ecclesiastical Commissioners and the Queen Anne's Bounty when they were transferred to the Church Commissioners in April 1948 (£155.8m), inflated in line with RPI and deducting clergy pensions paid from capital, since the Pensions Measure 1997 became effective. The base level of the endowment at 1 January 2012 was £3,000.4m and the unapplied total return was £2,202.0m. The base value and unapplied total return together with the general fund reserve made up the total fund value of £5,237.6m at 1 January 2012.

The total return each year remains part of the endowment fund, until it is transferred to the general fund and becomes "applied total return". The transfer is shown in the table below and on the face of the SOFA. The trustees agreed the base value of the endowment should be recalculated each year to reflect the permanent diminution of the fund as clergy pensions are paid out under the Pensions Measure 1997, and inflated in line with RPI.

	Notes	Base value of endowment £m	Unapplied total return £m	Total endowment fund £m	General fund £m	Total funds £m
At 1 January (restated)		2,830.3	3,872.8	**6,703.1**	–	**6,703.1**
Add investment return for the year:						
Income return – gross income	2	–	143.4	**143.4**	2.5	**145.9**
Income return – cost of raising funds	2	–	(57.7)	**(57.7)**	–	**(57.7)**
Capital return – investment assets		–	424.4	**424.4**	–	**424.4**
Capital return – current investment assets		–	1.1	**1.1**	–	**1.1**
Capital return – derivative financial instruments		–	(14.4)	**(14.4)**	–	**(14.4)**
Capital return – foreign currency		–	7.8	**7.8**	–	**7.8**
Capital return – non investment assets	10/11	2.1	–	**2.1**	–	**2.1**
Total investment return during the year		2.1	504.6	506.7	2.5	509.2
Less						
Pensions paid from capital	3	(122.4)	–	**(122.4)**	–	**(122.4)**
Transfers out of capital	14	(0.2)	–	**(0.2)**	–	**(0.2)**
Gain on defined benefit pension schemes (staff pre 2000)	14	11.1	–	**11.1**	–	**11.1**
Charitable expenditure: non-pensions	3	–	–	**–**	(96.1)	**(96.1)**
Total other movements during the year		(111.5)	–	(111.5)	(96.1)	(207.6)
Add indexation on base value of endowment		34.0	(34.0)	**–**	–	**–**
Application of non-applied total return		–	(93.6)	**(93.6)**	93.6	**–**
At 31 December		**2,754.9**	**4,249.8**	**7,004.7**	**–**	**7,004.7**

Notes to the financial statements (continued)

For the year ended 31 December 2015

16. Capital commitments and contingent liabilities

Capital commitments

	Consolidated		Commissioners	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Securities portfolio	**292.8**	214.6	**176.6**	159.5
Indirect property	**45.5**	53.4	**31.9**	38.2
Timberland	**50.6**	40.8	**–**	–
Infrastructure	**21.7**	27.0	**–**	–
Total capital commitments	**410.6**	335.8	**208.5**	197.7

The Commissioners have commitments to invest in private equity, private credit, property fund and timberland. The timing of drawdowns is dependent on the fund managers acquiring underlying assets during the investment periods of the funds.

Contingent liabilities

The Commissioners, dioceses and other Church bodies are the bodies responsible for the contributions to the Church of England Funded Pensions Scheme for clergy. In the event of defaults by any of the responsible bodies, the remaining responsible bodies, including the Commissioners, would continue to be responsible for the entire liabilities of the Scheme.

The Commissioners are joint employers, together with the other NCIs, of most of the staff of the NCIs and, as such, have a contingent liability for salaries and other employment costs in the event of a default by any of the other joint employers.

It is not practicable to reliably estimate the quantum of the above contingent liabilities.

17. Leases

Paragraph 20.30 of FRS 102 requires significant leasing arrangements to be described. The Commissioners have different types of leases in place for its investment properties, including:

Tenancy	Break terms
Residential	
Assured Shorthold Tenancies (ASTs)	Minimum six months then two months' notice
Assured tenancies	One month's notice
Regulated tenancies	One month's notice
Ground Rents	No break terms
Licence Agreement	One month's notice by either parties
Rural	
Farm Business Tenancies	In general, there are no breaks until lease end date
Agricultural Holdings Act	Minimum 12 month notice period by the tenant
Licence Agreement	Will range from one to three months' notice by either parties
Commercial	
Full Repair and insurance	No break term unless specifically requested
Internal Repair and Insurance	No break term unless specifically requested
Geared Rents	No break terms
UK forestry	
Not applicable	

FRS 102 also requires the minimum future cash flow of non-cancellable operating leases and total contingent rents to be disclosed. Due the nature of the Commissioners' leases, the vast majority of residential and rural property leases are cancellable within 12 months. Commercial property leases and residential ground rents are non-cancellable.

18. Funds held on behalf of others

	2015 £m	2014 £m
Residential service charges, sinking funds and tenants' deposits	**12.2**	9.1
Trust funds	**6.9**	6.7
Total funds held on behalf of others	**19.1**	15.8

The Commissioners hold monies on behalf of others. The sums are not included in the Commissioners' balance sheets.

Residential service charges, sinking funds and tenants' deposits
The service charges and sinking funds are paid in advance by tenants in order that property repairs and maintenance works can be carried out.

Trust funds
The Commissioners are trustees of 40 funds, mainly restricted permanent endowment funds. Their income, £0.3m (2014: £0.2m), is applied in accordance with the terms of the trusts.

Certain other trustees are directed to pay some or all of their income to the Commissioners for specified purposes. The total amount received was £0.1m (2014: £0.1m).

Professional advisors

Bankers:	National Westminster Bank plc
Custodians:	JP Morgan Chase Bank, N.A.
Auditor:	Deloitte LLP
Actuaries:	Hymans Robertson LLP
Solicitors:	Official Solicitor to the Church Commissioners, Charles Russell, Farrer & Co, Radcliffes Le Brasseur

Deloitte LLP were originally appointed as auditors in 2002 and subsequently re-appointed following an open tender process in 2010. In line with best practice for good governance, the Commissioners have since adopted a policy to appointment their auditors for no more than two cycles of five years. As a result, the external audit for the financial year ending 31 December 2016 and the following four years was put out to tender during 2016. Following the recommendation of the Audit & Risk Committee on 5 April 2016, the Board of Governors intend to appoint Grant Thornton UK LLP. Deloitte LLP will resign, with our thanks, as external auditor following the completion of this audit.

Statement of responsibilities

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the charity and of the incoming resources and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply in all material respects with the Charities (Accounts and Report) regulations 2008, the Church Commissioners measure 1947 (as amended) and the Charities Act 2011. The trustees are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the organisational and financial information included on the Commissioners' section of the Church of England website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Money available resolution

As required by the Church Commissioners Measure 1947 (as amended), at the Annual General Meeting of the Commissioners to be held on 22 June 2016, the Board of Governors will recommend that the meeting (i) receives the Annual Report and Financial Statements; (ii) notes an update on the spending plans for 2014–2016; and (iii) considers the allocation of money available in 2017–2019.

At its meeting on 17 March 2016 the Assets Committee, having received updated advice from its actuarial advisors Hymans Robertson LLP (as required by the Pensions Measure 1997) which is summarised on the following page, resolved (i) to inform the Board that the Commissioners' expenditure plans for 2016 could be made firm and (ii) the following sums could be made available in 2017–2019 to be spent on statutory and discretionary support:

- Up to £371.0m for clergy pensions.
- Up to £97.7m for non-pensions fixed-term distributions.
- Up to £318.1m for non-pensions in-perpetuity distributions.

Independent Actuaries' Report

The Commissioners hold assets ("the assets") from which they pay pensions to retired clergy ("the pensions obligation") and other licensed ministers and staff ("the pensions liability"), and provide money to support the mission and ministry of bishops, cathedrals and parishes and for other purposes ("the distribution"). The distribution is affected by the extent of the pensions obligation and pensions liability. In order to assist the Commissioners in formulating the distribution policy, we carry out a detailed review from time to time.

Our most recent detailed review was carried out as at 31 December 2015. The review involves calculating the capital value (also known as the present value) of the following three areas of future expenditure from the assets, according to their term (we call these the 'building blocks'):

1. The pensions obligation and pensions liability. As the pensions are payable throughout the lifetimes of the pensioners, the term of this area of expenditure is longevity related and not known in advance. We therefore make assumptions of future life expectancy for the purpose of calculating the capital value of the pensions obligation and pensions liability.
2. Distributions which have a fixed term, for example the distributions that have been agreed in principle over the period from 2017–2025, releasing funds designed to accelerate the Resourcing the Future reforms.
3. All other planned distributions, which are assumed to be payable in perpetuity.

Having calculated the capital values of the building blocks, we compare the total with the value of the assets held to assess whether the planned distributions are sustainable. We also calculate the maximum sustainable in-perpetuity distributions. Many occupational pension schemes have actuarial valuations performed using significant margins for prudence. This is done so that the scheme has a funding buffer should future events prove unfavourable, in particular if the pension scheme's sponsoring employer becomes insolvent. In contrast, our calculations for the Commissioners are made on a "best estimate basis"' and do not include such margins of prudence. We consider that margins are not required, as the assets are significantly larger than the pensions obligation and pensions liability, and no further margin is necessary. Moreover, if margins were to be included, this would restrict the current in-perpetuity distributions, with the expectation that they are likely to be increased in the future by more than the planned increases. This would lead to inter-generational inequity, with the future recipients of the distribution receiving more in real terms at the expense of current recipients.

It should be noted that the distribution which the assets can support is extremely sensitive to a number of factors. These include the actual investment returns on the assets, the assumed average future investment return, actual increases in the national minimum stipend (on which the starting level of pension is based) and pensions in payment and the actual and prospective longevity of pensioners. In previous assessments, our calculations were based upon an aspiration to increase the in-perpetuity distribution over time in line with average earnings. We also considered this in our latest assessment.

Additionally, after consultation with the Assets Committee, we considered a suggested alternative approach which sub-divides the in-perpetuity distribution into separate building blocks with differing rates of target pension increases. The main results of our calculations were that:

(i) If the desired long term average rate of increase to the in-perpetuity distribution is in line with changes in the Retail Prices Index (RPI) with a margin of 1.5% pa, representing the assumed long-term increases in average earnings, the unsmoothed sustainable increasing in-perpetuity distribution would be £83.6m pa. The current rate of in-perpetuity distribution (£94.6m pa) is greater than the unsmoothed sustainable increasing in-perpetuity distribution. On this basis, we would be recommending that the in-perpetuity distribution is kept flat at its current rate over the 2017–2019 triennium. However, a lower long-term average rate of increase to the in-perpetuity distribution would be sustainable. Assuming that the in-perpetuity distribution is held at £94.6m pa, the assets held at 31 December 2015 were sufficient to sustain the complete package of longevity-related, fixed-term and in-perpetuity building blocks with a long-term average rate of increase to the in-perpetuity distribution of RPI+1.28% pa.

(ii) The suggested alternative approach would imply a total in-perpetuity distribution in the region of £100m pa, compared to the current level of in-perpetuity distribution of £94.6m pa. The overall weighted average target increase for the in-perpetuity distribution implied by the suggested approach is RPI+1.19% pa. The assets held at 31 December 2015 were more than sufficient to sustain the complete package of longevity-related, fixed-term and suggested alternative in-perpetuity building blocks.

Following completion of our detailed review, our recommendations are that:

(i) the suggested alternative package of longevity-related, fixed-term and in-perpetuity building blocks is adopted with effect from the 2017–2019 triennium. The associated increases may be paid in full throughout the triennium. The affordability of this package of building blocks should be re-examined not only in detail at the next triennial assessment due as at 31 December 2018, but also on an approximate basis at the interim assessments at 31 December 2016 and 31 December 2017.

Independent Actuaries' Report (continued)

(ii) before the next interim assessment a decision should be made as to what actions would be taken in relation to the package of building blocks if future market conditions turn out to be adverse to the extent that the assets can no longer fully sustain the building blocks.
(iii) the Commissioners should continue to pay some of the in-perpetuity distribution, say at least between 5% and 10%, in a form that will automatically cease, or can be stopped, at relatively short notice, say within a year or two. This will put the Commissioners in a better position to reduce the distribution if necessary in the circumstances of unfavourable future experience. We have noted that the movement towards targeted one-off grants has given increased flexibility to cut back the in-perpetuity distribution in this way.

Richard Crowhurst FIA
Peter Carver FIA CERA
For and on behalf of Hymans Robertson LLP
April 2016

List of larger investments

The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes.

The table below shows the largest 20 direct equity holdings, and the largest 20 direct property holdings.

The table does not include pooled fund holdings, which invest in a wide range of underlying assets thus diversifying the risk.

Top 20 most valuable property holdings	Top 20 most valuable equity holdings
19–26 Long Acre & 28–30 Floral Street	Alphabet Inc
Ashford Estate	AstraZeneca Plc
Canterbury Estate	BP Plc
Carlisle Estate	Check Point
Cherry Tree Timber	Citigroup Inc
Chichester Estate	GlaxoSmithKline Plc
Ely Estate	HSBC Holdings
Halsall Estate	Ingersoll-Rand Plc
Huntingdon Estate	Linear Technology
Hyde Park Estate	Lloyds Banking
Jahr Tree Timber	Microsoft Corp
London Lancaster Hotel, Bayswater Road	Oracle Corp
MetroCentre (10% Interest)	Prudential Plc
Peterbourgh Estate	Qualcomm Inc
Rochester Estate	Royal Bank of Scotland
South Durham Estate	Royal Dutch Shell
South Lincoln Estate	SABMiller Plc
UK Timber	Samsung Electronics
Winchester Estate	Tesco Plc
York Estate	Vodafone Group

The top 10 equity holdings represent 4.2% and the top 10 property holdings represent 14.4% of the total Commissioners' fund.

The Church Commissioners and Board of Governors

At April 2016

The Board of Governors transacts the functions and business of the Commissioners except where, by statute or through delegation by the Board, these are exercised by Committees. Except State office holders, all Church Commissioners are members of the Board of Governors.

Archbishop of Canterbury,
Justin Welby **Chair**
Archbishop of York, John Sentamu

Church Estates Commissioners appointed by HER MAJESTY
Sir Andreas Whittam Smith First Church Estates Commissioner
Caroline Spelman MP
Second Church Estates Commissioner

Church Estates Commissioner appointed by THE ARCHBISHOP OF CANTERBURY
Andrew Mackie Third Church Estates Commissioner

Elected by the General Synod
HOUSE OF BISHOPS
Bishop of London, Richard Chartres
Bishop of Manchester, David Walker
Bishop of Lincoln, Christopher Lowson
Bishop of Chichester, Martin Warner

HOUSE OF CLERGY
Revd Canon Bob Baker
Revd Amanda Fairclough
Revd Stephen Trott

HOUSE OF LAITY
April Alexander
Canon Peter Bruinvels
Gavin Oldham
Jacob Vince

Elected by the deans
Dean of Wakefield, Jonathan Greener
Dean of Gloucester, Stephen Lake

Nominated by HER MAJESTY
Harry Hart
Ian Watmore
John Wythe

Nominated by THE ARCHBISHOPS OF CANTERBURY AND YORK
William Featherby QC
Jeremy Clack
Mark Woolley

Nominated by THE ARCHBISHOPS OF CANTERBURY AND YORK
After consultation with others including the Lord Mayors of the Cities of London and York and the Vice-Chancellors of Oxford and Cambridge Universities
Graham Oldroyd
Poppy Allonby
Hywel Rees-Jones

State office holders
First Lord of the Treasury
Lord President of the Council
Lord Chancellor
Secretary of State for Culture, Media and Sport
Speaker of the House of Commons
Speaker of the House of Lords

Secretary to the Church Commissioners and Board of Governors
Andrew Brown

Assets Committee
Subject to any general rules made by the Board, has an exclusive power and duty to act in all matters relating to the management of the Commissioners' assets
Sir Andreas Whittam Smith **Chair**
Revd Amanda Fairclough
Bishop of Manchester, David Walker
Canon Peter Bruinvels
Poppy Allonby
Harry Hart
Mark Woolley
Graham Oldroyd
John Wythe
Committee Secretary Andrew Brown

Audit & Risk Committee
Acts in matters relating to the external auditors, the annual accounts and internal control systems
Hywel Rees-Jones **Chair**
April Alexander
Ian Ailles
Stephen East
Jeremy Clack
George Lynn
Committee Secretary Michael Cole

Bishoprics and Cathedrals Committee
Acts for the Board in matters relating to episcopal and cathedral support
Andrew Mackie **Chair**
Bishop of Chichester, Martin Warner
Bishop of Doncaster, Peter Burrows
Dean of Wakefield, Jonathan Greener
Dean of Gloucester, Stephen Lake
Vacancy
Revd Mary Bide
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Rosemary Butler *Representative of Bishops' spouses*
Committee Secretary Paul Lewis

Mission and Pastoral Committee
Acts for the Board in matters relating to pastoral reorganisation, parsonages and diocesan glebe
Andrew Mackie **Chair**
Bishop of Lincoln, Christopher Lowson
Bishop of Truro, Tim Thornton
Dean of Wakefield, Jonathan Greener
Revd Canon Bob Baker
Revd Canon Stephen Evans
Ven Penny Driver
Canon Peter Bruinvels
William Featherby QC
Julia Flack
Susan Pope
Committee Secretary Paul Lewis

Church Buildings (Uses and Disposals) Committee
Acts for the Board in matters relating to the future of church buildings closed for regular public worship
Andrew Mackie **Chair**
Revd Canon Bob Baker
Revd Canon Peter Cavanagh
Revd Stephen Trott
Revd Simon Talbott
Ian Watmore
April Alexander
John Steel
Margaret Davies
Committee Secretary Paul Lewis

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