



# Church Commissioners Annual Report 2012

Supporting the Church of England's ministry  
particularly in areas of need and opportunity



The Church Commissioners for England





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# The Church Commissioners – helping parishes and dioceses across the Church of England

The Church Commissioners manage an investment fund of some £5.5 billion, held mainly in a diversified portfolio including equities, real estate and alternative investment strategies. The fund and the obligations attached to it derive from the Commissioners' parent charities of the 18th and 19th centuries, respectively Queen Anne's Bounty and the Ecclesiastical Commissioners, which were set up to improve the incomes and housing of clergy and to extend their ministry into new urban areas. The Commissioners' work today supports the Church of England as a Christian presence in every community.

The Commissioners are a statutory body, governed by the Church Commissioners Measure 1947, and a registered charity number 1140097.

The Commissioners' annual objectives (p6, 18 & 27) reflect our ongoing responsibilities which include:

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

We provide public benefit in fulfilling these responsibilities.

The Church's network includes:

- 16,000 churches
- 12,000 parishes
- 8,500 priests
- 3,150 self-supporting priests
- 5,670 active retired priests
- 10,000 readers, pastoral assistants and other serving lay officers

They offer spiritual care for all who might wish to engage with matters of faith and community action in a Christian context.

- The Church provides education in the Christian faith and encourages personal spiritual growth and well-being for all.
- Its buildings are a community focus and a base for Church-run and other activities. Typically these include projects that support children, families and the elderly through clubs, social gatherings, cultural events, outreach activities and community services.



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The Commissioners have had regard to Charity Commission guidance on public benefit.



## Introduction by Andreas Whittam Smith The First Church Estates Commissioner

**The best way to judge the investment performance of an endowment fund like the Church Commissioners' is to examine the results over a lengthy period of time. That shows whether the working parts of the investment process are in good order. Have broadly correct decisions been made about where to allocate assets – in the UK or overseas, what proportion in securities, what proportion in real estate or in other assets such as timber? Have the firms to whom the endowment has entrusted the management of parts of its portfolio been well chosen? Have these mandates been prudently set in terms of the degree of risk that the endowment is prepared to accept?**

Applying this test to the Commissioners, I have taken the ten-year record, with glances at the past year, at the past three years and at the past twenty years. From 2003 to 2012, then, the Commissioners funds grew by 9.1% per annum. This exceeded our target, which was the rate of inflation in the period plus five percentage points, which was 8.3% per annum. Our performance was also nearly a percentage point better than that of similar funds.

Did luck come into this good performance? After all, we own some valuable assets bequeathed to us by history. These comprise our extensive agricultural estates and our residential housing estate in central London. Indeed our rural holdings did rise by 17.4% during the 10-year period and our residential assets by 15.6%. But these weren't isolated examples of strong performance. Growth in our holdings of overseas securities, of shares in private

companies and of land held for development potential also exceeded our target of inflation plus five percentage points. So while there was some good fortune, good management also played a significant role. Did the ten-year period perhaps start well and then tail off, raising doubts for future performance? No, in the three-year period 2010 to 2012, the outturn exactly matched our target at 9.2% per annum. And 2012 itself was very satisfactory. The fund grew

by 9.7%, comfortably exceeding inflation plus five percentage points. This outturn was also better than what comparable funds achieved.

Looking in detail at 2012, we were well served by the managers of our equity mandates, who exceeded what was expected of them. The investments we made in smaller companies did well compared with their larger counterparts. Residential and rural property continued to outperform. And, finally, keeping away from investing in longer-dated government bonds, index-linked bonds and quality corporate bonds turned out to be a wise decision.

Finally, in reviewing past performance, it is interesting to review the twenty-year record. It would be difficult not to be proud of it. Inflation ran at 2.9% during the period. Add five percentage points to establish our target – 7.9%. The Commissioners' assets, however, grew through this long twenty-year period by 9.9%. In other words, a substantial amount of extra resources has been created to put at the service of the Church.

Like any trustees of a charity, the Assets Committee of the Church Commissioners, which I chair, has a mixture of duties, from taking the big decisions to supervising the work of the investment team. Its most significant decision by far is what is known as 'assets allocation' or where to place the endowment's funds. This is the most important 'working part' of the investment process. Our present policy is to maintain a broadly diversified portfolio of assets directly linked to economic activity, so-called real assets, which include shares, property, private equity and timber, all chosen on a global basis. And we may shortly widen the range by taking stakes in big infrastructure

**A substantial amount of extra resources has been created to put at the service of the Church**

projects. But at the same time we also aim to maintain a substantial cash or liquidity reserve, currently close to 10% of our total assets. And we are continuing to shun longer-dated British Government and US Government bonds.

The selection of investment managers is a painstaking exercise. In a recent case, seventy specialist firms were analysed. From these, eight managers were selected for closer examination. Members of the investment team visited each of them, including those with offices in the USA. As a result a short list of three emerged and one was finally chosen. We assess the relevant executives, examine the firms' investment processes and assess their long-term track record.

The assessment of risk for the portfolio as a whole and for individual holdings is also a key working part. We must set a risk appetite that takes into account the timing of our pension liabilities, the need to provide stability in the distributions we make to different parts of the Church and, through taking advice from the Ethical Investment Advisory Group, the necessity of avoiding investments where the activities undertaken would not be approved by Church members.

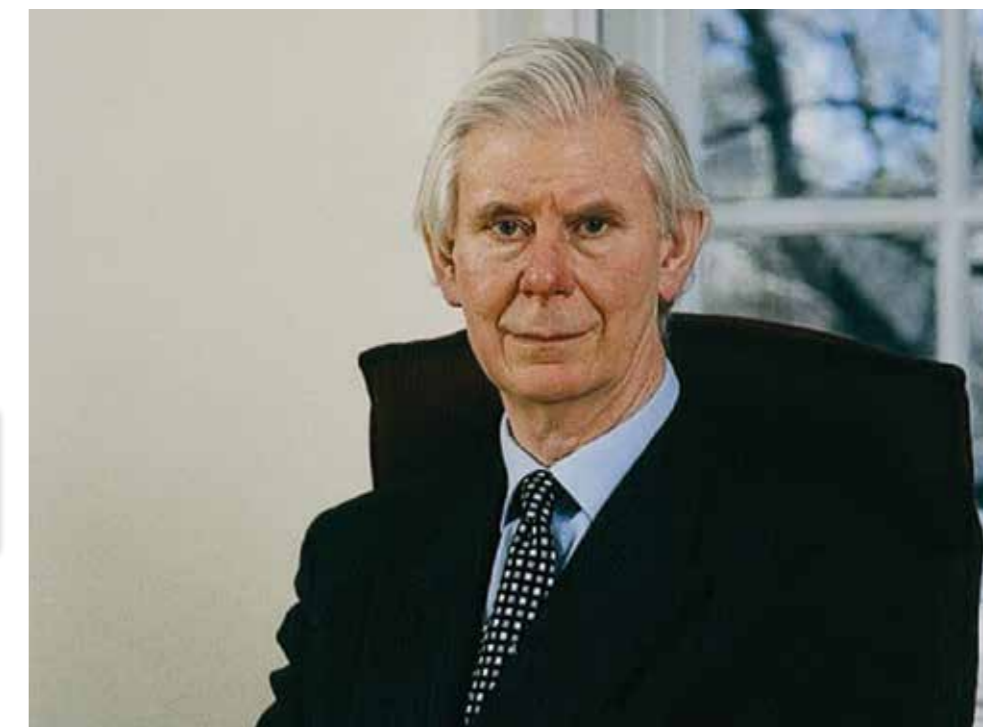
This, then, is how you should judge the management of the Commissioners' assets in the future. What does the record show? Have we found the right balance between stability and growth?

Finally I would like to thank Nick Sykes, whose term of office as a Commissioner came to an end on 31 December. He sat on the Assets Committee and as an investment professional himself he gave consistently sound advice. But he was also prepared to be unorthodox and make us re-think our assumptions. Indeed on occasions his well-chosen observations brought about a change in our course.

**The Commissioners support dioceses with significant mission challenges and opportunities in new housing and other development areas**

In addition, on behalf of the trustees, I warmly thank the Commissioners' investment staff and Tom Joy, the Director of Investments, for their outstanding work.

Andreas Whittam Smith  
The First Church Estates Commissioner



Birmingham Mission Apprentices work in deprived areas in growing parishes - the Programme is funded by the Commissioners (full story p11).





Leicester Cathedral hosted a special service to mark the start of the Queen's nationwide Diamond Jubilee tour. Her Majesty is pictured here with (from *l to r*), the former Dean the Very Revd Viv Faull, the Bishop of Leicester the Rt Revd Tim Stevens and the Duchess of Cambridge. The cathedral receives both Section 21 and 23 funding from the Commissioners (see pages 12/13).

## Supporting the Church's ministry

### Objectives

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

## Overview by Andrew Brown Secretary to the Church Commissioners

2012 has been a remarkable year. The Church of England, along with the rest of the country, joined in the celebrations to mark both the Queen's Diamond Jubilee, and the Olympic and Paralympic Games. A visit to Lambeth Palace marked the start of official engagements for the Queen's Diamond Jubilee celebrations and around the country, churches of all sizes and traditions celebrated with their communities. During the reception at Lambeth Palace, the Queen spoke of how the Church of England has helped build a better society.

The spirit of volunteering came alive during the Olympic period, reminding us all of the goodwill factor that can change the lives of local communities.

**The Commissioners contribute 15p in the pound to the cost of the Church of England's mission – most of the balance comes from the generous giving of today's parishioners**

The spiritual and numerical growth of the Church includes growing its capacity to serve the whole community and as our report shows the Commissioners continue to identify and

fund areas of need and opportunity throughout England. Our aim is always to work with and support dioceses and parishes to drive growth in their own context. We seek to put money behind effective programmes and there are a range of case studies in this report.

This work sits alongside our support for cathedrals which offer a unique contribution to the spiritual life of this country, bishops' ministry and other areas of the Church's day to day life. Her Majesty's national Jubilee tour started with a service in Leicester Cathedral (pictured left).

Around three-quarters of the Church's annual £1.3 billion spending on its mission and ministry comes from parishes, dioceses, and cathedrals, very largely as a result of generous giving. In 2012 our own contribution to that sum was £209.8 million, around 15% of the Church's overall costs. We try to focus our funding for the Church's serving ministry towards need and opportunity while supporting the pensions of former serving clergy.

The picture stories and case studies in the report are a reminder of how the Church of England continues to be a Christian presence in every community.

I am grateful to Commissioners and other Committee members who selflessly serve the Church offering wisdom and leadership in the way the assets are managed, funds are distributed with the Archbishops' Council and our administrative functions are performed. I am also very conscious of the dedication of the staff team without whom, in partnership with our members, the financial result could not have been achieved, or further levels of financial and administrative support provided. 2012 has been a great year demonstrated by continued dedication and service.



## Spending plans 2011-13

Our spending plans for the 2011-13 triennium, which we developed jointly with the Archbishops' Council, support the three strategic themes which the then Archbishop of Canterbury presented to the General Synod in November 2010 at the beginning of its 5-year term. These are:

- To take forward the spiritual and numerical growth of the Church of England – including the growth of its capacity to serve the whole community of the country;
- To re-shape or re-imagine the Church's ministry for the century ahead, so as to make sure that there is a growing and sustainable Christian witness in every local community; and
- To focus resources where there is both greatest need and greatest opportunity.

These strategic themes will provide the focus for our plans beyond the current triennium. A joint Task Group of the Archbishops' Council and Church Commissioners, commissioned by the Archbishops of Canterbury and York, has begun work on recommendations for spending plans in 2014-16. The Group is consulting with dioceses and cathedral representatives to inform its thinking. It will report to us and to the Archbishops' Council in 2013 to help dioceses and cathedrals to meet the challenges that they have identified.

### Grant making policy

The Commissioners make grants to fulfill their statutory duties, including certain support for bishops' and cathedrals' ministry. Discretionary grants to dioceses, to support parish mission and ministry through the Archbishops' Council, and to cathedrals are determined according to formulae which take various factors into account including other resources available. Other discretionary grants towards parish ministry and mission are awarded after evaluation against pre-set criteria currently including location, deprivation, sustainability of the proposed project and its potential for developing learning within the Church.

## Parish ministry and mission

### Objectives

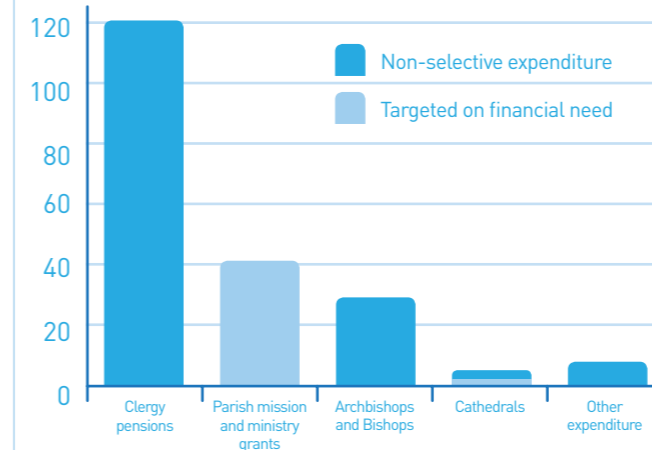
- to manage our financial commitments
- to target resources on areas of need

In 2012, distributions from our funds for parish ministry and mission totalled £42.2 million compared to £37.7 million in 2011. Most of this sum was allocated to the Church in grants made through the Archbishops' Council. The Council distributed £33.1 million in block grants to dioceses using a formula which targets the funding on the least resourced. Dioceses usually use their grant to support the cost of clergy stipends, targeting it on those parishes which are least able to meet the cost of their ministry. 16 dioceses received grants of more than £1 million in 2012.

The mission development funding stream gives dioceses the opportunity to invest in new opportunities for mission. It may also be used for stipend support. In 2012, the Archbishops' Council distributed £5.7 million in mission development funding. All dioceses received a share but the funding is distributed using a formula weighted towards areas of need.

The majority of dioceses use their mission development funding to support local mission initiatives, distributing it through their mission funds. Dioceses report annually on their use of the funding, and this information is collated into a report to the July Sessions of the General Synod which is also published on the Church of England website.

Support for the Church in 2012 (£ million)



### St John's Centre, Old Trafford (Manchester diocese)

St John's Centre, Old Trafford aims to enrich the quality of life for people living in Old Trafford, especially the marginalised or disadvantaged, by providing educational and keep fit activities, volunteering and employment opportunities and a creche. Mission development funding is supporting the employment of the Centre manager and administrator.



### Pioneer minister to the night time economy of Leeds (Ripon and Leeds diocese)

Under the leadership of Beth Tash, a pioneer minister to the night time economy of Leeds city centre, Leeds Street Angels seek to help make the city centre a safer place to be on a night out. The volunteer Angels (who are part of a national network of Street Angels) have served on the streets fortnightly throughout the year.

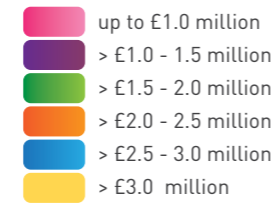
Leeds Street Angels complement the ministry of Club Angels who serve weekly in three clubs across Leeds city centre to 'chat, help, listen, care'. Beth's post is supported by our and the Archbishops' Council's funding for new housing and other development areas.

Beth Tash says:

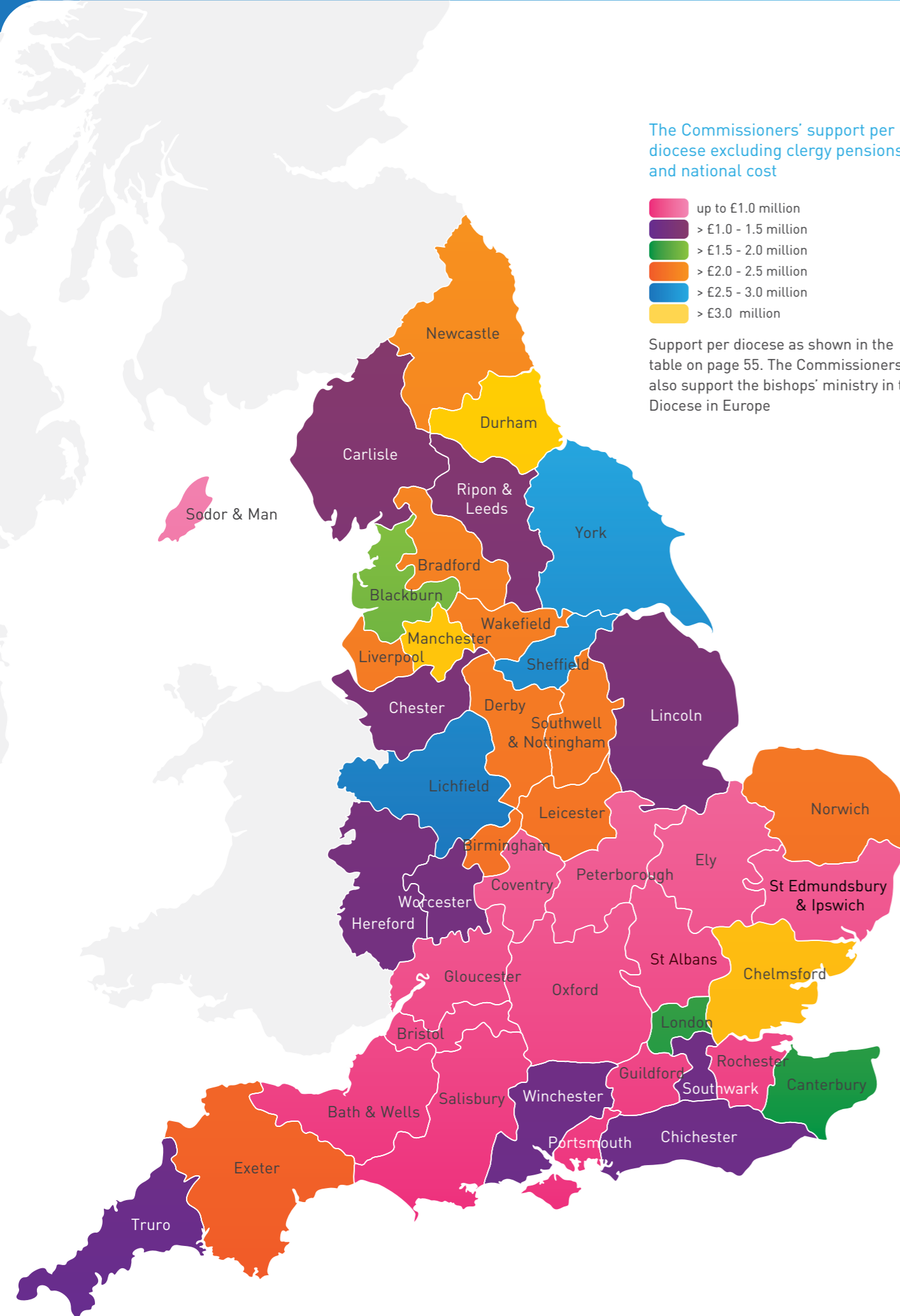
*"These are both costly ministries in terms of time, sleep, and being counter cultural in a world that is sometimes tangibly dark. I'm so grateful for the wonderful volunteers."*



The Commissioners' support per diocese excluding clergy pensions and national cost



Support per diocese as shown in the table on page 55. The Commissioners also support the bishops' ministry in the Diocese in Europe





## Objectives

- to identify and help to meet new needs
- to research and share news of effective spending

### New housing and other development areas

In 2008-10, £7.25 million was allocated to 15 dioceses with significant mission challenges and opportunities in new housing and other development areas. Although the money was all committed and accounted for by the end of 2010, many developments were delayed owing to the economic downturn. £0.7m was spent in 2012 and there remains £3.8m committed which will be drawn down over several years.

In 2012, staff visited seven of the dioceses receiving this funding and also met with pioneer ministers from two other recipient dioceses.

#### Barking Riverside (Chelmsford diocese)

New housing funding is supporting an ecumenical project with the Salvation Army at the Barking Riverside development. A lay Church of England pioneer minister was appointed in 2012 to help establish a Christian community on this new estate. The project has established strong links with the Church of England primary school on the estate and is beginning to build a worshipping community.

### Research and Development

We and the Archbishops' Council have earmarked £12 million in 2011-13 for research and development funding to help the Church to understand better which parts of the Church are growing and why, and to seek to develop that growth.

£3.3 million of this funding had been allocated by the end of 2012. £0.3 million is funding research into Church growth and £3 million has been allocated for developing Church growth in deprived areas.

#### The Church Growth Research Programme

The Church Growth Research Programme is an 18-month research project exploring some of the factors that might explain church growth in the Church of England.

The programme has three strands:

1. Data analysis. The Church of England already collects data from parishes and dioceses – for example, from the annual parish returns – and this will be analysed to shed light on what factors are associated with church growth.

2. Church profiling. Through a survey of 4,000 churches, researchers will collect data to enable them to develop a profile of growing churches from a wide range of contexts and traditions.
3. Structures: Cathedrals, Fresh Expressions and Church Planting and Amalgamations, Team Ministry and United/ Grouped Benefices.

The research programme will be completed in 2013. The final reports will be published and the findings widely disseminated.

You can learn more about the research programme at:

[www.churchgrowthresearch.org.uk](http://www.churchgrowthresearch.org.uk)

#### Developing Church Growth in Deprived Areas

2012 saw the award of the final tranche of the funding for developing Church growth in deprived areas, totalling £1.8 million (the first tranche of £1 million was allocated in 2011). 19 projects were chosen to receive a grant of around £0.1 million each.

Candidates for funding were assessed against the following characteristics:

- Evidence that the work has produced sustained growth in the number of Christian disciples
- A clear strategy for developing the work within its existing context or for replicating the model of work elsewhere.

The assessment also took into account a range of other factors, including deprivation, the long-term sustainability of the project, the inclusion of measurable outcomes and scope for learning.

The remaining £150,000 of the £3 million allocated to the development funding programme has been reserved for evaluating the programme and disseminating the results.

### 'The Bridge' School of Mission and Church Planting

Glo Church, in Chester diocese, is a missional community living and serving in Offerton, an Urban Priority Area in Stockport. Glo (God Loves Offerton) has established a varied programme of community outreach through which it is bringing people to the Christian faith. It has been awarded a development funding grant to support the creation of 'The Bridge' School of Mission and Church Planting. Six interns and two longer-term 'mission apprentices' will work alongside Glo and will also receive theological training with some being referred for ordination selection.



### Church Growth Research & Development Website

The new Church Growth Research and Development website ([www.churchgrowthRD.org.uk](http://www.churchgrowthRD.org.uk)) aims to disseminate and communicate the Church's work on Church growth research and development and hosts a library of resources to support Church growth. It also features a team of guest bloggers making regular contributions.

### Urban Hope (London diocese)

Mission development funding is supporting the Urban Hope project at St Stephen's Church, Canonbury Road. Ben Bell, Project Director says: 'Urban Hope seeks to create a positive extended family for young people to belong to. A large number of the young people are some of the most excluded in the city and they have a range of complex needs. Because of this we have found that familiar and conventional models of mission just don't cut it'. In collaboration with StreetSpace, Urban Hope has created a new role to address this issue and enable others across London to do the same. The postholder has developed a model for undertaking spirituality audits of projects and begun a programme of detached work on local estates.



### Birmingham Mission Apprentice Programme

A development funding grant for Birmingham diocese is supporting the training of a group of mission apprentices located in growing parishes in deprived areas of the city. The apprentices are undertaking a range of projects under the oversight of the local clergy and participating in a two-year training programme in mission and personal development.

### Resourcing Mission Bulletin

Four issues of the Resourcing Mission Bulletin were published online in 2012. Current and previous issues are on the Church Growth Research and Development website ([www.churchgrowthRD.org.uk](http://www.churchgrowthRD.org.uk)). All are welcome to sign up to receive it by e-mail.

### Developing Children's and Families Work

Church attendance in Radford in Southwell and Nottingham diocese has grown significantly following the appointment of two Lay Missioners. The appointment of a children's and families' worker, engagement with schools and the development of a Messy Church congregation have been key factors in this growth. The development funding grant will help to further develop and evaluate the parish's work with children and families.





# Bishops and cathedrals

## Objective

– to provide sustainable financial support to our beneficiaries

The Commissioners meet the costs of the stipends and the office and working costs of the archbishops and bishops. In the case of bishops, 2012 was the second year where the funding has been provided as a fixed grant, directed to the diocesan bishops who are then able to manage their resources according to their local needs including the funding of their area, suffragan and assistant bishops. Stipends and associated pension costs for the archbishops totalled £0.2million and for the bishops £5.3 million. Support staff, office and working costs were £4.7 million for the archbishops and £14.8 million for the bishops. Details of the bishops' 2012 office and working costs will be published on the Commissioners' website later in the year.

Most bishops are provided with a leased car for use on official business. Continued focus on CO<sub>2</sub> emissions when choosing replacement cars has resulted in the average emission for the fleet being reduced from 120g/km to 116g/km with average fuel consumption improving from 61 to 63 mpg.



The green Bishop of Hertford, the Rt Revd Paul Bayes blesses his environmentally friendlier Toyota Prius.

## Bishops' houses

The Commissioners have always reviewed the suitability of the official houses provided for bishops to ensure they meet the operational needs of the current times.

In 2012 the Commissioners sold Auckland Castle (Durham), the largest and historically the most expensive see house in the portfolio to maintain. It was purchased by a charity funded by entrepreneur and philanthropist Jonathan Ruffer, who intends to create a visitor attraction including a display telling "The History of Christianity in these Islands" advised by Diarmaid MacCulloch. The sale secured the

future of the Zurbaran paintings at Auckland Castle and the Bishop of Durham will continue to use office accommodation and the chapel for worship, retaining the historic link of the Bishop in Bishop Auckland. The transfer of Ownership and Title from the Church Commissioners to The Auckland Castle and Zurbaran Trusts was successfully completed in July 2012.

A modern house for future bishops of Oxford was purchased in 2012 which will provide attractive and functional accommodation near Oxford with good public transport links. Essential repair and refurbishment was also undertaken on a number of bishops' houses.

Works continued during the year on Lambeth Palace as part of a major ongoing repair and refurbishment of the building including stonework repairs and floor strengthening in Morton's Tower.



The Zurbaran paintings in Bishop Auckland Castle. ©Keith Blundy/Aegies

Every year, around 12 million people visit Church of England cathedrals, including 300,000 pupils on school visits

## Cathedrals

The Commissioners provided cathedrals with grants amounting to £5.4 million in 2012 under section 21 of the Cathedrals Measure, to fund the stipend and pensions costs of the dean and two residentiary canons at all cathedrals except Oxford. If part of the grant is unused due to vacancies during the year, the cathedrals can apply for the balance of the grant to be used toward the relocation costs of new deans or residentiary canons or towards the employment costs of other cathedral staff.

Examples of alternative uses approved during the year were the costs of a commercial director, schools officer, organ scholar and liturgical assistant.

In addition, a total of £3.3 million was provided in discretionary grants under section 23 of the Cathedrals Measure to fund lay staff posts. These grants are targeted at cathedrals with the lowest unrestricted income.



HRH The Prince of Wales with former Archbishop of Canterbury Dr Rowan Williams at the Lambeth Palace Library exhibition to celebrate 350 years of the Book of Common Prayer. The Commissioners are responsible for the Library's collection which includes Queen Elizabeth I's own prayer-book.





# Pastoral administration

## Objective

– to provide an administrative resource and skills base to the church

### Pastoral Reorganisation

Schemes and Orders for the reorganisation of benefices and parishes and related matters are drafted by dioceses and published by them following validation by the Commissioners. Schemes which include provision for the closure of a church for regular public worship are drafted and published by the Commissioners. In 2012, we received 150 new cases (153 in 2011), including those received for validation, and brought forward 100 from the previous year. We completed 147 cases, resulting in a net reduction of 55 benefices and 36 parishes. 103 cases were carried forward at the end of the year. During the year 19 churches out of nearly 16,000 in use were declared closed for regular public worship. New churches and places of worship were also opened but these figures are not collected centrally.

### Our Adjudicatory Role

Nineteen published schemes and orders (12%) published during the year attracted objections.

The Commissioners' Pastoral Committee considered nine new cases during 2012 and also made a final decision in one case which had been referred back to the Bishop for further consideration in 2011. In one closure case the Committee met locally and visited the church and in another a sub-committee visited the parish before the hearing. Details of the latter case are given overleaf. Eleven other cases were resolved without adjudication.

### Clergy Housing and Glebe

The Commissioners consider objections in the same way as for pastoral reorganisation cases. Objections were received to two parsonage sales and two glebe sales during 2012. In one glebe and one parsonage case the

### Table of representation case outcomes 2008-12

|                               | 2008      | 2009      | 2010      | 2011      | 2012      |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>By Committee decision</b>  |           |           |           |           |           |
| Scheme to proceed             | 17        | 11        | 7         | 6         | 10        |
| Scheme not to proceed         | 1         | 1         | 1         | 0         | 0         |
| Draft referred back to Bishop | 4         | 0         | 1         | 2         | 1         |
| Decision deferred             | 0         | 1         | 0         | 0         | 0         |
| <b>Total</b>                  | <b>22</b> | <b>13</b> | <b>9</b>  | <b>8</b>  | <b>11</b> |
| <b>Without adjudication</b>   |           |           |           |           |           |
| Representations Withdrawn     | 8         | 8         | 8         | 7         | 5         |
| Draft Amended                 | 1         | 1         | 3         | 0         | 2         |
| Draft Withdrawn               | 2         | 4         | 4         | 4         | 3         |
| <b>Total</b>                  | <b>11</b> | <b>13</b> | <b>15</b> | <b>11</b> | <b>10</b> |
| <b>Total cases dealt with</b> | <b>33</b> | <b>26</b> | <b>24</b> | <b>19</b> | <b>21</b> |

representations were withdrawn after further discussions between the diocese and objectors. In the other parsonage case the transaction was allowed to proceed. In the other glebe case the Committee initially referred the matter back to the diocese as it did not consider the proposed terms to be sufficiently clear. Following clarification of the terms the sale was allowed to proceed. Transactions involving parsonages and glebe land which do not meet certain criteria also need to be referred to us. One parsonage transaction (two in 2011) involving a connected person was approved: no glebe sales (four in 2011) required approval in 2012. We also approved six (two in 2011) releases of covenants where the Commissioners were a party.

### Legislative change

The Mission and Pastoral Measure 2011 was brought into effect on 1 July 2012 together with an Order made under the Ecclesiastical Offices (Terms of Service) Measure 2009 making amendments to it consequent on changes resulting from the introduction of Common Tenure. The Pastoral Division staff completed the revision of pro forma documents and preparation of the relevant parts of the Code of Practice to the 2011 Measure including the incorporation into it of the Code of Practice on team and group ministries. They also ran training seminars for diocesan staff on the new Measure.

### St Laurence, Middleton St George (Diocese of Durham)

Members of a sub-Committee are pictured here visiting the parish of Middleton St George in advance of the Hearing in London. The Pastoral Committee allowed the diocesan proposal, for the closure of Victorian St Laurence's church, to proceed. In this case the Committee did not think the cost of repairing St Laurence's, which had been temporarily closed on health and safety grounds following the withdrawal of insurance cover, and improving its meetings space was necessarily beyond the means of the parish. However, it thought this expenditure unjustified as the congregation had experienced significant growth since it had begun worshipping mainly in the

Church school, which provided a suitable and attractive modern worship space and meeting rooms and was situated in the area which was now the population centre of the community. It also noted that the medieval church of St George, which had been affected by an earlier shift in the centre of population and was in an isolated rural corner of the parish, had recently been restored funded by a legacy and provided a popular venue for occasional offices. The Committee thought that the mission of the parish was better served by the complementary combination of St George's and the school than by keeping St Laurence's open.



St Edmundsbury and Ipswich Cathedral harnessed the Olympic spirit by teaming up with the Borough Council and the local Sports Centre to run the Festival of Sport. Leaders and sporting equipment were provided by local clubs and firms, while the cathedral provided the venue. The cathedral's Canon Pastor played a lead role in the event which attracted people of all ages.

Guildford Cathedral provided the backdrop and welcomed visitors during one leg of the Torch Relay with crowds lining the roads and areas around the cathedral on Stag Hill.

The Commissioners fund the stipends and pensions costs for the dean and two residentiary canons at most cathedrals.



## Church buildings closed for regular public worship

The Commissioners decide the future of closed church buildings. Our locally based specialist casework team assists dioceses in securing suitable alternative uses but where no such use can be found we normally have to decide, following advice, between preservation in the Churches Conservation Trust and demolition. If 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.

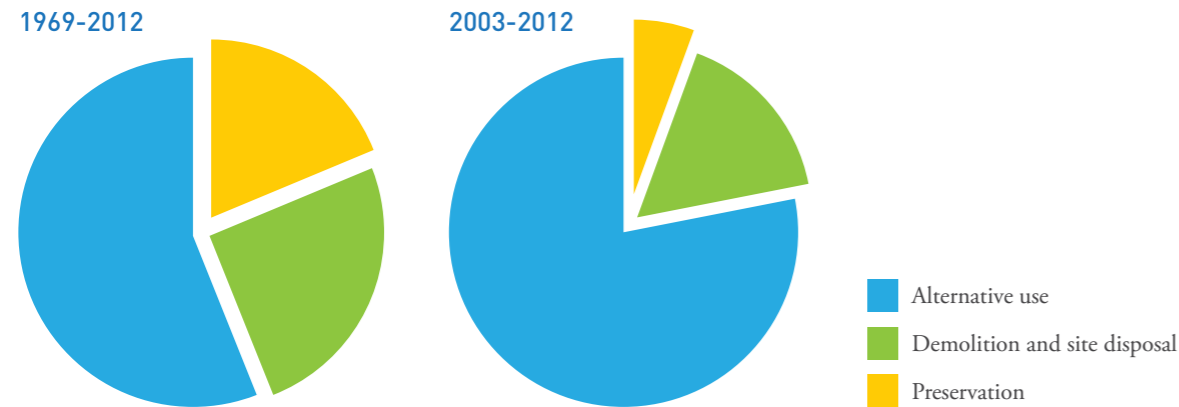
### Contributing to the Church's Mission

More than £50 million has been raised since 1969 in proceeds from the disposal of closed churches and sites. Just under £36.5 million has gone to diocesan pastoral accounts to fund the living church, more than £12.4 million to funding the Churches Conservation Trust and £1.1 million to the temporary maintenance account. The latter helps fund the care of closed churches before their future is settled; net sale proceeds amounted to just under £1.3 million.

Much of our work takes place before or after the statutory scheme-making process. In 2012 we made 28 schemes (26 in 2011) determining the future of closed church buildings or their sites, including 10 schemes amending earlier provisions made for those buildings, 22 provided for alternative uses, one for preservation in the Churches Conservation Trust, three for demolition, one to divest a church from the Churches Conservation Trust for sale for residential use, and one for restoration to use as a place of worship.

The chart to the right shows how the futures of closed church buildings have been settled over the last 10 years.

|                                     | 2003-12    |
|-------------------------------------|------------|
| <b>Alternative Use</b>              |            |
| Adjuncts to adjoining estates       | 0          |
| Arts and crafts                     | 6          |
| Civic, cultural or community        | 35         |
| Educational                         | 10         |
| Light industrial                    | 0          |
| Monument                            | 20         |
| Museums                             | 1          |
| Music or drama                      | 0          |
| Office or shopping                  | 21         |
| Other                               | 0          |
| Parochial or ecclesiastical         | 26         |
| Private and school chapel           | 2          |
| Residential                         | 76         |
| Sports                              | 4          |
| Storage                             | 3          |
| Worship by other Christian bodies   | 52         |
| <b>Total</b>                        | <b>256</b> |
| <b>Demolition and Site Disposal</b> |            |
| Additions to Churchyards            | 4          |
| Housing Associations                | 4          |
| Local Authorities                   | 3          |
| New Places of Worship               | 9          |
| Not Yet Decided                     | 9          |
| Other Community Purposes            | 5          |
| Other Purchases                     | 20         |
| <b>Total</b>                        | <b>54</b>  |
| <b>Preservation</b>                 |            |
| Churches Conservation Trust         | 17         |
| Diocesan Board of Finance           | 1          |
| Secretary of State                  | 0          |
| <b>Total</b>                        | <b>18</b>  |
| <b>Grand Total</b>                  | <b>328</b> |



The Pastoral Measure in relation to the future of church buildings came into effect in 1969



St James the Less in Derby was a small Anglican chapel built in 1881. Since closure, the building has been repaired, restored and extended with charitable funding to become the Springbank Arts Centre, a community arts centre, opened in 2012.

The Church Buildings (Uses and Disposals) Committee considered objections in seven cases (four in 2011) and decided in each that the scheme should proceed.

Each year the Committee, with diocesan colleagues and representatives of heritage bodies, visits an area to see churches facing significant challenges, or those that have closed or have been adapted to a new use. Last year's tour of buildings in the diocese of Durham highlighted a number of church buildings no longer serving the purpose for which they had been built, and responsibility for which had detracted local resources from mission and outreach opportunities. We visited 16 church buildings, of which six were in use and 10 had been closed and saw a striking example whereby using a neighbouring school building for worship was facilitating the growth of a local church community freed from the responsibility of caring for a historic closed church building.

Such visits continue to inform our work in relation to closed church buildings and the context in which parishes carry out their mission and care for their buildings.

### Churches Conservation Trust

With the Government, we co-sponsor the Churches Conservation Trust, which currently preserves 342 outstanding closed church buildings for which no suitable use has been found. We work closely with the Trust to ensure, notwithstanding continuing funding constraints, that we maintain our ability to vest suitable closed church buildings in the Trust, as well as identifying opportunities to divest or lease churches already in its care for new uses. This is a key element in redeploying resources in response to local needs. The payments to the Churches Conservation Trust Order 2011 came into force, providing for the Church's grant to the Trust to be maintained at the existing level of £1.36 million per annum for the triennial funding period up to 31 March 2015.



The church of Blawith St John, which is not a Listed building, is situated within the Lake District National Park and was formerly vested in the Churches Conservation Trust. It has now been sold to provide affordable housing catering for local needs. The new owners are pictured outside the former church.



The Commissioners own 14,000 acres of forestry in the Scottish Borders and Dumfries and Galloway. Our investments in timberland and forestry have had a very strong 2012.

## Review of investment activity

### Objectives

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

### Objective

- to manage the fund so as to ensure sustainable distributions for our beneficiaries

### Fund Strategy

The Commissioners' fund was valued at just over £5.5bn, more than £250 million higher than at the end of 2011 after charitable cash distributions of £207 million.

The investment objective is to generate a return of RPI +5% per annum, on average, over the long term. This is to enable 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.

Over the last 20 years the fund has experienced an average 9.9% growth every year.

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 at the side shows our asset weightings at the end of 2012 and how these have changed in recent years.

### Our ethical investment approach

The Commissioners are ethical investors. The way we invest forms an integral part of the Church of England's witness and mission. Our policy and practice is shaped by expert advice from the Church's Ethical Investment Advisory Group (EIAG). The EIAG is an independent body sponsored by the three national investing bodies of the Church of England.

In all areas of investment – whether equities, property or alternatives – we seek to avoid profiting from, or providing capital to, activities that are materially inconsistent with Christian values.

Ethical investment, however, is not just about what we do not invest in. It is as much, if not more, about how we do invest.

The Commissioners' approach is to:

- Take a long-term view
- Select investment managers who are able to analyse the environmental, social and governance issues relevant to their strategies

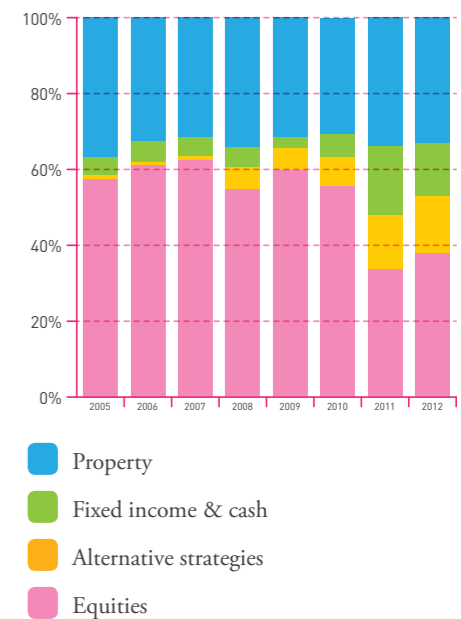
- Act as good stewards of our investments including through voting at company general meetings and engaging actively with companies in which we invest
- Promote ethical behaviour, corporate responsibility and sustainability in our interactions with investment managers, companies and government.

### Fund Performance

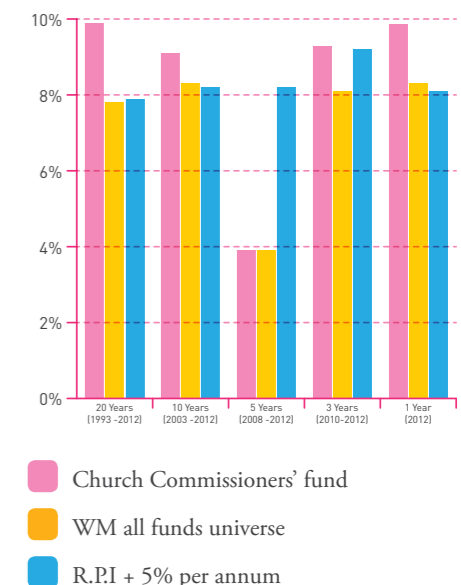
Measured over longer time periods our strong performance record remains intact. Over the past decade our portfolio has returned 139%; over the past 20 years, it has returned 558%. Over 3, 10 and 20 years we are in line or ahead of our long-term target return of RPI +5%. Over all time periods we have outperformed the comparator peer group as measured over all these time periods by the WM All Funds universe.

2012 proved to be a better year for markets following 2011's challenging environment. Successive rounds of quantitative easing by the US Federal Reserve, plus European Central Bank pledges to backstop eurozone debt markets helped drive interest rates to historic lows and at the same time remove the perception, amongst investors, of "tail risks" – significant events that could have plunged the world economy into a deep recession. The majority of the gains came in the second half of the year with the turning point coming in late July, when Mario Draghi, ECB president, promised to do "whatever it takes" to preserve the eurozone's integrity allowing world stock markets to recover strongly; our portfolio benefitted as a consequence returning 9.7%. The main positive contributors to performance during the year were the strong outperformance by our public equity managers, both UK and global, who delivered returns usefully above the market as well as continued good returns from parts of our diverse property portfolio. It was also pleasing to see positive contributions from asset classes, such as timber, which have been added to the portfolio more recently.

### Commissioners' asset allocation from 2005

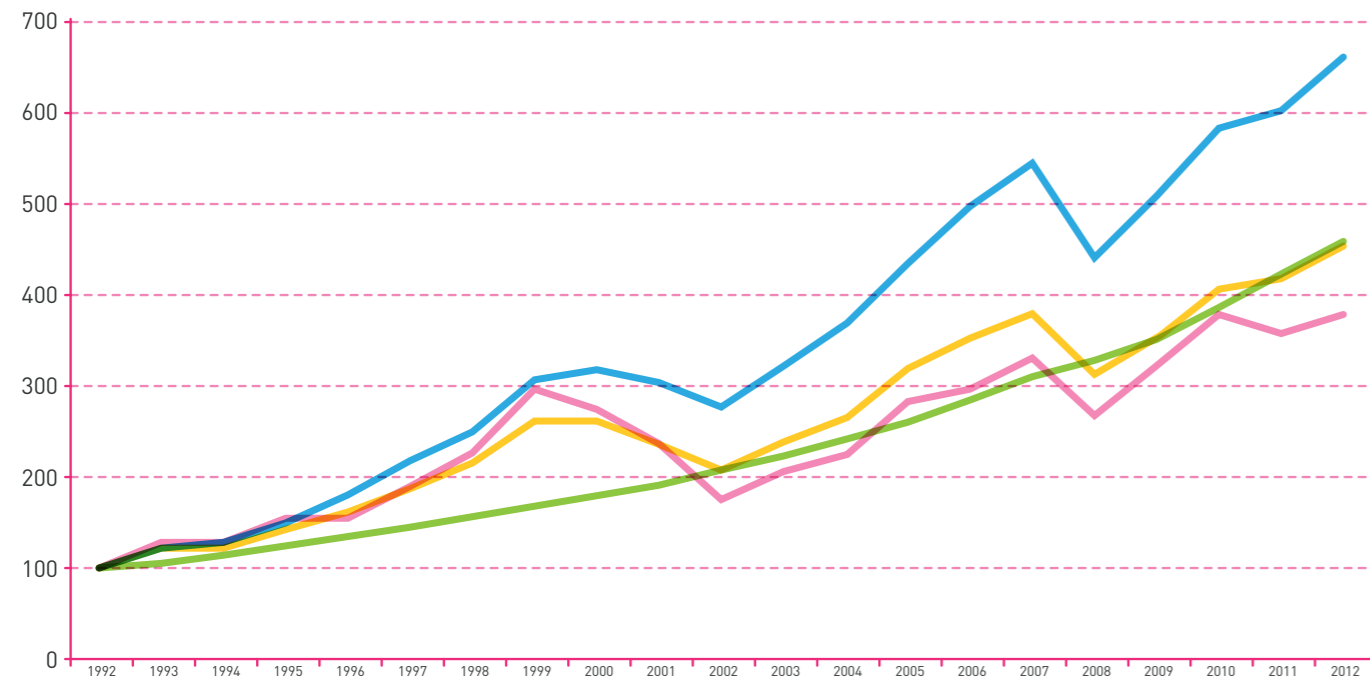


### Total returns per annum against an independent comparator and Commissioners' target return





### Commissioners' fund performance since start of 1993 (assuming income reinvested) compared with performance target and comparator peer group

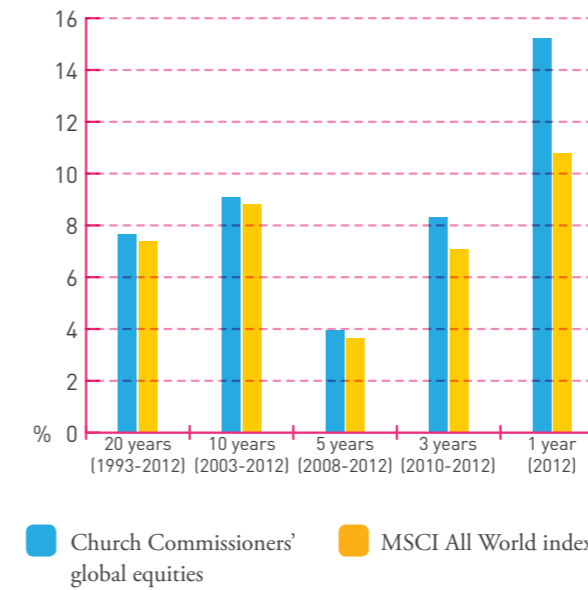


Church Commissioners WM All Funds R.P.I + 5% Global Equities (MSCI All World in GBP)

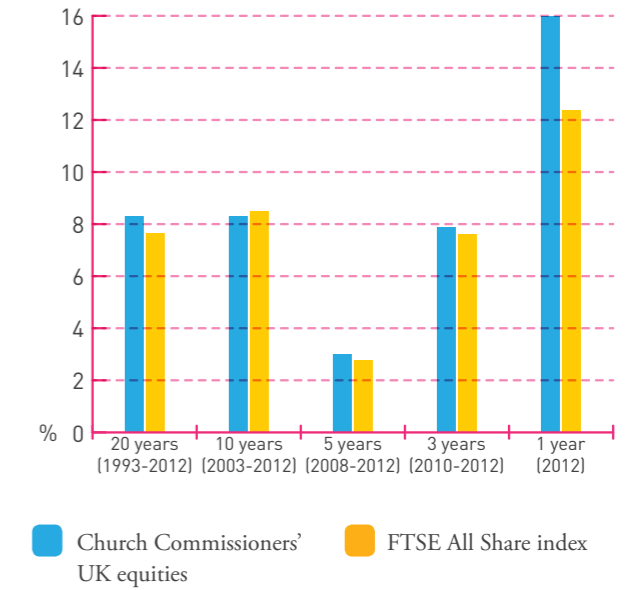
### Asset returns, total fund and by asset class, 20, 10, 5, 3 and 1-year averages

| Total Returns %p.a.                      | 20 years  | 10 years  | 5 years   | 3 years   | 1 year |
|--|-----------|-----------|-----------|-----------|--------|
|  | 1993-2012 | 2003-2012 | 2008-2012 | 2010-2012 | 2012   |
| Commissioners' total assets              | 9.9       | 9.1       | 3.9       | 9.2       | 9.7    |
| Retail price index +5%                   | 7.9       | 8.3       | 8.2       | 9.2       | 8.1    |
| WM All Funds Universe                    | 7.8       | 8.3       | 3.8       | 8.2       | 8.4    |
| <b>Commissioners' main asset classes</b> |           |           |           |           |        |
| Global equities                          | 7.6       | 8.7       | 3.8       | 8.4       | 15.1   |
| UK equities                              | 8.2       | 8.4       | 2.6       | 7.7       | 16.0   |
| Private equity                           | n/a       | 14.9      | 3.9       | 10.8      | 2.9    |
| Commercial property                      | 11.1      | 6.9       | 1.1       | 9.2       | 4.7    |
| Residential property                     | 17.3      | 15.6      | 9.3       | 14.7      | 15.1   |
| Rural let land                           | 16.1      | 17.4      | 12.9      | 16.2      | 13.4   |
| Strategic land                           | n/a       | 10.8      | 3.2       | 14.7      | 10.6   |
| Indirect property                        | 11.1      | 8.0       | (1.4)     | 12.9      | 8.6    |
| Value linked loans                       | 8.1       | 4.0       | 1.4       | 6.6       | 12.0   |

### Global equities returns since 1993 compared with benchmark



### UK equities returns since 1993 compared with benchmark



## Asset Classes

**Objective**  
– to achieve a total fund return of RPI +5% per annum measured over the long term

### Public Equities

**Global**  
Our global equities portfolio performed strongly in 2012, returning 15.1% against 11.0% for the MSCI All Country World benchmark in sterling terms. These returns were strong in a generally difficult and turbulent macroeconomic environment, with headwinds that included the continuing European Sovereign Debt Crisis, concerns over economic growth and the deleveraging process in developed markets.

Over the year, Emerging market, Japanese, European and US equity markets all outperformed the UK. The performance of our global equities portfolio particularly benefitted from the outperformance of our managers with

a growth oriented investment style, whilst the smaller companies and emerging markets managers also posted attractive returns against their respective benchmarks and added to overall performance. The ethical restrictions that are in place on the portfolio also helped performance in 2012, with banned stocks and sectors underperforming the general market.

### UK

The UK equities portfolio returned 16.0% against 12.3% for the FTSE All Share benchmark. The outperformance was generated by the very strong absolute returns of smaller companies in the portfolio, where we have an overweight exposure relative to the benchmark. Unlike global markets, the ethical restrictions were a drag on the performance of the UK portfolio.

An estimated 1.2% of performance was sacrificed because of the outperformance of defence and alcohol related stocks listed in the UK.

### Alternative Investments

#### Private Equity

The private equity portfolio, which invests in unlisted companies, achieved a total return of 2.9% in 2012. We made further commitments totalling £24.8 million to the portfolio during the year. Our private equity portfolio has significantly outperformed public equity markets since its inception in 1997. We plan to increase our allocation to the asset class going forward.

#### Multi-Asset Absolute Return

The multi-asset absolute return portfolio represents around 10% of the total portfolio. It is designed to generate attractive positive returns regardless of the external environment but will normally lag equities in periods of strong growth. These strategies generated a total return of 5.9% in 2012. In future we aim to improve the diversification of the portfolio by adding additional managers with complementary characteristics.



### Timberland

The Commissioners' sustainable timberland and forestry portfolio has had a strong 2012, delivering 12.0%, despite only being acquired within the past 12-15 months. The UK forestry portfolio has been the best performer delivering a total return of 18.0% in 2012.

The strongest performance from our US portfolio came from our investment in the Pacific North West, which was up 10% since acquisition in February 2012. This performance has been driven by log exports to China and significant investor interest in the region.

With the acquisition of a 70 hectare forest adjoining one of our existing Scottish properties we continued to build upon our exposure to UK forestry. We believe that the fundamental drivers of future returns for UK forestry remain attractive and we intend to invest more in this sector. We continue to investigate a number of opportunities to further diversify the portfolio by geography, species, maturity and manager.

### Property

Our diverse property portfolio generated a total return of 10.7% during 2012 driven by continued strong gains from our rural holdings and our central London residential portfolio. In recognition of our long-term property performance record the Commissioners won three awards from the Investment Property Databank covering both 3 and 10 year periods for both our relative as well as absolute performance.

### Commercial

The focus on maintaining the portfolio's income return continued in 2012 and generally the vacancy rate remained below 5% over the year. Key lettings and lease regearings were achieved at Reedswood Retail Park Walsall, 17 Moorgate London EC1, Imperial House London WC2, Clarence Street Kingston and West Drayton Industrial Estate.

We completed the conversion of an existing office-retail parade in Golders Green, London to a residential-retail scheme, providing ten new flats for the market rented sector in the process. A period office building in Westminster was granted a planning consent for residential use and is expected to be sold in 2013.

We looked at various investment opportunities throughout the year, but did not make any purchases. On-going uncertainty in occupier markets and continued strong pricing levels, buoyed by the influx of foreign investment, provide challenging conditions for a long term, total return investor.

### Residential

The focus has continued to be on refurbishing and redeveloping properties including gating larger service charge blocks and improving common parts and external decorations.

Selective re-investment in the Estate allows us to improve and extend this key long-term property holding while increasing its value and improving the income returns. We completed the purchase of a house in Connaught Square and the connected mews in Frederick Close which is being refurbished. As well as

undertaking selective refurbishments across the estate we finished the re-development of the Brassworks (at 6a-10 Frederick Close) into eight flats in the first quarter of 2012. The entire development was let ahead of expectations in terms of timescales and rents achieved. We also continue to convert the upper parts of our retail properties in Connaught Village to residential use where appropriate.

Connaught Village saw the opening of Le Pain Quotidien bakery and coffee shop on Kendal Street and new fashion boutiques Horiyoshi III and Sylvie Quinten, strengthening the vibrant mix of commercial tenants in the Village. The summer festival was blessed by good weather and proved very popular with local residents and retailers alike.

### Rural

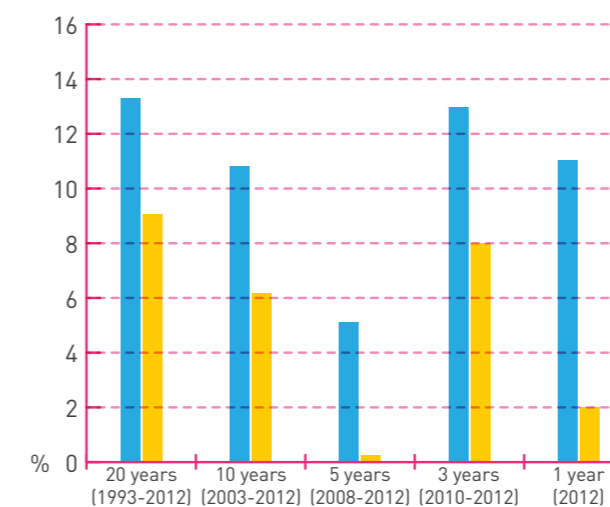
Despite on-going economic malaise and a poor harvest, 2012 saw an 11.5% increase in the value of our rural portfolio. Values reflect high demand for land from farmers seeking to expand their businesses to benefit from strong commodity prices, as well as private investors looking for sound defensive investments.

Agricultural rents within the portfolio grew significantly and we completed 126 rent reviews with average annual increases of around 6 per cent. Some of the strongest increases came from land let on Farm Business Tenancies where there was strong competition from farmers to take leases. There were 82 residential and commercial rent reviews achieving an average annual increase of 15.7%.

Rural land now accounts for one-third of our total real estate by value. Given this high weighting and strong land prices, we generated over £20 million from carefully selected sales throughout the country. In doing so we were careful to retain those holdings where we believe higher values can be realised from a change of use in the future.

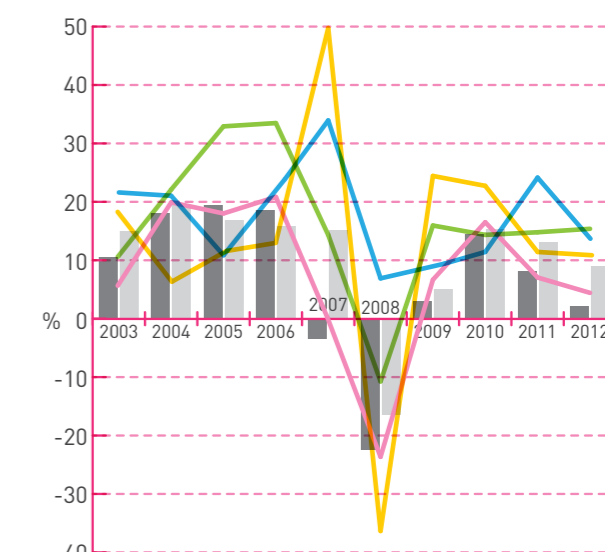
We continued to research and register title to the Commissioners' historic minerals ownership throughout the year. Our aim is to complete the registration of these interests which we have held for many years by October 2013, the deadline imposed by the Land Registration Act 2002. By the year end all research had been undertaken, 90% of these interests had been submitted to the Land

### Church Commissioners' combined property returns compared with IPD index



Church Commissioners' combined property UK property IPD benchmark

### Investment property returns by individual class since 2003



IPD Portfolio Rural Let Land Residential Commercial Strategic Land Indirect property Total Commissioners Property

Registry and 70% had been registered. We are optimistic that the deadline will be met and we will preserve this significant interest for the benefit of our future beneficiaries.

### Strategic Land

Our strategic land performed well during 2012. We work closely with local authorities to provide land for much-needed sustainable new housing across the country, and during the year we added four additional sites to the portfolio, taking the total number of sites to 49. This portfolio delivers sound long-term investment returns to support the Church's mission, and reflects our desire to continue to support local authorities who are actively engaged in bringing forward development plans and delivering growth.

Despite a challenging development market, sites with the benefit of a planning permission, especially those with a strategy in place for the provision of infrastructure, continued to generate interest and higher values as a result. The

portfolio saw a number of sales this year including the sale to Barratt Homes of a 30-acre site at North Hykeham for £11 million. We continued to look to purchase additional long-term sites but made no acquisitions this year because of a lack of suitably priced opportunities.

### Indirect Property

We continued to manage closely our indirect property investments and spent considerable time investigating opportunities in US markets. In November 2012 we completed a \$25 million commitment to a US real estate opportunity fund. The fund has acquired two office properties, a residential property and a mixed use shopping centre/residential scheme in Texas (pictured). This fund will give us the opportunity to invest using debt and equity to provide property owners with much-needed financing. This commitment complements our existing investment in a European Real Estate Debt Fund, as well as our investment in a US property secondaries strategy fund, both of which have delivered very strong performance since inception.

During 2012 we saw capital calls of £23 million to a number of our property funds in the UK, US, Japan and Australia. We made a further

commitment to a specialist care home developer/operator, whose strategy is to provide quality accommodation and service to private-pay patients in the South East of England.

At the end of the year we had £42 million of undrawn commitments principally in Asia and the US. A total of £40 million was raised from sales in 2012 and included a sale of property shares totalling £25 million and £6.5 million of units in a Central and Eastern European property fund, realising strong profits on our original investment.

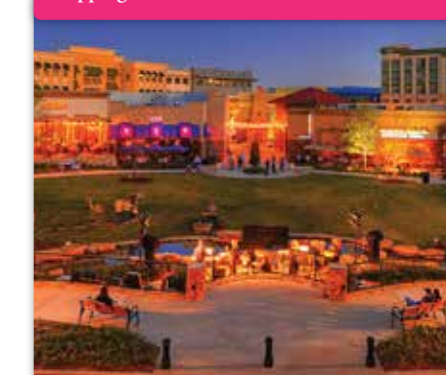
The Commissioners continued to re-invest within existing assets and have added value through refurbishing this mews house on the Hyde Park Estate.



An image showing how the Church Commissioners' housing development at Bishop Auckland may look.



The Commissioners committed \$25 million to the PCCP Equity Fund. The fund has to date purchased four assets, including a mixed use shopping centre and residential asset in Texas.



### Fixed Interest

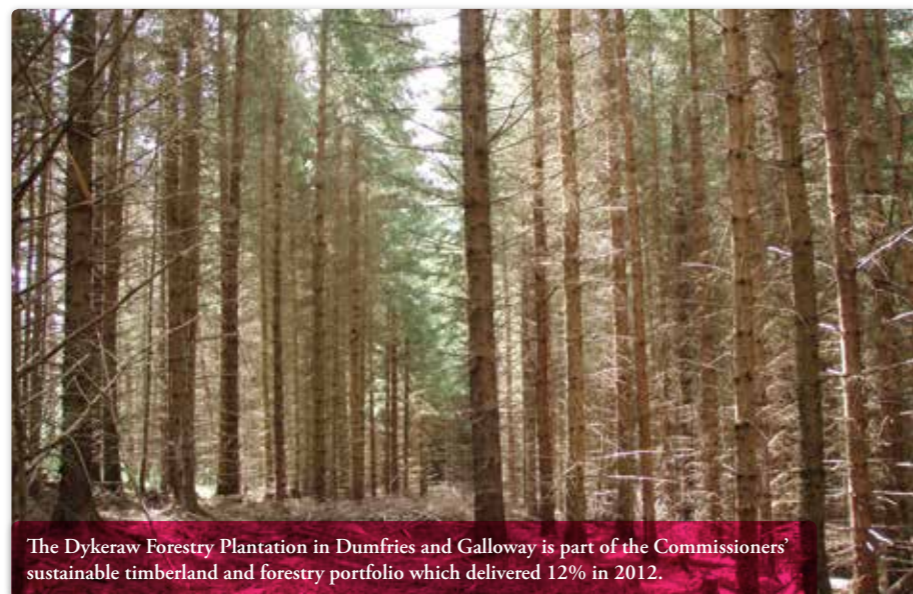
Our fixed interest portfolio, which includes investments in US high yield bonds and emerging market debt, returned 6.8% in 2012. Similar to 2011, this portion of the portfolio was an effective diversifier to the overall fund, posting positive returns with lower volatility. Over the year we added to investments in this asset class by allocating, for the first time, to private credit strategies where we committed to two funds.

### Currency Management

The Commissioners employ a specialist currency manager that actively hedges the foreign currency exposures in the fund to help protect the overall portfolio. Over 2012, most major currencies depreciated against sterling, reducing returns to UK based investors. We received a net £7.5m from foreign exchange contracts over the year, therefore contributing positively to the fund's overall return.

### Cash

During 2011 the Commissioners established a liquidity reserve to reduce the risk of being forced to sell assets at depressed prices to maintain distributions. This reserve is held in UK treasury bills and short dated gilts. During 2012 it returned 0.6%.



The Dykeraw Forestry Plantation in Dumfries and Galloway is part of the Commissioners' sustainable timberland and forestry portfolio which delivered 12% in 2012.



Huntingdon Farm, part of the Commissioners' rural portfolio which saw an 11.3% increase in 2012.

## Ethical investment

### Objective

– to act within our ethical investment guidelines in relation to all classes of investment

### 2012 highlights

In 2012, working with the EIAG (Ethical Investment Advisory Group), the Commissioners:

- Participated in the 'Shareholder Spring', pulling together a coalition of investors with more than £1.5 trillion of investments to write to the Daily Telegraph to express concern about executive remuneration.
- Sent letters to more than 200 of the UK's largest companies to explain our views on directors' pay, met 13 companies to discuss executive remuneration and supported only 37% of UK remuneration reports at company AGMs.
- Voted in total on 26,409 resolutions at 2,300 company meetings globally.
- Commenced an intensive engagement with Barclays seeking robust assurance that, having repeatedly let down society with its conduct, Barclays is making a determined and successful effort to effect a fundamental turnaround in culture.

- Sold our shares in News Corporation after a year's engagement which failed to allay our concerns about the governance of the company.
- Held engagement meetings with 36 other companies, prioritised on account of poor risk management or stakeholder concern, on a wide range of environmental, social and governance issues including sustainability reporting, water and carbon efficiency, indigenous rights, safety and operational risk, alcohol marketing, supply chain relationships, commodities trading, private prisons and human rights.
- Facilitated a major event within National Ethical Investment Week – a speech on sustainable capitalism by Al Gore (Chairman of Generation Investment Management, with whom the Commissioners invest) hosted at St Paul's Cathedral by the Church Investors Group and St Paul's Institute.

### Ethical investment agenda 2013

In 2013 the Commissioners will consider new or updated ethical investment policy recommendations from the EIAG on genetic modification, executive remuneration and corporate tax ethics.

The EIAG will commence a major review of its policy recommendations on climate change.

Responsible alcohol marketing will remain a major engagement theme for the EIAG as it moves towards making recommendations to the Commissioners, and the Church's other national investing bodies, on whether companies comply with the minimum standards of responsibility which the EIAG has developed.

The progress of the engagement with Barclays will be assessed in July 2013.

Further information about the work of the EIAG is contained in its annual report. The EIAG's reporting year runs from 1 April to 30 March and its annual report is published in July. For more information, see

[www.churchofengland.org/about-us/structure/eiag](http://www.churchofengland.org/about-us/structure/eiag)



Al Gore speaking at St Paul's Cathedral on sustainable capitalism at the invitation of the Church Investors Group and St Paul's Institute. The event was chaired by Andreas Whittam Smith, the First Church Estates Commissioner.



## Managing financial risk

### Objective

- to manage financial risks appropriately

### Financial performance



### Total return and reserves policy

The Church Commissioners Measure 1947 restricted us to only using income arising in the year or general reserves (built up from income received in previous years) to meet our charitable objectives. The restriction was amended by the Pensions Measure 1997 which gave us additional powers to spend capital on our clergy pension obligations (described in more detail in note 5 to the financial statements). Parliament granted this power on a time-limited basis and therefore further legislation has to be brought to Parliament from time to time. Our current powers, granted in 2009, are in force until 2018.

### Total return order

A Total Return Order from the Charity Commission was granted on 19 June 2012. This allows us to account and report income and capital returns and charitable expenditure on a total return basis. The Order requires the trustees to assess the level of 'unapplied total

return' (i.e. the extent to which the fund's value exceeds the base value of the fund). This is calculated by reference to the initial (1948) value of the Church Commissioners' endowment, adjusted for inflation, but after deducting pensions paid out under the Pensions Measure 1997.

The level of unapplied total return that is made available for spending each year has regard to the three yearly actuarial valuations carried out by our actuaries Hymans Robertson who assess how much of the endowment fund should be held to meet our pension obligations and of the balance how much we can afford to spend for other purposes bearing in mind the need to balance 'inter-generational equity'. In making the assessment, the actuaries make no distinction whether the fund's likely investment return is generated by capital growth or income return i.e. a total return approach. The Total Return Order therefore brings our accounting and reporting into line with our approaches to investment management and actuarial assessment.

(The existence of the Order does not extinguish the need to seek the approval of Parliament to continue the draw down from the underlying endowment to meet the pension obligation.)

The calculations of the brought forward unapplied total, the movement in the year and the base value of the endowment are described in detail in note 14 to the financial statements. The actuaries' report is summarised on page 52.

### Reserves policy

By using a total return approach, the risk that a run of poor investment income returns would severely reduce our spending capacity is significantly reduced and, as a result, the trustees have decided that the general reserve is no longer needed. Our policy is now to keep no general reserve and therefore the reserve of £35.2m at 31 December 2011 was expended during 2012.

We manage the risk to our long-term objective of growing non-pensions distributions in line with forecast average earnings, by using a mechanism to smooth the impact of both strong and poor returns. At their review of the fund at 31 December 2012, our actuaries concluded that an estimated 35.3% (end 2011: 32.9%) of our fund was expected to be needed for pensions. Having considered this review we concluded that planned distributions for 2013 remained affordable and that non-pensions distributions for the 2014-2016 triennium could be maintained at the 2013 planned level of £94.6 million p.a.

### Tax policy

We seek to structure our investment activities/arrangements to ensure, as far as possible, that our tax exposure reflects our status as a UK based charity. Despite the framework of exemptions and reliefs that charitable status affords us, we do not operate in a purely tax free environment, particularly in relation to our overseas and indirect investments.

A summer playscheme run by the De Havilland Community Project in Hatfield, St Albans Diocese, partly funded by Commissioners' new housing money. The new ceramic font has been made by one of the leaders at JourneyLight, a Christian faith initiative within the project. Last year it was used to baptise five young people aged between five months and 18 years.



The Revd Pete Horlock has been appointed Vicar to the Business Community in Manchester, partly funded by Commissioners' mission development money. He will spearhead an exciting new initiative called Ministry2Business ([www.ministry2business.co.uk](http://www.ministry2business.co.uk)). It is a joint venture between the Diocese of Manchester and a growing network of Christian professionals and business.



The Commissioners helped fund the Education officer at Southwell Minster, pictured here leading a session with a group of visiting Palestinian school children.

## Governance

### Objectives

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



## Objectives

- to identify and manage organisational risk
- to ensure trustees are properly resourced for their role

## Structure

There are 33 Church Commissioners. Six hold offices of state; the other 27 are the Charity's Trustees who make up the Board of Governors, the Commissioners' main policy making body. Of these, 13 are elected by Houses of the General Synod; other members are appointed for other specific expertise. Supplemented by non-Commissioners, members of the Board are also organised into five committees. So far as the limits on eligibility allow, the trustee selection process includes open advertisement.

The Board and committees are served by executive staff teams who research and develop policy recommendations for decision by the responsible trustee-level body.

The Secretary (Chief Executive) to the Church Commissioners and Board of Governors is Andrew Brown FRICS.

## Risk Management

The Church Commissioners' risk management process allows the identification, assessment and management of significant risks which may impact on the achievement of their objectives. The process is supported by a risk management policy which outlines the roles and responsibilities of Commissioners, management and staff and follows Charity Commission guidance.

The Board reviews the risk register and risk management arrangements annually. The Board is supported by the Audit Committee which regularly reviews the content of the risk registers and seeks assurance over the adequacy of arrangements in place to manage the risks. Risks related to investment operations are also subject to regular review by the Assets Committee.

Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility and for ensuring that current mitigations and any additional actions to manage risks are undertaken.

Risks are prioritised using an agreed matrix and are assessed at an inherent and residual level. Where residual risks are above tolerable levels, then additional actions are identified and implemented. Progress on implementation and subsequent revision of the residual risk score are monitored by senior management, the Audit Committee, Assets Committee and ultimately the Board of Governors. The risk management process is facilitated and monitored by the Audit and Risk function.

Major risks, which are subject to monitoring and review, reflect issues around operational, financial and legal and regulatory risks. Current areas of focus include risks in the following areas:

- Ensuring investment returns are appropriate to allow the distribution of funds
- On-going project risks around the implementation of new IT systems
- Compliance with legal and regulatory requirements

## Trustees

During the year we said farewell to Third Church Estates Commissioner Timothy Walker who had since 2006 chaired the Bishops & Cathedrals, Pastoral and Church Buildings (Uses & Disposals) Committees as well as representing the Commissioners in General Synod, on the Fees Advisory Commission and on the Lambeth Palace Library Trustees and Advisory Panel. Another Commissioner, Nick Sykes, who also served on the Assets Committee, came to the end of his tenure at the end of 2012. Non-Commissioner members Chris Daykin (Audit Committee) Sallie Bassham (Bishops & Cathedrals Committee), The Bishop of Oxford (Pastoral Committee) and the Venerable Rachel Treweek (Pastoral) also stepped down during the year. We will miss them all and we thank them for their generosity with their time and expertise.

*We said farewell and are indebted to the hard work and support of the former Archbishop of Canterbury Dr Rowan Williams, who left office at the end of 2012 and stepped down from his role with the Commissioners.*

At the end of 2012 we were delighted to announce that Dr Rowan Williams had appointed Andrew Mackie to succeed Timothy Walker as Third Church Estates Commissioner from 1 January 2013. A former corporate lawyer and partner at Linklaters, Andrew recently took up the post of General Counsel for Oxford University. We look forward to working with him and benefitting from his gifts. During 2012 we also welcomed Jeremy Clack as a Church Commissioner and he was subsequently nominated by the Board to sit on the Church of England Pensions Board and the Commissioners' Audit Committee. We also welcomed the Bishop of Portsmouth and the Venerable Penny Driver to our Pastoral Committee. Our newer members are already taking to their roles expertly and with great dedication, for which we are extremely grateful.

All our new members receive induction to help them understand their roles, the Commissioners' work and our relevant policies, e.g. for managing conflicts of interest. Trustees' attendance is recorded opposite.

Andrew Mackie, new Third Church Estates Commissioner.



## Attendance at Board and committee meetings 2012

| Board / Committee           | Board   | Assets     | Audit      | Bishops & Cathedrals | Pastoral   | Church Buildings (Uses & Disposals) |
|-----------------------------|---|------------|------------|----------------------|------------|-------------------------------------|
|                             | 5 Meetings  | 8 Meetings | 4 Meetings | 6 Meetings           | 7 Meetings | 7 Meetings                          |
| <b>Governors</b>            |   |            |            |                      |            |                                     |
| Archbishop of Canterbury    | The Archbishop of Canterbury chairs the annual general meeting. By arrangement he does not attend meetings of the Board of Governors, whose chair is elected annually by the Board. |            |            |                      |            |                                     |
| Archbishop of York          | 3   | -          | -          | -                    | -          | -                                   |
| Mr A Whittam Smith          | 5   | 8          | -          | -                    | -          | -                                   |
| Sir Tony Baldry MP          | 2   | 6          | -          | -                    | -          | -                                   |
| Mr Timothy Walker           | 3 (1 n/a)   | -          | -          | 4                    | 5 (2 n/a)  | 3 (2 n/a) a                         |
| Bishop of Bristol           | 2   | 4          | -          | -                    | -          | -                                   |
| Bishop of Birmingham        | 5   | -          | -          | 2                    | -          | -                                   |
| Bishop of London            | 5   | -          | -          | -                    | -          | -                                   |
| Bishop of Chester           | 3   | -          | -          | -                    | 7          | -                                   |
| Dean of Wakefield           | 5   | -          | -          | 5                    | 2 (3 n/a)  | -                                   |
| Dean of Wells               | 5   | -          | -          | 6                    | -          | -                                   |
| Mr P Harrison QC            | 3   | -          | -          | -                    | 3          | - a                                 |
| The Revd Canon R M Baker    | 5   | 4          | -          | -                    | 1 (5 n/a)  | 7 a                                 |
| The Revd Canon D J Stanton  | 4   | 1 (7 n/a)  | -          | -                    | 5 (2 n/a)  | -                                   |
| The Revd S J Trott          | 4   | -          | -          | -                    | 2 (5 n/a)  | 7 a                                 |
| Canon P N E Bruinvels       | 5   | -          | -          | -                    | 4          | -                                   |
| Mrs A R Alexander           | 5   | 1          | 3          | -                    | -          | 5 a                                 |
| Mr B Carroll                | 5   | 6          | -          | -                    | -          | 5 a                                 |
| Mr J Clack                  | 5   | -          | -          | -                    | -          | -                                   |
| Mr H Hart                   | 4   | 7          | -          | -                    | -          | -                                   |
| Mr H Rees-Jones             | 4   | 0          | 4          | -                    | -          | -                                   |
| Mr G D R Oldham             | 4   | 7          | -          | -                    | -          | -                                   |
| Mrs E C Osborne             | 5   | 8          | -          | -                    | -          | -                                   |
| Mr J N Sykes                | 1   | 6          | -          | -                    | -          | -                                   |
| Canon J A Spence            | 5   | 1          | 3          | -                    | -          | -                                   |
| Mr J P Vince                | 5   | -          | -          | 5                    | -          | -                                   |
| Mr J Wythe                  | 3   | 7          | -          | -                    | -          | -                                   |
| <b>Non-Commissioners</b>    |   |            |            |                      |            |                                     |
| Bishop of Grimsby           | -   | -          | -          | 6                    | -          | -                                   |
| Bishop of Oxford            | -   | -          | -          | -                    | 3          | -                                   |
| The Ven P Driver            | -   | -          | -          | -                    | 1 (3 n/a)  | -                                   |
| The Ven R Treweek           | -   | -          | -          | -                    | 2 (4 n/a)  | -                                   |
| The Revd Canon S Evans      | -   | -          | -          | -                    | 6          | -                                   |
| The Revd Canon J M Haselock | -   | -          | -          | 5                    | -          | -                                   |
| The Revd M Bide             | -   | -          | -          | 5                    | -          | -                                   |
| The Revd P Cavanagh         | -   | -          | -          | -                    | -          | 5 a                                 |
| The Revd S Talbott          | -   | -          | -          | -                    | -          | 3 a                                 |
| Ms S Bassham                | -   | -          | -          | 5                    | -          | -                                   |
| Mrs R Butler                | -   | -          | -          | 4                    | -          | -                                   |
| Mr C G Daykin               | -   | 1          | 2          | -                    | -          | -                                   |
| Mr S East                   | -   | 2          | 3          | -                    | -          | -                                   |
| Mrs J Flack                 | -   | -          | -          | -                    | 7          | - a                                 |
| Mrs H Hill                  | -   | -          | -          | -                    | -          | -                                   |
| Mr G Lynn                   | -   | 1          | 1          | -                    | -          | -                                   |
| Mrs S Ridge                 | -   | -          | -          | -                    | 7          | -                                   |
| Mr J Steel                  | -   | -          | -          | -                    | -          | 7 a                                 |
| Mr C A Wilson               | -   | -          | -          | -                    | -          | 3 a                                 |

a. Additionally attended the Church Building (Uses and Disposals) Committee visit to the Diocese of Durham



The Commissioners manage the national payroll for serving and retired clergy.

## Objectives

- to be transparent and accountable in organisational activity and internal governance
- to ensure the cost-effective administration of the Commissioners' responsibilities

### Accountability

In the House of Commons a wide variety of topics have been raised with the Second Church Estates Commissioner Sir Tony Baldry MP. These have ranged across the mission, ministry and structures of the Church of England. Full details of the Questions asked of the Church Commissioners can be found on the Church in Parliament section of the CoFE website <http://www.churchofengland.org/our-views/the-church-in-parliament/second-church-estates-commissioner.aspx>. During 2012 two of the questions most frequently asked were about metal theft from Church buildings and women bishops. Amongst other things the Second Commissioner was asked about the burial of King Richard III, the reorganization of the South Yorkshire dioceses, CoFE school admissions policy and marriage reform.

The continued increase in oral and written questions to the Commissioners has shown the increasing level of interest on the part of Parliament in Church affairs. The Commissioners have also instituted an informal meeting in the House of Lords on a quarterly basis to enable Peers to ask questions about the business of the Church.

### National administration

#### Clergy payroll

The Commissioners administer the national clergy payroll and are responsible for ensuring the stipend payments to 8300 serving clergy are paid accurately and on time.

In 2012 partners from across the National Church Institutions were engaged in a major project to replace legacy payroll systems.

The implementation of new software to support the clergy payroll was completed in November and we expect to roll out further service enhancements throughout 2013.

#### Supporting clergy in retirement

The Commissioners fund all pensions earned from service before 1998. Pensions for service since the start of 1998 are paid from a stand-alone scheme funded by Church members and managed by the Church of England Pensions Board. Our pensions expenditure is likely to peak within the next 10 to 15 years.

#### Staff

The number of staff for whom the Commissioners are the managing employer was 142 at the end of the year (2011: 166), with 45% of the staff at Church House female and

15% from a black or other minority ethnic background. During 2012, HR successfully completed a staff benchmarking exercise for the Commissioners with comparator organisations, all not-for-profit. This covered a range of areas from length of service, turnover, senior manager profiles and performance management.

HR work also included continuing the development programmes for middle and senior managers, along with its continued support and advice for managers on day-to-day operational issues. Work was completed on a review of the salary structure for posts where the Commissioners have to compete with the external market in professional and technical areas. One member of the Commissioners' staff assisted with this project.

Staff of the Investment Division (Investments and Property Investment) transferred to the sole employment of the Church Commissioners effective from 1st January 2012 and their remuneration is now set by the Investment Remuneration Committee overseen by the Board of Governors.

Bishops' training on dealing with capability matters (part of the terms of service programme) was completed. Three restructurings were undertaken in Bishops' offices. A total of 141 (2011- 140) staff are employed by Bishops.

During 2012 two 'All Staff' National Church Institutions forums were held at which the chief executives shared strategic objectives, hopes and challenges, along with taking questions from staff members across the NCIs. In 2013 another two forums will be held.

Sir Tony Baldry MP the Second Church Estates Commissioner. The role provides an important link between Government and the established Church and whilst the position exists to maintain the statutory accountability of the Church Commissioners to Parliament, the position has evolved over the time of successive Second Commissioners to seek to provide a link between Government and Parliament on the one hand and the established Church on the other.



## Statement of responsibilities of the Trustees

The Board of Governors, as 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 Charity (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.



Both Carlisle and Lincoln Cathedrals have used Commissioners' funding to enhance their music work. The children's choir at Carlisle takes pupils from local primary schools. A musical

performance at Lincoln Cathedral in 2012 was captured as an aerial image as part of a photography exhibition hosted in the cathedral. ©Lichfield Camera Club

## Independent auditor's report to the Trustees

We have audited the financial statements of the Church Commissioners for England ("the Commissioners") for the year ended 31 December 2012 which comprise the consolidated statement of financial activities, the consolidated balance sheet, the balance sheet of the Commissioners, the consolidated cash flow statement and the related notes numbered 1 to 16. 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). 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 Trustees in accordance with the Church Commissioners Measure 1947 (as amended) and section 144 of the Charities Act 2011 and the regulations made under section 154 of that Act. Our audit work has been undertaken so that we might state to the 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 Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of Responsibilities of the Church Commissioners, 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. 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 2012, 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 properly prepared in accordance with the requirements of the Charities Act 2011 and the Church Commissioners Measure 1947 (as amended).

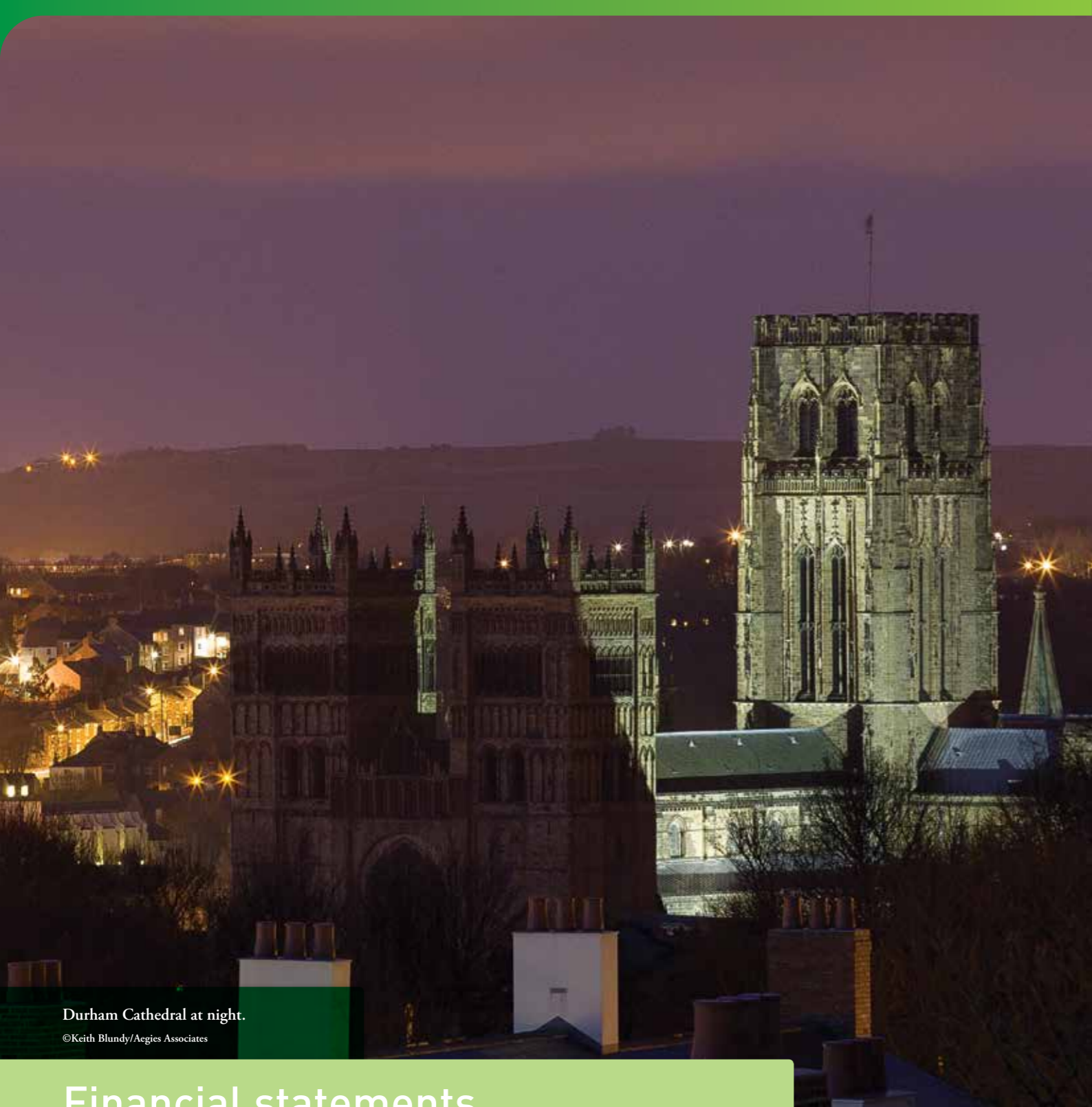
### Matters on which we are required to report by exception

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's 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*  
*18 April 2013*

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.



Durham Cathedral at night.

©Keith Blundy/Aegies Associates

## Financial statements

For the year ended 31 December 2012



## Notes to the financial statements for the year ended 31 December 2012

|  | Notes | 2012          |                   | 2011           |                |
|--|-------|---------------|-------------------|----------------|----------------|
|  |       | General fund  | Endowment capital | Total          | Total          |
|  |       | £m            | £m                | £m             | £m             |
| <b>Consolidated statement of financial activities</b>                  |       |               |                   |                |                |
| <b>Incoming resources</b>  |       |               |                   |                |                |
| Investment income  | 2     | -             | 146.2             | 146.2          | 146.7          |
| Other income   |       | 2.1           | -                 | 2.1            | 1.6            |
| <b>Total incoming resources</b>  |       | <b>2.1</b>    | <b>146.2</b>      | <b>148.3</b>   | <b>148.3</b>   |
| <b>Resources expended</b>  |       |               |                   |                |                |
| Cost of generating funds   | 3     | -             | (38.7)            | (38.7)         | (39.1)         |
| <b>"Net incoming resources available for charitable application"</b>   |       | <b>2.1</b>    | <b>107.5</b>      | <b>109.6</b>   | <b>109.2</b>   |
| Charitable activities  | 4,5   | (87.0)        | (120.3)           | (207.3)        | (195.6)        |
| Governance costs and other resources                                   | 6     | (2.5)         | -                 | (2.5)          | (2.3)          |
| Staff pension scheme - interest on provision                           | 9     | (5.0)         | -                 | (5.0)          | (5.3)          |
| <b>Total resources expended</b>  |       | <b>(94.5)</b> | <b>(159.0)</b>    | <b>(253.5)</b> | <b>(242.3)</b> |
| <b>Net outgoing resources before transfers</b>                         |       | <b>(92.4)</b> | <b>(12.8)</b>     | <b>(105.2)</b> | <b>(94.0)</b>  |
| <b>Transfers</b>   |       |               |                   |                |                |
| Application of Total Return  | 14    | 57.2          | (57.2)            | -              | -              |
| <b>Net outgoing resources before other recognised gains and losses</b> |       | <b>(35.2)</b> | <b>(70.0)</b>     | <b>(105.2)</b> | <b>(94.0)</b>  |
| <b>Other recognised gains and losses</b>                               |       |               |                   |                |                |
| Losses on non investment fixed assets                                  | 10    | -             | (0.9)             | (0.9)          | (4.6)          |
| Gains on investment assets   | 11    | -             | 382.3             | 382.3          | 18.7           |
| (Losses)/gains on foreign currency                                     |       | -             | (2.0)             | (2.0)          | 2.4            |
| Losses on defined benefit pension scheme (staff)                       | 9     | -             | (7.8)             | (7.8)          | (4.0)          |
| Transfers out of Church of England Pensions Scheme                     |       | -             | (0.9)             | (0.9)          | (0.4)          |
| <b>Total other recognised gains and losses</b>                         |       | <b>-</b>      | <b>370.7</b>      | <b>370.7</b>   | <b>12.1</b>    |
| <b>Net movement in funds for the year</b>                              |       | <b>(35.2)</b> | <b>300.7</b>      | <b>265.5</b>   | <b>(81.9)</b>  |
| Total funds brought forward  |       | 35.2          | 5,202.4           | 5,237.6        | 5,319.5        |
| <b>Total funds carried forward</b>                                     |       | <b>-</b>      | <b>5,503.1</b>    | <b>5,503.1</b> | <b>5,237.6</b> |

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



## Notes to the financial statements for the year ended 31 December 2012

|   | Notes     | Consolidated   |                | Commissioners  |                |
|---|-----------|----------------|----------------|----------------|----------------|
|   |           | 2012           | 2011           | 2012           | 2011           |
|   |           | £m             | £m             | £m             | £m             |
| <b>Balance sheets as at 31st December 2012</b>      |           |                |                |                |                |
| <b>Fixed assets</b>                                 |           |                |                |                |                |
| Non investment fixed assets                         | 10        | 93.7           | 101.0          | 93.7           | 101.0          |
| Investment assets                                   | 11        | 5,184.1        | 4,974.0        | 5,015.6        | 4,895.5        |
| <b>Total fixed assets</b>                           |           | <b>5,277.8</b> | <b>5,075.0</b> | <b>5,109.3</b> | <b>4,996.5</b> |
| <b>Current assets</b>                               |           |                |                |                |                |
| Debtors   | 12        | 60.7           | 51.4           | 256.8          | 154.1          |
| Short term deposits                                 |           | 149.7          | 80.0           | 149.7          | 80.0           |
| Cash at bank and in hand                            |           | 167.1          | 171.6          | 166.1          | 170.7          |
| <b>Total current assets</b>                         |           | <b>377.5</b>   | <b>303.0</b>   | <b>572.6</b>   | <b>404.8</b>   |
| <b>Liabilities</b>                                  |           |                |                |                |                |
| Creditors: amounts falling due within one year      | 13        | (40.4)         | (36.1)         | (67.0)         | (59.4)         |
| <b>Net current assets</b>                           |           | <b>337.1</b>   | <b>266.9</b>   | <b>505.6</b>   | <b>345.4</b>   |
| <b>Net assets excluding staff pension liability</b> |           | <b>5,614.9</b> | <b>5,341.9</b> | <b>5,614.9</b> | <b>5,341.9</b> |
| Net pension liability (staff)                       | 9         | (111.8)        | (104.3)        | (111.8)        | (104.3)        |
| <b>Net assets including staff pension liability</b> |           | <b>5,503.1</b> | <b>5,237.6</b> | <b>5,503.1</b> | <b>5,237.6</b> |
| <b>Funds of the charity</b>                         |           |                |                |                |                |
| Endowment   |           | 5,614.9        | 5,306.7        | 5,614.9        | 5,306.7        |
| Pension deficit (staff)                             | 9         | (111.8)        | (104.3)        | (111.8)        | (104.3)        |
| <b>Net endowment</b>                                | <b>14</b> | <b>5,503.1</b> | <b>5,202.4</b> | <b>5,503.1</b> | <b>5,202.4</b> |
| General fund  | 14        | -              | 35.2           | -              | 35.2           |
| <b>Total funds carried forward</b>                  |           | <b>5,503.1</b> | <b>5,237.6</b> | <b>5,503.1</b> | <b>5,237.6</b> |

By order of the Board  
Andreas Whittam Smith  
First Church Estates Commissioner  
18 April 2013



## Notes to the financial statements for the year ended 31 December 2012

| Reconciliation of net outgoing resources before other gains and losses to net cash (outflow)/inflow from operating activities | Notes | 2012<br>£m     | 2011<br>£m     |
|---|-------|----------------|----------------|
| Net resources expended before other gains and losses  |       | (105.2)        | (94.0)         |
| Depreciation of non investment fixed assets   |       | 0.5            | 0.6            |
| (Increase)/decrease in debtors  | 12    | (9.3)          | 11.2           |
| Increase/(decrease) in creditors  | 13    | 4.3            | (5.6)          |
| Cost of generating funds paid from endowment capital  | 3     | 38.7           | 4.6            |
| Charitable expenditure paid from endowment capital  | 5     | 120.3          | 114.6          |
| Staff pensions and lump sums paid   | 9     | (5.3)          | (5.3)          |
| Staff pensions - interest charge on provision   | 9     | 5.0            | 5.3            |
| <b>Net cash inflow from operating activities</b>  |       | <b>49.0</b>    | <b>31.4</b>    |
| <b>Cash flow statement</b>  |       |                |                |
| <b>Net cash inflow from operating activities</b>  |       | <b>49.0</b>    | <b>31.4</b>    |
| <b>Capital expenditure and financial investment</b>   |       |                |                |
| Non investment fixed assets: additions  | 10    | (5.6)          | (1.5)          |
| Non investment fixed assets: sale proceeds  | 10    | 10.6           | -              |
| Investment assets: additions  | 11    | (945.7)        | (2,081.7)      |
| Investment assets: sale proceeds  | 11    | 1,118.8        | 2,249.1        |
| <b>Net cash inflow relating to capital expenditure and financial investment</b>   |       | <b>178.1</b>   | <b>165.9</b>   |
| <b>Cash inflow before management of liquid resources and financing</b>  |       | <b>227.1</b>   | <b>197.3</b>   |
| <b>Management of liquid resources</b>   |       |                |                |
| <b>Net change in short term deposits</b>  |       | <b>(69.7)</b>  | <b>(70.0)</b>  |
| <b>Financing</b>  |       |                |                |
| Cost of generating funds paid from endowment capital  | 3     | (38.7)         | (4.6)          |
| Transfers out of Church of England Pensions Scheme  | 9     | (0.9)          | (0.4)          |
| Charitable expenditure paid from endowment capital  | 5     | (120.3)        | (114.6)        |
| <b>Net cash outflow from financing</b>  |       | <b>(159.9)</b> | <b>(119.6)</b> |
| <b>(Decrease)/Increase in cash</b>  |       | <b>(2.5)</b>   | <b>7.7</b>     |
| <b>Reconciliation of net cash flow to movement in cash and short term deposits</b>  |       |                |                |
| (Decrease)/Increase in cash in the year   |       | (2.5)          | 7.7            |
| (Loss)/Gain on foreign currency   |       | (2.0)          | 2.4            |
| Cash movement from change in short term deposits  |       | 69.7           | 70.0           |
| <b>Increase in net funds in the year</b>  |       | <b>65.2</b>    | <b>80.1</b>    |
| Net cash and short term deposits at 1 January   |       | 251.6          | 171.5          |
| <b>Net cash and short term deposits at 31 December</b>  |       | <b>316.8</b>   | <b>251.6</b>   |

### Analysis of movements in cash and short term deposits

|                       | Cash at bank and in hand |                  |              | Short term deposits | Total cash and short term deposits |
|-----------------------|--------------------------|------------------|--------------|---------------------|------------------------------------|
|                       | Sterling                 | Foreign currency | Total        |                     |                                    |
|                       | £m                       | £m               | £m           | £m                  | £m                                 |
| At 1 January          | 123.3                    | 48.3             | 171.6        | 80.0                | 251.6                              |
| Movement in cash      | (31.0)                   | 28.5             | (2.5)        | 69.7                | 67.2                               |
| Foreign currency gain | -                        | (2.0)            | (2.0)        | -                   | (2.0)                              |
| <b>At 31 December</b> | <b>92.3</b>              | <b>74.8</b>      | <b>167.1</b> | <b>149.7</b>        | <b>316.8</b>                       |

Cash at bank includes funds held in interest bearing accounts repayable on demand.



## Notes to the financial statements for the year ended 31 December 2012

### 1. Accounting policies

#### a) Principal accounting policies

The Church Commissioners for England 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.

The Pensions Measure 1997 (as amended) gives the Commissioners power to spend endowment on certain pension obligations. Consistent with the Commissioners' status and their powers under the Pensions Measure 1997, there is no provision in the balance sheets for the obligation to pay clergy pensions that falls due after the balance sheet date. Information on this obligation is provided in note 5.

On 19 June 2012 the Charity Commission made an Order to enable the trustees to adopt a total return approach to investments. Note 14 explains how the unapplied total return and the use thereof is calculated.

The financial statements are prepared in accordance with the Charities Statement of Recommended Practice (SORP). They are also prepared in accordance with the historical cost convention modified by the revaluation of investments and properties on a basis materially consistent with the preceding year. They comply with all applicable United Kingdom law and accounting standards.

After considering the Commissioners' role in funding the Church's mission, described on pages 7-17 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.

#### b) Basis of consolidation and subsidiary undertakings

The consolidated statement of financial activities and balance sheet include the financial statements of the Commissioners and all their subsidiary undertakings made up to 31 December each year. Intra-group transactions are eliminated on consolidation.

The Commissioners apply the exemption in FRS 9: Associates and Joint Ventures (paragraph 49) to their joint ventures held for investment purposes. More detail is shown in note 11(f).

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

#### c) Incoming resources

##### Securities portfolio

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

##### Property portfolio

Income from investment properties, shared and partnership property funds, value-linked loans and timberland funds is recognised on the accruals basis. The cost of concessions given to tenants as an incentive to sign a lease is spread on a straight line basis over the shorter of the period to the first break clause or the period to the first rent review.

##### Loans

Interest on loans is recognised on the accruals basis.

##### Legacies

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

#### d) Resources expended

Charitable expenditure on behalf of the Church is described in note 4. Grants payable in respect of particular periods (being the grants for parish mission and ministry support, bishops' office and working costs and grants to cathedrals shown in note 4) are recognised when a firm commitment to pay the grant is made.

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 (note 12).

Support costs are apportioned directly to the activity which they relate. Overheads are apportioned according to an activity-based time split.

#### e) Pensions

##### Staff

As described in note 9, pension benefits arising from service up to 31 December 1999 are accounted for in accordance with FRS 17: Retirement Benefits. The Commissioners' liability is provided for in the balance sheet and movements during the year charged to the statement of financial activities. The liability is calculated on an annual basis by an independent qualified actuary. There are no separately held assets. The interest charge on the provision is charged to resources expended in the general fund. The actuarial gains or losses are charged to the other gains and losses in endowment. Benefits paid out are charged to the provision.



# Notes to the financial statements

## for the year ended 31 December 2012

### 1. Accounting policies (continued)

Pension benefits arising from service after 31 December 1999 for staff in service as at 30 June 2006 are provided for by a defined benefit scheme administered by the Church of England Pensions Board (note 9). The scheme is considered to be a multi-employer scheme as described in FRS 17 paragraph 9(b) and consequently the amounts charged in the statement of financial activities represent the contributions payable in the year. The Commissioners are unable to identify their share of the underlying assets and liabilities.

A defined contribution scheme, administered by the Church of England Pensions Board, provides pension benefits for those staff commencing service after 30 June 2006. The contributions payable in the year are charged to the statement of financial activities.

#### Clergy

As described in note 5, the Commissioners are obliged to pay clergy pensions as they fall due in respect of service up to 31 December 1997. Pensions payable in the year are charged to the statement of financial activities and as permitted by the Pensions Measure 1997, as amended, are charged to endowment.

Pension benefits arising from service after 31 December 1997 are mainly provided by a defined benefit scheme administered by the Church of England Pensions Board, the Church of England Funded Pensions Scheme. This scheme is considered to be a multi-employer scheme and consequently the amounts charged in the statement of financial activities represent the contributions payable in the year in respect of those clergy whose stipends they are responsible. The Commissioners are unable to identify their share of the underlying assets and liabilities.

Where pensions are provided by a defined contribution scheme, the contributions payable in the year are charged to the statement of financial activities.

### f) Fixed assets

#### Non-investment fixed assets

##### Capitalisation of expenditure

Costs incurred on acquiring, improving or adding to assets are capitalised. Other expenditure is charged to the statement of financial activities in the year in which it is incurred.

Unless its market value is material, expenditure on household and office furniture, fixtures and fittings and office equipment, with the exception of historic items within the contents of see houses, is charged in the statement of financial activities in the year in which it is incurred.

##### Depreciation

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 |
|-------------------------------|-----------------------|
| Administrative office         | 50 years              |
| Leasehold office improvements | 10 years              |
| IT systems                    | 5 years               |

##### Investment assets

In accordance with the Statement of Standard Accounting Practice 19, no depreciation is charged on investment properties as the effect of depreciation is reflected in the annual valuations and cannot be quantified separately.

##### Revaluation and realisation

Investment assets are valued as follows:

Listed investments: valued at market values using bid price in accordance with the practice of the appropriate stock exchange.

Unlisted investments: valued by reference to latest dealing prices, valuations from reliable sources or net asset values.

Investment properties: annually valued individually at market value in accordance with the Appraisal & Valuation Manual issued by the Royal Institution of Chartered Surveyors (RICS).

With regard to strategic land, the valuer has noted in the valuation report, in accordance with Guidance Note 5 of the RICS Standards, if appropriate, that the primary source of evidence for valuations should be recent comparable market transactions on arm's length terms. The current economic environment means that there have been few comparable transactions for the type of land in the strategic land portfolio owned by the Commissioners. Because of this and the uncertain economic environment, there is a greater degree of uncertainty in respect of the figure reported by our valuer. Until the number and consistency of comparable transactions increases, this situation is likely to remain.

Shared and partnership property interests 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.

Value-linked loans: annually valued individually taking into account current vacant possession values of the properties, estimated future house prices growth and income flows and the anticipated dates of repayment.

Timberland: 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 cost adjusted for logging during the year. Changes in value in the year, whether or not realised, are reported in the gains and losses on investments in the SOFA. At point of felling, the carrying value of forestry assets is valued at market value less the costs to deliver. Shared and partnership timberland interests are annually valued at the Commissioners' share of the underlying net assets.

# Notes to the financial statements

## for the year ended 31 December 2012

### 1. Accounting policies (continued)

Non-investment assets are valued as follows:

*Lambeth Palace:* Lambeth Palace is valued at £1 as the Charities SORP, paragraph 293, recognises that certain unique buildings that are integral to the activities of the charity may present difficulties in ascertaining a current cost of construction of an asset that has both the same service potential and replicates the uniqueness of the original. In such cases, the Charities SORP recognises that conventional valuation techniques may not be applicable to previously non-capitalised assets.

*Other see houses:* stated at their market value as at 31 December 2008 increased in line with the relevant regional Nationwide housing price index. A full market valuation is carried out every five years in accordance with the Appraisal & Valuation Manual issued by the Royal Institution of Chartered Surveyors.

*Contents of Lambeth Palace and see houses:* A full valuation of the historic contents such as works of art and furniture is carried out every ten years. The last full revaluation was at 31 December 2007.

Gains or losses on the disposal and revaluation of investment assets, including the gains or losses on any related foreign currency transactions, are shown in other gains and losses in endowment capital in the statement of financial activities.

### g) 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 collateral assets 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 11(a).

### h) 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 and shared and partnership property interests. In accordance with their investment policy, forward foreign currency and option contracts are not entered into for investment gain or trading purposes and no other derivatives are used.

Contracts relating to hedged assets outstanding at the balance sheet date are translated at the forward contract rate. Option contracts are valued 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 statement of financial activities. Contracts relating to future commitments are not included on the balance sheet.

### i) 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 revaluation in endowment capital in other gains and losses in the statement of financial activities.

Income received in foreign currencies and converted into sterling is 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 statement of financial activities.

### j) 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.

### k) 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 8. 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.



## Notes to the financial statements for the year ended 31 December 2012

### 2. Incoming resources

|  | 2012<br>£m   | 2011<br>£m   |
|--|--------------|--------------|
| <b>Investment income</b>                           |              |              |
| <b>Property portfolio</b>                          |              |              |
| UK directly held properties                        | 41.6         | 43.7         |
| UK shared and partnership property interests       | 12.7         | 11.9         |
| Overseas shared and partnership property interests | 1.4          | 2.5          |
| UK value linked loans                              | 5.6          | 5.8          |
| UK timberland                                      | 4.0          | 0.7          |
| Overseas timberland                                | 1.2          | -            |
| <b>Total income from property portfolio</b>        | <b>66.5</b>  | <b>64.6</b>  |
| <b>Securities portfolio</b>                        |              |              |
| Listed UK equities                                 | 25.3         | 33.5         |
| Listed overseas equities                           | 25.6         | 28.7         |
| UK fixed interest securities                       | 15.5         | 9.8          |
| Overseas fixed interest securities                 | 12.4         | 9.0          |
| Interest on investment managers' cash              | 0.4          | 0.5          |
| Stock lending income                               | 0.5          | 0.5          |
| <b>Total income from securities portfolio</b>      | <b>79.7</b>  | <b>82.0</b>  |
| <b>Cash portfolio</b>                              |              |              |
| Bank interest                                      | -            | 0.1          |
| <b>Total income from cash portfolio</b>            | <b>-</b>     | <b>0.1</b>   |
| <b>Total investment income</b>                     | <b>146.2</b> | <b>146.7</b> |

### 3. Cost of generating funds

|  | 2012<br>£m  | 2011<br>£m  |
|--|-------------|-------------|
| External management costs              | 21.0        | 24.7        |
| Support costs                          | 5.6         | 5.3         |
| Other property costs                   | 12.1        | 9.1         |
| <b>Total cost of generating income</b> | <b>38.7</b> | <b>39.1</b> |



## Notes to the financial statements for the year ended 31 December 2012

### 4. Charitable activities

|  | 2012                           |                        |                        | 2011         |
|--|--------------------------------|------------------------|------------------------|--------------|
|  | Activities<br>undertaken<br>£m | Grant<br>funding<br>£m | Support<br>costs<br>£m | Total<br>£m  |
| <b>Clergy pensions paid from endowment</b>                                     | <b>120.3</b>                   | <b>-</b>               | <b>-</b>               | <b>120.3</b> |
| <b>Parish mission and ministry support</b>                                     |                                |                        |                        |              |
| Selective grants to low income dioceses  | -                              | 33.1                   | -                      | 33.1         |
| Mission development funding  | -                              | 5.7                    | -                      | 5.7          |
| Development funding  | -                              | 2.9                    | -                      | 2.9          |
| Other grants   | -                              | 0.1                    | -                      | 0.1          |
| Payments direct to parish clergy   | 0.2                            | -                      | -                      | 0.2          |
| Church Growth Research Programme   | -                              | 0.2                    | -                      | 0.2          |
| <b>Total parish mission and ministry support</b>                               | <b>0.2</b>                     | <b>42.0</b>            | <b>-</b>               | <b>42.2</b>  |
| <b>Bishops' ministry in the dioceses</b>                                       |                                |                        |                        |              |
| Stipends   | 5.3                            | -                      | -                      | 5.3          |
| Housing and office premises  | 3.4                            | -                      | 0.6                    | 4.0          |
| Office and working costs   | -                              | 14.8                   | 0.5                    | 15.3         |
| <b>Total bishops' ministry in the dioceses</b>                                 | <b>8.7</b>                     | <b>14.8</b>            | <b>1.1</b>             | <b>24.6</b>  |
| <b>Archbishops including Lambeth Palace</b>                                    |                                |                        |                        |              |
| Stipends   | 0.2                            | -                      | -                      | 0.2          |
| Housing and office premises  | 0.7                            | -                      | -                      | 0.7          |
| Office and working costs   | -                              | 4.7                    | -                      | 4.7          |
| Lambeth Palace Library   | 0.8                            | -                      | -                      | 0.8          |
| <b>Total Archbishops including Lambeth Palace</b>                              | <b>1.7</b>                     | <b>4.7</b>             | <b>-</b>               | <b>6.4</b>   |
| <b>Cathedrals' ministry</b>  |                                |                        |                        |              |
| Sections 21 and 22 grants towards stipends and other purposes                  | -                              | 5.4                    | -                      | 5.4          |
| Grants towards staff and other costs   | -                              | 3.3                    | -                      | 3.3          |
| <b>Total cathedrals' ministry</b>  | <b>-</b>                       | <b>8.7</b>             | <b>-</b>               | <b>8.4</b>   |
| <b>Church buildings</b>  |                                |                        |                        |              |
| Grant to Churches Conservation Trust - statutory grant                         | -                              | 1.5                    | -                      | 1.5          |
| Grant to Churches Conservation Trust - funded from proceeds of closed churches | -                              | (0.5)                  | -                      | (0.5)        |
| <b>Net grant to Churches Conservation Trust</b>                                | <b>-</b>                       | <b>1.0</b>             | <b>-</b>               | <b>0.9</b>   |
| Chancel repair liability   | 0.5                            | -                      | -                      | 0.5          |
| Support costs for Church buildings and pastoral reorganisation                 | -                              | -                      | 2.2                    | 2.2          |
| <b>Total Church buildings</b>  | <b>0.5</b>                     | <b>1.0</b>             | <b>2.2</b>             | <b>3.7</b>   |
| Other charitable expenditure (including national clergy payroll costs)         | 0.4                            | -                      | 1.0                    | 1.4          |
| <b>Total charitable expenditure</b>  | <b>131.8</b>                   | <b>71.2</b>            | <b>4.3</b>             | <b>207.3</b> |



## Notes to the financial statements for the year ended 31 December 2012

### 4. Charitable activities (continued)

#### Clergy pensions

Note 5 describes clergy pensions in detail.

#### Parish mission and ministry support

Parish mission and ministry support grants were distributed to dioceses and other beneficiaries under the direction of The Archbishops' Council, in accordance with the National Institutions Measure 1998. Details of the amounts allocated to dioceses are shown on page 54.

#### Bishops' ministry in the dioceses and archbishops including Lambeth Palace

Details of the grants made to individual bishops and archbishops towards their office and working costs, and of how those amounts were spent, will be contained in the publication "Bishops' Office and Working Costs for the year

ended 31 December 2012" to be issued by the House of Bishops later in 2013.

#### Cathedrals' ministry

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 clerk other than a dean or residentiary canon whose stipend is paid by the Commissioners and the 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.

#### Church buildings

The Payments to the Churches Conservation

Trust Order 2011 provide for a statutory grant to be made to the Churches Conservation Trust to support the Trust's work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality. The grant is paid from a share of the proceeds arising from the sale of closed churches with the balance of the grant payable by the Commissioners.

The Commissioners' liability for chancel repairs arises from their former and current ownership of rectorial property.

#### Support costs

Support costs are costs incurred by the Commissioners for administering their charitable activities. These costs include salaries, other running costs and a share of overheads. Overheads are apportioned according to an activity based time split.

### 5. Clergy pensions

On retirement clergy are entitled to pension benefits with the starting level of pension based on the national minimum stipend of those in active service in the preceding March. In respect of the Commissioners' obligation, post retirement increases are in line with the retail prices index, subject to a maximum of 5% in any one year, plus any further discretionary increases determined by the Commissioners.

#### The Church of England Pensions Scheme

The Commissioners are obliged to pay pension benefits to members of the Church of England Pensions Scheme relating to years of service until 31 December 1997.

As described in note 1(a), the past service obligation at 31 December 2012 is not provided for in the Commissioners' balance sheets. The obligation has been estimated by Hymans Robertson LLP, independent qualified actuaries, in their annual review, using the projected unit method, at £1,907.7m (2011: £1,691.3m) if all benefits including post retirement increases continue to be paid in accordance with current practice.

A full valuation of the obligation was carried out as at 31 December 2012 and has been rolled forward in estimating the obligation at 31 December 2012.

The amount of the obligation represents 35.3% (2011: 32.9%) of the market value of the Commissioners' assets, excluding non investment fixed assets, of £5,409.4m (2011: £5,136.6m).

Financial assumptions reflecting the term structure of interest rates and inflation (2011: fixed assumptions) have been used to estimate the value of the obligation. These assumptions include the prospective rate of investment returns, future increases in the retail price index, 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:

|  | 2012<br>% | 2011<br>% |
|--|-----------|-----------|
| Prospective annual rate of return on investments             | 4.9%      | 6.3%      |
| Rate of future stipend and increases in the starting pension | 2.6%      | 4.1%      |
| Rate of post retirement pension increases                    | 2.6%      | 2.6%      |
| Retail price inflation                                       | 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 in which non-pension related distributions can be made.

In their assessments of the pensions obligation, Hymans Robertson LLP have used bespoke Club Vita mortality tables (2011: the standard tables AM92 and AF92 for mortality before retirement; the standard tables PNMA00 and PNFA00 referring to an age two years younger than a person's actual age as clergy have experienced lighter mortality rates than the UK population as a whole in respect of mortality in retirement). In respect of future improvements in mortality rates the projection model from 2010 Continuous Mortality Investigation has been used with advanced parameters with starting rates calibrated to the July 2012 Club Vita dataset (2011: the long cohort assumption, lagged by ten years and scaled (85% for males and 75% for females) with a minimum improvement of 1.5% p.a. for males and 1.0% p.a. for females).

## Notes to the financial statements for the year ended 31 December 2012

### 5. Clergy pensions (continued)

The cost of pensions and benefits funded by the Commissioners during the year is shown in the table to the right.

Transfers out of the Scheme amounted to £0.9m (2011: £0.4m) during the year.

|   | 2012<br>£m   | 2011<br>£m   |
|---|--------------|--------------|
| <b>Benefits under the Church of England Pensions Scheme</b>       |              |              |
| Pensions to clergy  | 82.8         | 79.7         |
| Lump sum payments on retirement                                   | 9.2          | 7.4          |
| Pensions to clergy widows and children                            | 27.9         | 27.1         |
| <b>Total benefits under the Church of England Pensions Scheme</b> | <b>119.9</b> | <b>114.2</b> |

#### Benefits under the Deaconesses and Layworkers (Pensions) Measure 1980

|   | 2012<br>£m   | 2011<br>£m   |
|---|--------------|--------------|
| Pensions to deaconesses and licensed layworkers | 0.4          | 0.4          |
| <b>Total clergy pensions</b>                    | <b>120.3</b> | <b>114.6</b> |

#### The Church of England Funded Pensions Scheme

Pensions in respect of service after 1997 are provided by the Church of England Funded Pensions Scheme, administered by the Church of England Pensions Board, who publish the Scheme's financial statements. The assets of the Scheme are held separately from those of the Commissioners.

The last full valuation of the Scheme, as at 31 December 2009, showed an overall deficit of £262m. As a result of benefit changes in respect of future accrual of pension benefits agreed by the General Synod in July 2010, the contribution rate was changed from 45.0% to

38.2% of pensionable stipends with effect from 1 January 2011.

Each responsible body in the Scheme, including dioceses, pays a common contribution rate. The contributions to the Scheme are assessed by an independent qualified actuary using the projected unit method of valuation.

A full valuation of the fund as at 31 December 2012 is in progress.

The Commissioners' contributions payable to the Scheme totalled £2.3m (2011: £2.3m) in respect of those bishops, cathedral clergy and bishops' chaplains for whose stipends they are

responsible and in respect of clergy receiving payments under the Ordination of Women (Financial Provisions) Measure 1993.

#### Application of endowment to meet certain pension payments

The Pensions Measure 1997, as amended, enables the Commissioners to spend endowment until 31 December 2018 to meet the costs of paying clergy pensions in respect of service before 1998. The total return order (see note 14) does not affect this. Clergy pensions of £120.3m (2011: £114.6m) were paid from endowment. More detail about the Commissioners' reserves policy is given on page 26.

### 6. Governance and other costs

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.

|                                       | 2012<br>£m | 2011<br>£m |
|---------------------------------------|------------|------------|
| Governance costs                      | 2.1        | 2.2        |
| Other resources expended              |            |            |
| Restructuring costs                   | 0.4        | 0.1        |
| <b>Total other resources expended</b> | <b>2.5</b> | <b>2.3</b> |

Analysis of audit and non-audit fees payable to Deloitte LLP:

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| Audit of Church Commissioners            | 119          | 115          |
| Audit of subsidiary undertakings         | 41           | 30           |
| Audit-related assurance services         | 2            | 2            |
| <b>Total audit-related fees</b>          | <b>162</b>   | <b>147</b>   |
| Taxation compliance services             | 27           | 25           |
| Taxation advisory services               | 106          | 114          |
| Planning services (Deloitte Real Estate) | 8            | 85           |
| Other services                           | -            | 1            |
| <b>Total non-audit related fees</b>      | <b>141</b>   | <b>225</b>   |



## Notes to the financial statements for the year ended 31 December 2012

### 7. Staff numbers and remuneration

The Commissioners are joint employer, together with the other National Church Institutions (the NCIs), of most of the staff of the NCIs. With effect from 1 January 2012,

staff employed to manage the Commissioners' investment assets are employed directly by the Commissioners. Staff in church functions, secretariat and shared services departments

continue to be employed by the joint employer. The cost of staff for whom the Commissioners are the managing employer was:

|                                | Asset management |                | Church functions and secretariat |                | Shared services |                | Local property management |                |
|--------------------------------|------------------|----------------|----------------------------------|----------------|-----------------|----------------|---------------------------|----------------|
|                                | 2012<br>Number   | 2011<br>Number | 2012<br>Number                   | 2011<br>Number | 2012<br>Number  | 2011<br>Number | 2012<br>Number            | 2011<br>Number |
| <b>Average number employed</b> | <b>33</b>        | <b>38</b>      | <b>38</b>                        | <b>37</b>      | <b>84</b>       | <b>83</b>      | <b>70</b>                 | <b>75</b>      |
|                                | £m               | £m             | £m                               | £m             | £m              | £m             | £m                        | £m             |
| Salaries                       | 2.0              | 2.0            | 1.8                              | 1.8            | 2.7             | 2.6            | 0.9                       | 1.0            |
| National Insurance costs       | 0.2              | 0.2            | 0.2                              | 0.2            | 0.3             | 0.3            | 0.1                       | 0.2            |
| Pension contributions          | 0.3              | 0.3            | 0.2                              | 0.2            | 0.4             | 0.3            | -                         | -              |
|                                | <b>2.5</b>       | <b>2.5</b>     | <b>2.2</b>                       | <b>2.2</b>     | <b>3.4</b>      | <b>3.2</b>     | <b>1.0</b>                | <b>1.2</b>     |
| Recoverable from third parties | (0.2)            | (0.2)          | -                                | -              | (1.9)           | (1.8)          | (1.0)                     | (1.2)          |
| <b>Total cost of staff</b>     | <b>2.3</b>       | <b>2.3</b>     | <b>2.2</b>                       | <b>2.2</b>     | <b>1.5</b>      | <b>1.4</b>     | <b>-</b>                  | <b>-</b>       |

The Commissioners are responsible for managing the following shared service departments: finance and resources, information technology, records and office services.

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

|                      | 2012<br>Number | 2011<br>Number |
|----------------------|----------------|----------------|
| £60,001 to £70,000   | 6              | 7              |
| £70,001 to £80,000   | 5              | 4              |
| £80,001 to £90,000   | 2              | -              |
| £90,001 to £100,000  | -              | 2              |
| £110,001 to £120,000 | 2              | 1              |
| £130,001 to £140,000 | 2              | 2              |
| £140,001 to £150,000 | -              | 1              |
| £150,001 to £160,000 | 1              | -              |
| £230,001 to £240,000 | 1              | 1              |

All 19 (2011: 18) are members of the Church Administrators Pension Fund (note 9). Of these, 6 (2011: 4) accrue benefits under a defined contribution scheme for which contributions for the year were £100,000 (2011: £62,000). The remaining 13 (2011: 14) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff earned £239,000 (2011: £233,000), which was thirteen (2011: thirteen) times the salary earned by the lowest paid member of staff and seven times the median salary paid in the year.

#### Shared service costs

The Commissioners share the costs of the shared services departments managed by The Archbishops' Council and the Church of England Pensions Board on behalf of the NCIs. Those departments provide communications, human resources, legal and internal audit services to the NCIs and, in some areas, to bishops and their offices.

The average number of staff employed in shared service departments managed by The Archbishops' Council and the Church of England Pensions Board was 40 (2011: 42) and the Commissioners' share of these departments' costs was £1.0m – 37.8% of the total costs (2011: £0.9m – 35.2%).

This cost is included in internal asset management costs (note 3), support costs (note 4) and governance costs (note 6).

#### Asset management and national Church functions

The net 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).

#### Local property management

The net cost of on-site management and servicing of residential blocks of flats is included in other property costs (note 3).

#### 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 £0.3m (2011: £0.4m). The scheme, which was closed to new business in 2004, has 15 (2011: 15) loans outstanding to 13 (2011: 13) members of staff.

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

## Notes to the financial statements for the year ended 31 December 2012

### 8. Commissioners' emoluments and expenses

Under the terms of the Church Commissioners Measure 1947 (as amended), salaries are paid to the First and Third Church Estates Commissioners, both of whom are also entitled to pension contributions. The First Church Estates Commissioner has waived any entitlement to pension.

Commissioners, other than the First and Third Church Estates Commissioners, have no entitlement to salary or pension in their capacity as Commissioners. Pensions paid to former First and Third Church Estates Commissioners of £90,000 (2011: £84,000) were charged to the staff pension provision (note 9).

Expenses incurred in attending Board and committee meetings and on other business of the Commissioners were reimbursed to 20 Commissioners (2011: 13). Claims amounting to £12,000 (2011: £9,000) were submitted in respect of travel and subsistence.

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| <b>First Church Estates Commissioner</b>         |              |              |
| Salary   | 58           | 56           |
| National Insurance costs                         | 7            | 7            |
| <b>Third Church Estates Commissioner</b>         |              |              |
| Salary   | 40           | 50           |
| National Insurance costs                         | 5            | 6            |
| Pension contributions (note 9)                   | 7            | 9            |
| <b>Total Church Estates Commissioners' costs</b> | <b>117</b>   | <b>128</b>   |

### 9. Staff pensions

Staff of the Commissioners, bishops and the Church of England Pensions Board who commenced service before 1 July 2006 are entitled to pension benefits based on final pensionable pay for service up to 30 June 2010 and career average for service from 1 July 2010. Increases of pensions in payment and preserved pensions are linked to the consumer and retail prices indices. There are no other post-retirement benefits.

The Third Church Estates Commissioner and staff who commenced service after 30 June 2006 are entitled to pensions earned from the contributions paid into a personal pension scheme by their employers and by themselves. The contribution rate payable by the Commissioners is between 8% and 18%. None of the figures below relate to these arrangements.

#### Service before 2000

Benefits based on years of service until 31 December 1999 for staff and benefits in respect of former First and Third Church Estates Commissioners are not separately funded but are provided for in the balance sheet in accordance with FRS 17: Retirement Benefits. A full valuation of the provision was carried out as at 31 December 2012. This provision is calculated annually using the projected unit method by Hymans Robertson LLP, independent qualified actuaries.

The movements on the provision during the year were:

|   | 2012<br>£m   | 2011<br>£m   |
|---|--------------|--------------|
| At 1 January                                    | 104.3        | 100.3        |
| Pensions and lump sums paid                     | (5.3)        | (5.3)        |
| Interest on provision - charged to general fund | 5.0          | 5.3          |
| Actuarial loss - charged to endowment capital   | 7.8          | 4.0          |
| <b>At 31 December</b>                           | <b>111.8</b> | <b>104.3</b> |

Analysis of actuarial loss debited to endowment capital:

|   | 2012<br>£m | 2011<br>£m |
|---|------------|------------|
| Experience loss on provision                          | 3.4        | 1.1        |
| Loss due to effect of change in financial assumptions | 1.7        | -          |
| Loss due to effect of change in mortality assumptions | 2.7        | 2.9        |
| <b>Actuarial loss</b>                                 | <b>7.8</b> | <b>4.0</b> |





## Notes to the financial statements for the year ended 31 December 2012

### 9. Staff pensions (continued)

The principal assumptions used in estimating the provision were:

|  | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|------|------|------|------|------|
|  | %    | %    | %    | %    | %    |
| Discount rate (annual rate of return on AA rated corporate bonds)          | 4.4  | 4.8  | 5.5  | 5.7  | 6.0  |
| Rate of salary increases   | 4.0  | 4.6  | 5.1  | 5.3  | 4.5  |
| Rate of increase of pensions in payment<br>for service before 1 April 1997 | 2.3  | 2.6  | 3.1  | -    | -    |
| for service since 1 April 1997   | 3.0  | 3.1  | 3.6  | -    | -    |
| for service before and after 1 April 1997                                  | -    | -    | -    | 3.8  | 3.0  |
| Consumer price inflation   | 2.3  | 2.6  | 3.1  | -    | -    |
| Retail price inflation   | 3.0  | 3.1  | 3.6  | 3.8  | 3.0  |

In their assessments of the pensions liability, Hymans Robertson LLP used bespoke Club Vita mortality tables (2011: the standard mortality tables AMN00 and AFN00 for mortality before retirement and 95% of the standard tables S1NMA and S1NFA for mortality in retirement). 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 (2011: the medium cohort assumption, subject to a minimum of 1.5%).

History of experience gains and losses:

|                       | 2012 | 2011 | 2010  | 2009 | 2008  |
|-----------------------|------|------|-------|------|-------|
|                       | £m   | £m   | £m    | £m   | £m    |
| Actuarial loss/(gain) | 7.8  | 4.0  | (7.0) | 15.8 | (9.2) |

#### Service from 2000

Benefits for staff arising from service from 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board, who publish the Fund's financial statements. The assets of the Fund are held separately from those of the Commissioners.

The contributions to the Fund are assessed by an independent qualified actuary using the projected unit method of valuation. A full valuation of the Fund as at 31 December 2011 showed a deficit of £32.4m (2008: £30.2m). Despite the increase in the scheme deficit no adjustment to the existing recovery plan was deemed necessary. The level of additional contributions to be made by the employers will be £2,373,000 per annum

from 1 July 2013 to 30 June 2025, increasing on 1 January each year by 5.0% (2008: £2,050,000 per annum from 1 July 2010 to 30 June 2025, increasing on 1 January each year in line with general salary inflation). The Commissioners' share of the deficit payment is £1,350,000 (2011: £1,280,000).

In addition from 1 January 2013 the employers are responsible for making contributions towards the administration costs of the scheme, of £210,000 per annum and the cost of Pension Protection Fund levies. In 2012 the Commissioners' contribution was £200,000 (2011: £200,000).



## Notes to the financial statements for the year ended 31 December 2012

### 10. Non investment assets

| Consolidated and Commissioners  | IT systems   | Administrative offices |                           | Lambeth Palace<br>and see houses | Total        |
|---------------------------------|--------------|------------------------|---------------------------|----------------------------------|--------------|
|                                 |              | Freehold<br>property   | Leasehold<br>improvements |                                  |              |
|                                 | £m           | £m                     | £m                        | £m                               | £m           |
| <b>Cost or valuation</b>        |              |                        |                           |                                  |              |
| Balance at 1 January            | 1.5          | 2.9                    | 2.1                       | 96.3                             | 102.8        |
| Transfers (note 11)             | -            | -                      | -                         | (0.9)                            | (0.9)        |
| Additions                       | 0.2          | -                      | -                         | 5.4                              | 5.6          |
| Proceeds from disposals         | -            | -                      | -                         | (10.6)                           | (10.6)       |
| Realised gains/(losses)         | -            | -                      | -                         | (0.4)                            | (0.4)        |
| Unrealised gains/(losses)       | -            | -                      | -                         | (0.5)                            | (0.5)        |
| <b>Balance at 31 December</b>   | <b>1.7</b>   | <b>2.9</b>             | <b>2.1</b>                | <b>89.3</b>                      | <b>96.0</b>  |
| <b>Accumulated depreciation</b> |              |                        |                           |                                  |              |
| Balance at 1 January            | (0.7)        | (0.1)                  | (1.0)                     | -                                | (1.8)        |
| Charge for the year             | (0.3)        | -                      | (0.2)                     | -                                | (0.5)        |
| <b>Balance at 31 December</b>   | <b>(1.0)</b> | <b>(0.1)</b>           | <b>(1.2)</b>              | <b>-</b>                         | <b>(2.3)</b> |
| <b>Net book value</b>           |              |                        |                           |                                  |              |
| Balance at 1 January            | 0.8          | 2.8                    | 1.1                       | 96.3                             | 101.0        |
| <b>Balance at 31 December</b>   | <b>0.7</b>   | <b>2.8</b>             | <b>0.9</b>                | <b>89.3</b>                      | <b>93.7</b>  |

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

Lambeth Palace is valued at £1 as explained in note 1(f). Other see houses were valued by Carter Jonas as at 31 December 2008 and are increased from this date in line with the relevant regional Nationwide housing price

index. Freehold see houses are valued at £83.7m (2011: 77.0m) and leasehold see houses at £0.3m (2011: £4.1m). The contents of the see houses were valued by Gurr Johns as at 31 December 2007.

All non-investment assets are located in the United Kingdom.



## Notes to the financial statements for the year ended 31 December 2012

### 11. Investment assets

| Notes                          | At 1 January   | Transfers (note 10) | Additions    | Proceeds from disposals | Realised gains | Unrealised gains/(losses) | Realised and unrealised deficit on forward foreign currency contracts | At 31 December |
|--------------------------------|----------------|---------------------|--------------|-------------------------|----------------|---------------------------|---|----------------|
|                                | £m             | £m                  | £m           | £m                      | £m             | £m                        | £m  | £m             |
| <b>Consolidated</b>            |                |                     |              |                         |                |                           |   |                |
| Securities portfolio           | 3,162.9        | -                   | 857.0        | (1,005.4)               | 52.8           | 177.8                     | 7.8   | <b>3,252.9</b> |
| Investment properties          | 1,196.0        | 0.9                 | 15.1         | (56.3)                  | 17.4           | 86.0                      | -   | <b>1,259.1</b> |
| Indirect property interests    | 443.9          | -                   | 23.4         | (42.1)                  | 3.1            | 19.3                      | 3.2   | <b>450.8</b>   |
| Value linked loans             | 129.7          | -                   | 0.9          | (15.0)                  | 4.8            | 4.5                       | -   | <b>124.9</b>   |
| Timberland                     | 41.5           | -                   | 49.3         | -                       | (1.0)          | 6.6                       | -   | <b>96.4</b>    |
| <b>Total investment assets</b> | <b>4,974.0</b> | <b>0.9</b>          | <b>945.7</b> | <b>(1,118.8)</b>        | <b>77.1</b>    | <b>294.2</b>              | <b>11.0</b>   | <b>5,184.1</b> |

| Notes                          | At 1 January   | Transfers (note 10) | Additions    | Proceeds from disposals | Realised gains | Unrealised gains/(losses) | Realised and unrealised deficit on forward foreign currency contracts | At 31 December |
|--------------------------------|----------------|---------------------|--------------|-------------------------|----------------|---------------------------|---|----------------|
|                                | £m             | £m                  | £m           | £m                      | £m             | £m                        | £m  | £m             |
| <b>Commissioners</b>           |                |                     |              |                         |                |                           |   |                |
| Securities portfolio           | 3,109.6        | -                   | 816.1        | (992.5)                 | 50.8           | 173.8                     | 7.8   | <b>3,165.6</b> |
| Investment properties          | 1,113.8        | 0.9                 | 10.4         | (48.6)                  | 17.2           | 75.2                      | -   | <b>1,168.9</b> |
| Indirect property interests    | 424.4          | -                   | 13.1         | (41.2)                  | 3.0            | 18.7                      | 3.2   | <b>421.2</b>   |
| Value linked loans             | 129.7          | -                   | 0.9          | (15.1)                  | 4.8            | 4.6                       | -   | <b>124.9</b>   |
| Timberland                     | 37.3           | -                   | 0.3          | -                       | -              | 6.4                       | -   | <b>44.0</b>    |
| Subsidiary undertakings        | 80.7           | -                   | -            | -                       | -              | 10.3                      | -   | <b>91.0</b>    |
| <b>Total investment assets</b> | <b>4,895.5</b> | <b>0.9</b>          | <b>840.8</b> | <b>(1,097.4)</b>        | <b>75.8</b>    | <b>289.0</b>              | <b>11.0</b>   | <b>5,015.6</b> |

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

Future commitments are disclosed in note 15.

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 41.0% (2011: 38.4%) of the investment portfolio.

Forward foreign currency contracts are used to hedge the risk of changes in exchange rates which might adversely affect the value of some of these non-sterling assets. This currency hedging programme covers 95% (2011: 95%) of developed currency exposures. Forward contracts are also used by some fund managers to manage the risk of not achieving overall performance benchmarks.

Outstanding contracts are included in the value of the assets covered by the currency management programme:

|                                  | Consolidated and Commissioners |                       |                |                     |                       |                |
|----------------------------------|--------------------------------|-----------------------|----------------|---------------------|-----------------------|----------------|
|                                  | 2012                           |                       |                | 2011                |                       |                |
|                                  | Non-sterling assets            | Outstanding contracts | Total          | Non-sterling assets | Outstanding contracts | Total          |
|                                  | £m                             | £m                    | £m             | £m                  | £m                    | £m             |
| Securities portfolio             | 1,929.6                        | 2.0                   | 1,931.6        | 1,744.4             | -                     | 1,744.4        |
| Indirect property interests      | 178.3                          | 0.6                   | 178.9          | 172.8               | 0.3                   | 173.1          |
| <b>Total non-sterling assets</b> | <b>2,107.9</b>                 | <b>2.6</b>            | <b>2,110.5</b> | <b>1,917.2</b>      | <b>0.3</b>            | <b>1,917.5</b> |

The net income from operating the hedging programme was £7.5m (2011: £1.5m), after deducting fees of £1.2m (2011: £1.3m).



## Notes to the financial statements for the year ended 31 December 2012

### 11(a) Securities portfolio

|   | Consolidated   |                | Commissioners  |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012           | 2011           | 2012           | 2011           |
|   | £m             | £m             | £m             | £m             |
| Quoted UK equities                          | 991.3          | 864.0          | 991.3          | 864.0          |
| Quoted overseas equities                    | 1,499.3        | 1,347.3        | 1,412.0        | 1,293.9        |
| Unquoted UK equities                        | 48.6           | 41.7           | 48.6           | 41.7           |
| Unquoted overseas equities                  | 249.2          | 239.1          | 249.2          | 239.1          |
| Quoted UK fixed interest securities         | 281.4          | 512.9          | 281.4          | 512.9          |
| Quoted overseas fixed interest securities   | 180.4          | 150.2          | 180.4          | 150.2          |
| Unquoted overseas fixed interest securities | 2.7            | 7.8            | 2.7            | 7.8            |
| <b>Total securities</b>                     | <b>3,252.9</b> | <b>3,162.9</b> | <b>3,165.6</b> | <b>3,109.5</b> |

The market value of listed investments includes stock on loan of £37.8m (2011: £7.3m).

### 11(b) Investment properties

|   | Consolidated   |                | Commissioners  |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012           | 2011           | 2012           | 2011           |
|   | £m             | £m             | £m             | £m             |
| Freehold interests                                  | 1,246.2        | 1,183.3        | 1,156.2        | 1,101.1        |
| Leasehold properties with more than 50 years to run | 13.8           | 13.8           | 13.8           | 13.8           |
| Total carrying value                                | 1,260.0        | 1,197.1        | 1,170.0        | 1,114.9        |
| Adjustment for concessions to tenants (see note 12) | (1.1)          | (1.1)          | (1.1)          | (1.1)          |
| <b>Total investment properties</b>                  | <b>1,258.9</b> | <b>1,196.0</b> | <b>1,168.9</b> | <b>1,113.8</b> |

The valuers of the properties were:

Let and strategic land properties: Savills

Commercial and residential properties: DTZ Debenham Tie Leung.

All investment properties are located in the United Kingdom.

### 11(c) Indirect property interests

|                               | Consolidated |              | Commissioners |              |
|-------------------------------|--------------|--------------|---------------|--------------|
|                               | 2012         | 2011         | 2012          | 2011         |
|                               | £m           | £m           | £m            | £m           |
| <b>Shared interests</b>       |              |              |               |              |
| Properties                    | 229.7        | 207.6        | 229.7         | 207.6        |
| Borrowings                    | (40.6)       | (41.0)       | (40.6)        | (41.0)       |
| Other net assets              | 3.4          | 4.2          | 3.4           | 4.2          |
| <b>Total shared interests</b> | <b>192.5</b> | <b>170.8</b> | <b>192.5</b>  | <b>170.8</b> |

Indirect property interests are valued independently by valuers appointed by the partnerships and shared interest holders.

All the interests were held in the United Kingdom other than the partnership interests valued at £178.3m (2011: £172.8m).

|   | Consolidated |              | Commissioners |              |
|---|--------------|--------------|---------------|--------------|
|   | 2012         | 2011         | 2012          | 2011         |
|   | £m           | £m           | £m            | £m           |
| <b>Partnership interests</b>                |              |              |               |              |
| Properties                                  | 305.9        | 339.7        | 280.4         | 306.3        |
| Debt  | 43.2         | 17.0         | 26.3          | 17.0         |
| Borrowings                                  | (168.2)      | (160.1)      | (143.9)       | (144.8)      |
| Other assets                                | 77.4         | 76.5         | 65.9          | 75.1         |
| <b>Total partnership interests</b>          | <b>258.3</b> | <b>273.1</b> | <b>228.7</b>  | <b>253.6</b> |
| <b>Total indirect partnership interests</b> | <b>450.8</b> | <b>443.9</b> | <b>421.2</b>  | <b>424.4</b> |



## Notes to the financial statements for the year ended 31 December 2012

### 11(d) Value-linked loans

|   | Consolidated and Commissioners |              |
|---|--------------------------------|--------------|
|   | 2012                           | 2011         |
|   | £m                             | £m           |
| To provide and improve Church property and for other purposes | 27.9                           | 27.4         |
| To Church of England Pensions Board                           | 97.0                           | 102.3        |
| <b>Total value linked loans</b>                               | <b>124.9</b>                   | <b>129.7</b> |

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. All value-linked loans are valued externally once every three years: as at 31 December 2012 an

external valuation was carried out by DTZ Debenham Tie Leung. In intermediate years the loans are valued by RICS qualified in-house professionals.

### 11(e) Timberland

|                         | Consolidated |             | Commissioners |             |
|-------------------------|--------------|-------------|---------------|-------------|
|                         | 2012         | 2011        | 2012          | 2011        |
|                         | £m           | £m          | £m            | £m          |
| <b>UK timber</b>        |              |             |               |             |
| Directly held           | 44.0         | 37.3        | 44.0          | 37.3        |
|                         | 44.0         | 37.3        | 44.0          | 37.3        |
| <b>Overseas timber</b>  |              |             |               |             |
| Directly held           | 38.6         | -           | -             | -           |
| Partnership interests   | 13.8         | 4.2         | -             | -           |
|                         | 52.4         | 4.2         | -             | -           |
| <b>Total timberland</b> | <b>96.4</b>  | <b>41.5</b> | <b>44.0</b>   | <b>37.3</b> |

Timberland is valued in line with the accounting policy described in note 1(f).

### 11(f) Subsidiary undertakings

The Commissioners' principal subsidiary undertakings, held to undertake property purchase, development and management and certain indirect property and timberland investments are:

*Registered in England and Wales*

CC Trading Ltd, CC Lincoln Ltd, CC Projects, Cedarvale, CC Licensing, Quivercourt, Easton Tree Ltd and Weston Tree Ltd.

*Registered in the US*  
Cherry Tree Timber LLC.

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 9, but fall within the exemption for investment funds in paragraph 49 of FRS 9.

The Commissioners have no associated undertakings.

### 12. Debtors

|  | Consolidated |             | Commissioners |              |
|--|--------------|-------------|---------------|--------------|
|  | 2012         | 2011        | 2012          | 2011         |
|  | £m           | £m          | £m            | £m           |
| Trade debtors  | 9.8          | 12.1        | 9.6           | 6.9          |
| Subsidiary undertakings                                  | -            | -           | 196.9         | 108.0        |
| Dioceses (Clergy Stipends and Diocesan Debtors Accounts) | 1.7          | 1.2         | 1.7           | 1.2          |
| Loans  | 9.7          | 10.8        | 9.7           | 10.8         |
| Other debtors  | 21.7         | 2.7         | 21.7          | 2.7          |
| Prepayments and accrued income                           | 17.8         | 24.6        | 17.2          | 24.5         |
| <b>Total debtors</b>                                     | <b>60.7</b>  | <b>51.4</b> | <b>256.8</b>  | <b>154.1</b> |

Consolidated trade debtors of £9.8m (2011: £12.1m) is after deducting a provision for bad and doubtful debts of £0.7m (2011: £0.8m).

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 £9.7m total (2011: £10.8m), £8.6m (2011: £8.5m) is due after one year.

Other debtors includes £19.7m (2011: £nil) relating to amounts paid to but not yet invested by investment funds. They also include £1.1m (2011: £1.1m) relating to concessions to tenants which are amortised over the period to the next open market rent review. Accordingly, the independent valuation of investment properties is reduced by this amount.

## Notes to the financial statements for the year ended 31 December 2012

### 13. Creditors

|   | Consolidated |             | Commissioners |             |
|---|--------------|-------------|---------------|-------------|
|   | 2012         | 2011        | 2012          | 2011        |
|   | £m           | £m          | £m            | £m          |
| Trade Creditors                               | 11.9         | 8.1         | 11.3          | 7.5         |
| Subsidiary undertakings                       | -            | -           | 29.3          | 25.7        |
| Dioceses and other Church bodies              | 3.7          | 4.1         | 3.7           | 4.1         |
| Other creditors                               | 1.0          | 0.5         | 0.6           | -           |
| Taxation and National Insurance contributions | 7.2          | 7.1         | 6.9           | 7.3         |
| Accruals and deferred income                  | 16.6         | 16.3        | 15.2          | 14.8        |
| <b>Total creditors</b>                        | <b>40.4</b>  | <b>36.1</b> | <b>67.0</b>   | <b>59.4</b> |

### 14. 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 is £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<br>£m | Unapplied total return<br>£m | Total endowment fund<br>£m | General Fund<br>£m | Total funds<br>£m |
|---|-------|-------------------------------|------------------------------|----------------------------|--------------------|-------------------|
| <b>1 January</b>                                  |       | <b>3,000.4</b>                | <b>2,202.0</b>               | <b>5,202.4</b>             | <b>35.2</b>        | <b>5,237.6</b>    |
| Add investment return for the year:               |       |                               |                              |                            |                    |                   |
| Income return - gross income                      | 2     |                               | 146.2                        | 146.2                      | 2.1                | 148.3             |
| Income return - cost of generating funds          | 3     |                               | (38.7)                       | (38.7)                     |                    | (38.7)            |
| Capital return - non investment assets            | 10    |                               | (0.9)                        | (0.9)                      |                    | (0.9)             |
| Capital return - investment assets                | 11    |                               | 382.3                        | 382.3                      |                    | 382.3             |
| Capital return - foreign currency                 |       |                               | (2.0)                        | (2.0)                      |                    | (2.0)             |
| <b>Total investment return during the year</b>    |       |                               | <b>486.9</b>                 | <b>486.9</b>               | <b>2.1</b>         | <b>489.0</b>      |
| Less:   |       |                               |                              |                            |                    |                   |
| Pensions paid from capital                        | 5     | (120.3)                       |                              | (120.3)                    |                    | (120.3)           |
| Transfers out of capital                          | 5     | (0.9)                         |                              | (0.9)                      |                    | (0.9)             |
| Losses on defined benefit pension schemes (staff) |       | (7.8)                         |                              | (7.8)                      |                    | (7.8)             |
| Charitable expenditure: non-pensions              | 4     |                               |                              |                            | (87.0)             | (87.0)            |
| Other expenditure                                 | 6     |                               |                              |                            | (7.5)              | (7.5)             |
| <b>Total other movements during the year</b>      |       | <b>(129.0)</b>                |                              | <b>(129.0)</b>             | <b>(94.5)</b>      | <b>(223.5)</b>    |
| Add indexation on base value of endowment         |       | 93.0                          | (93.0)                       |                            |                    |                   |
| Application of non-applied total return           |       |                               | (57.2)                       | (57.2)                     | 57.2               |                   |
| <b>31 December</b>                                |       | <b>2,964.4</b>                | <b>2,538.7</b>               | <b>5,503.1</b>             |                    | <b>5,503.1</b>    |



# Notes to the financial statements

## for the year ended 31 December 2012

### 15. Capital commitments and contingent liabilities

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

| Notes   | Consolidated |              | Commissioners |              |              |
|---|--------------|--------------|---------------|--------------|--------------|
|   | 2012         | 2011         | 2012          | 2011         |              |
|   | £m           | £m           | £m            | £m           |              |
| Securities portfolio                          | 11(a)        | 144.5        | 103.2         | 115.0        | 103.2        |
| Global shared and indirect property interests | 11(c)        | 43.4         | 45.4          | 35.2         | 30.1         |
| Timberland                                    | 11(e)        | 56.0         | 96.5          | 32.4         | 64.3         |
| <b>Total capital commitments</b>              |              | <b>243.9</b> | <b>245.1</b>  | <b>182.6</b> | <b>197.6</b> |

#### 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 employer, together with the other National Church Institutions, of most of the staff of the

NClS 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.

### 16. Funds held on behalf of others

|  | 2012        | 2011        |
|--|-------------|-------------|
|  | £m          | £m          |
| Residential service charges, sinking funds and tenants' deposits | 10.9        | 9.9         |
| Trust funds  | 5.3         | 5.1         |
| <b>Total funds held on behalf of others</b>                      | <b>16.2</b> | <b>15.0</b> |

#### 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, £0.2m (2011: £0.1m), is applied in accordance with the terms of the trusts.

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

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 (2011: £0.1m)

## Other notes

### National Clergy Payroll

The Commissioners administer the national clergy payroll on behalf of the Church. This payroll covers the majority of clergy. Exceptions include chaplains working in the Armed Forces, hospitals, prisons, schools and other educational institutions. The table shows the total stipends and National Insurance

administered by the Commissioners. The Commissioners also used the national payroll to pay pensions to clergy. Apart from the amounts disclosed in note 5 to the financial statements, they also paid pensions under the Church of England Funded Pensions Scheme on behalf of the Church of England Pensions

Board. These amounted to £3.3m (2011: £12.0m) and were reimbursed by the scheme. Since 1 April 2012, the Church of England Pensions Board has operated its own payroll to pay pensions to clergy.

|  | Payments funded by dioceses, cathedrals, trusts & other bodies |              | Statutory and discretionary payments by the Church Commissioners |            | Total        |              |
|--|--|--------------|--|------------|--------------|--------------|
|  | 2012   | 2011         | 2012   | 2011       | 2012         | 2011         |
|  | £m   | £m           | £m   | £m         | £m           | £m           |
| Diocesan bishops, suffragans & assistant bishops | -  | -            | 3.9  | 3.6        | 3.9          | 3.6          |
| Cathedral clergy                                 | 0.8  | 0.8          | 3.2  | 3.3        | 4.0          | 4.1          |
| Parochial clergy                                 | 173.8  | 172.2        | 0.2  | 0.3        | 174.0        | 172.5        |
| Other clergy, deaconesses & licensed lay workers | 9.3  | 11.0         | 0.4  | 0.5        | 9.7          | 11.5         |
| Employers' National Insurance                    | 14.4   | 14.7         | 0.7  | 0.7        | 15.1         | 15.4         |
| <b>Total stipends and National Insurance</b>     | <b>198.3</b>   | <b>198.7</b> | <b>8.4</b>   | <b>8.4</b> | <b>206.7</b> | <b>207.1</b> |

### Professional advisors

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

### 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 19 June 2013, 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 2011-2013; and (iii) considers the allocations of money available in 2014-2016.

At its meeting on 26 March 2013 the Assets Committee, having received updated advice from its actuarial advisors Hymans Robertson LLP (as required by the Pensions Measure 1997) which is summarised below, resolved to inform the Board that (i) the Commissioners' expenditure plans for 2013 could be made firm; (ii) the following sums could be made available in 2014-2016 to be spent on statutory and discretionary support;

- up to £380.0m for clergy pensions; and
- up to £283.8m for non-pensions distributions.



## Independent actuaries' report

The Commissioners hold assets from which they pay pensions to retired clergy, other licensed ministers and staff and provide money to support the mission and ministry of bishops, cathedrals and parishes and for other purposes. The sums available for non-pensions support are significantly affected by the extent of their pensions obligation.

In order to assist the Commissioners in formulating their distribution policy, we carried out a detailed review of the Commissioners' fund and pensions obligations as at 31 December 2012. The main purposes of our review were to (i) place a value on the Commissioners' obligations to pay pensions to clergy; (ii) determine a sustainable level of annual discretionary distribution that can be paid by the Commissioners from their funds after taking into account their pensions obligations; and (iii) recommend maximum distribution levels to the Commissioners' Assets Committee.

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 were made on a 'best estimate basis' and did not include such margins of prudence. We consider that margins are not required, as the Commissioners' assets are significantly

larger than their obligation to pay pensions, and no further margin is necessary. Moreover, if margins were to be included, current non-pension distributions would be reduced, with the expectation that they could be increased in the future by more than the planned increases in line with earnings. This would lead to intergenerational inequity, with the future recipients of distributions receiving more in real terms at the expense of current recipients.

It should be noted that the sums which the Commissioners' assets are able to support by way of sustainable non-pensions distributions are extremely sensitive to a number of factors. These include the Commissioners' actual investment performance, 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.

The main results of our calculations were that:

- (i) As at 31 December 2012, £1,908m of the Commissioners' assets were required to meet their pension obligation.
- (ii) Having regard to the Commissioners' long-term objective to increase the level of their support for purposes other than pensions in line with the general level of earnings, we advise that no more than £283.8m should be distributed for these purposes in 2014-2016. In the light of

the most recent review as at 31 December 2012, we have no objection to the Commissioners continuing with the planned distributions for 2013. We consider that distributions at this level are not likely to lead to an adverse consequence for the Commissioners' long-term financial position.

- (iii) We recommend that the Commissioners should continue to pay some of their non-pensions distributions, 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 distributions if necessary because future experience turns out to be unfavourable.

We have been provided with details of the Commissioners' actual distributions in 2012 and a forecast of proposed distributions in 2013. The proposals are in line with the results of our review set out above.

We recommend that the Commissioners' situation be reviewed at least annually with a detailed reassessment of the position at three-yearly intervals. We recommend that the next detailed reassessment should take place in early 2016.

**Richard Crowhurst FIA**  
For and on behalf of Hymans Robertson LLP  
26 March 2013

## Analysis between dioceses of the main elements of charitable expenditure (excluding clergy pensions)

|                          | Parish mission and ministry support <sup>(3)</sup> |             | Bishops' and Archbishops' ministry <sup>(4)</sup> |             | Cathedrals' ministry |            | Total       |             |
|--------------------------|--|-------------|---|-------------|----------------------|------------|-------------|-------------|
|                          | 2012<br>£m   | 2011<br>£m  | 2012<br>£m  | 2011<br>£m  | 2012<br>£m           | 2011<br>£m | 2012<br>£m  | 2011<br>£m  |
| Bath & Wells             | 0.1  | 0.1         | 0.6   | 0.4         | 0.2                  | 0.2        | 0.8         | 0.7         |
| Birmingham               | 2.0  | 1.8         | 0.4   | 0.4         | 0.3                  | 0.2        | 2.6         | 2.5         |
| Blackburn                | 1.0  | 0.9         | 0.5   | 0.5         | 0.3                  | 0.3        | 1.7         | 1.7         |
| Bradford                 | 1.5  | 1.3         | 0.2   | 0.3         | 0.3                  | 0.3        | 2.0         | 1.9         |
| Bristol                  | 0.3  | 0.3         | 0.3   | 0.3         | 0.3                  | 0.3        | 0.9         | 0.8         |
| Canterbury               | 0.9  | 0.8         | 0.6   | 0.3         | 0.2                  | 0.1        | 1.6         | 1.2         |
| Carlisle                 | 0.7  | 0.7         | 0.5   | 1.0         | 0.3                  | 0.2        | 1.5         | 1.9         |
| Chelmsford               | 2.9  | 2.8         | 0.6   | 0.6         | 0.3                  | 0.3        | 3.7         | 3.7         |
| Chester                  | 0.4  | 0.2         | 0.6   | 0.5         | 0.2                  | 0.2        | 1.0         | 0.8         |
| Chichester               | 0.2  | 0.2         | 0.9   | 0.5         | 0.2                  | 0.2        | 1.2         | 0.9         |
| Coventry                 | 0.2  | 0.1         | 0.4   | 0.4         | 0.2                  | 0.2        | 0.7         | 0.7         |
| Derby                    | 1.6  | 1.4         | 0.4   | 0.4         | 0.3                  | 0.3        | 2.3         | 2.1         |
| Durham                   | 2.8  | 2.6         | 0.9   | 0.8         | 0.1                  | 0.1        | 3.8         | 3.6         |
| Ely                      | 0.2  | 0.1         | 0.4   | 0.7         | 0.2                  | 0.2        | 0.6         | 1.0         |
| Exeter                   | 1.5  | 1.4         | 0.6   | 0.5         | 0.2                  | 0.2        | 2.3         | 2.2         |
| Gloucester (1)           | 0.0  | 0.0         | 0.4   | 0.4         | 0.2                  | 0.2        | 0.6         | 0.6         |
| Guildford (1)            | 0.0  | 0.0         | 0.4   | 0.4         | 0.2                  | 0.2        | 0.7         | 0.6         |
| Hereford                 | 0.5  | 0.4         | 0.4   | 0.4         | 0.2                  | 0.2        | 1.1         | 1.1         |
| Leicester                | 1.6  | 1.4         | 0.4   | 0.4         | 0.3                  | 0.3        | 2.3         | 2.0         |
| Lichfield                | 2.1  | 2.0         | 0.6   | 0.5         | 0.2                  | 0.2        | 2.9         | 2.8         |
| Lincoln                  | 0.8  | 0.7         | 0.5   | 0.6         | 0.1                  | 0.1        | 1.4         | 1.4         |
| Liverpool                | 1.9  | 1.7         | 0.4   | 0.4         | 0.1                  | 0.1        | 2.5         | 2.2         |
| London                   | 0.6  | 0.3         | 1.0   | 1.0         | 0.1                  | 0.1        | 1.6         | 1.4         |
| Manchester               | 2.9  | 2.6         | 0.5   | 0.5         | 0.2                  | 0.2        | 3.5         | 3.3         |
| Newcastle                | 1.6  | 1.5         | 0.3   | 0.3         | 0.3                  | 0.3        | 2.1         | 2.1         |
| Norwich                  | 1.5  | 1.5         | 0.6   | 0.6         | 0.2                  | 0.1        | 2.3         | 2.2         |
| Oxford (2)               | 0.2  | 0.2         | 0.6   | 0.5         | 0.0                  | 0.0        | 0.8         | 0.7         |
| Peterborough             | 0.2  | 0.2         | 0.4   | 0.3         | 0.2                  | 0.2        | 0.8         | 0.8         |
| Portsmouth               | 0.4  | 0.4         | 0.3   | 0.3         | 0.3                  | 0.2        | 1.0         | 0.9         |
| Ripon & Leeds            | 0.9  | 0.8         | 0.3   | 0.3         | 0.3                  | 0.3        | 1.5         | 1.4         |
| Rochester                | 0.2  | 0.2         | 0.4   | 0.4         | 0.2                  | 0.2        | 0.8         | 0.8         |
| St Albans                | 0.2  | 0.2         | 0.5   | 0.5         | 0.2                  | 0.2        | 0.9         | 0.8         |
| St Edmundsbury & Ipswich | 0.2  | 0.2         | 0.3   | 0.3         | 0.3                  | 0.2        | 0.8         | 0.7         |
| Salisbury                | 0.1  | 0.0         | 0.5   | 0.8         | 0.1                  | 0.1        | 0.8         | 0.9         |
| Sheffield                | 2.1  | 2.0         | 0.4   | 0.4         | 0.2                  | 0.2        | 2.6         | 2.6         |
| Sodor & Man (1)          | 0.0  | 0.0         | 0.2   | 0.2         | -                    | -          | 0.2         | 0.2         |
| Southwark                | 0.4  | 0.3         | 0.6   | 0.9         | 0.2                  | 0.2        | 1.2         | 1.3         |
| Southwell & Nottingham   | 1.5  | 1.4         | 0.4   | 0.4         | 0.2                  | 0.2        | 2.2         | 2.0         |
| Truro                    | 0.8  | 0.8         | 0.4   | 0.4         | 0.2                  | 0.2        | 1.4         | 1.4         |
| Wakefield                | 1.6  | 1.5         | 0.4   | 0.4         | 0.3                  | 0.3        | 2.2         | 2.2         |
| Winchester               | 0.2  | 0.1         | 0.9   | 0.5         | 0.1                  | 0.1        | 1.3         | 0.7         |
| Worcester                | 0.5  | 0.4         | 0.4   | 0.5         | 0.2                  | 0.2        | 1.1         | 1.0         |
| York                     | 2.2  | 2.0         | 0.3   | 0.3         | 0.1                  | 0.1        | 2.6         | 2.4         |
| Europe                   | -  | -           | 0.4   | 0.4         | -                    | -          | 0.3         | 0.4         |
| National support         | 0.6  | 0.4         | 8.9   | 8.8         | -                    | 0.0        | 9.2         | 9.2         |
| <b>Total</b>             | <b>42.9</b>  | <b>37.7</b> | <b>29.9</b>                                       | <b>29.7</b> | <b>8.7</b>           | <b>8.4</b> | <b>80.8</b> | <b>75.8</b> |

Due to roundings, column and row totals may appear not to equal the sums of the individual figures.

Notes:

- (1) Gloucester, Guildford, and Sodor & Man received parish mission and ministry support but the amount was less than £50,000.
- (2) Oxford received support for cathedral ministry but the amount was less than £50,000.
- (3) Parish mission and ministry support comprises grants to dioceses by The Archbishops' Council, payments direct to dioceses and parishes in the new development initiative, payments direct to clergy and national support (insurance subsidies and minor grant payments).
- (4) Bishops' and Archbishops' ministry includes under national support, housing and office premises costs for Lambeth Palace, Lambeth Palace Library and ancillary properties in all sees, and the office and working costs for the two archbishops, their advisors and the Provincial Episcopal Visitors.



## List of larger investments As at 31 December 2012

### Direct stock exchange and fixed interest holdings over £10m

|  | £m    |
|--|-------|
| UK Treasury 2.25% 2014 . . . . .                 | 153.4 |
| UK Treasury 4.5% 2013 . . . . .                  | 125.9 |
| UK Treasury Bill May 2013 . . . . .              | 49.9  |
| UK Treasury Bill June 2013 . . . . .             | 49.9  |
| UK Treasury Bill July 2013 . . . . .             | 49.9  |
| Royal Dutch Shell . . . . .                      | 37.8  |
| HSBC . . . . .                                   | 32.9  |
| BP . . . . .                                     | 22.4  |
| Vodafone . . . . .                               | 21.1  |
| GlaxoSmithKline . . . . .                        | 18.2  |
| UK Treasury Variable Index Linked 2017 . . . . . | 17.4  |
| US Treasury 1.625% 2015 . . . . .                | 13.3  |
| UK Treasury Variable Index Linked 2055 . . . . . | 12.8  |
| BHP Billiton . . . . .                           | 12.3  |
| Rio Tinto . . . . .                              | 12.1  |
| Impax Environmental Markets . . . . .            | 11.3  |
| Danasher . . . . .                               | 11.1  |
| Unilever . . . . .                               | 11.0  |
| Legrand Promesse . . . . .                       | 11.0  |
| US Treasury 0.125% 2016 . . . . .                | 10.6  |
| AstraZeneca . . . . .                            | 10.1  |
| Henry Schein . . . . .                           | 10.1  |

### Twenty most valuable property holdings (including indirect and timberland)

|  |
|--|
| Aberdeen Property UK Retail Parks Partnership (partnership interest) |
| Future Development Phases, Ashford                                   |
| Canterbury Estate  |
| Carlisle Estate  |
| Chichester Estate  |
| Ely Estate   |
| Greenchip Timber   |
| Halsall Estate   |
| Huntingdon Estate  |
| The Hyde Park Estate   |
| Imperial House, 15-19 Kingsway, London, WC2                          |
| ING Clarion REIT   |
| ING Property Fund Central Europe (partnership interest)              |
| MetroCentre (10% interest and associated land)                       |
| MGPA Asia III (partnership interest)                                 |
| Molpus Timber  |
| The Pollen Estate (shared interest)                                  |
| Rochester Estate   |
| South Lincolnshire Estate  |
| York Estate  |

#### Notes:

The aggregate values of the holdings shown in the two sectors above are respectively 22% and 66% of the total values in each sector.

These lists record the Commissioners' most valuable stock exchange and property holdings. Requests for further information should be made to the Secretariat – see back cover for contact details.

## The Church Commissioners and Board of Governors at 1st January 2013

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.

The Most Reverend and Right Honourable  
J P Welby *Archbishop of Canterbury, Chair*  
(from 4 February)

The Most Reverend and Right Honourable  
Dr J T M Sentamu *Archbishop of York*

#### Church Estates Commissioners appointed by HER MAJESTY

A Whittam Smith CBE  
*First Church Estates Commissioner*  
Sir T Baldry MP  
*Second Church Estates Commissioner\**

#### THE ARCHBISHOP OF CANTERBURY

A Mackie *Third Church Estates Commissioner*

#### Elected by the General Synod HOUSE OF BISHOPS

The Right Reverend and Right Honourable  
Dr R J C Chartres KCVO *Bishop of London*  
The Right Reverend D A Urquhart  
*Bishop of Birmingham*  
The Right Reverend M Hill *Bishop of Bristol*  
The Right Reverend Dr P R Forster  
*Bishop of Chester*

**HOUSE OF CLERGY**  
The Reverend Canon R M Baker  
The Reverend Canon D Stanton  
The Reverend S J Trott

**HOUSE OF LAITY**  
Mrs A R Alexander  
Canon P N E Bruinvels  
G D R Oldham FSI  
J P Vince MRICS

**Elected by the deans**  
The Very Reverend J D F Greener  
*Dean of Wakefield*  
The Very Reverend J M Clarke *Dean of Wells*

**Nominated by  
HER MAJESTY**  
H Hart  
Canon Dr J A Spence OBE DL  
J Wythe FRICS

**THE ARCHBISHOPS OF  
CANTERBURY AND YORK**  
P Harrison QC  
J Clack  
Vacancy

#### 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  
B Carroll  
H Rees-Jones  
Mrs E C Osborne

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

#### Secretary to the Church Commissioners and Board of Governors

A C Brown FRICS

**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

A Whittam Smith CBE *Chair*  
The Bishop of Bristol  
The Reverend Canon D Stanton  
B Carroll  
G D R Oldham FSI  
Mrs E C Osborne  
H Hart  
J Wythe FRICS  
Vacancy

*Committee Secretary* A C Brown FRICS

**Audit Committee**  
Acts in matters relating to the external auditors, the  
annual accounts and internal control systems  
H Rees-Jones *Chair*  
Mrs A R Alexander  
J Clack  
S East†  
G Lynn†  
Vacancy

*Committee Secretary* M Cole

\* Entitled to attend and  
speak at any Committee  
‡ Consultant or Observer  
† Non-Commissioner  
§ Nominated by the  
Archbishops' Council

The Church Commissioners' Annual Report & Accounts for the year to  
31 December 2012 have been prepared by the Board of Governors and  
will be presented to the Commissioners' Annual General Meeting in  
June 2013. They will be sent to the Lord Chancellor and to the  
Secretary General of the General Synod in accordance with the Church  
Commissioners Measure 1947.

#### Bishoprics and Cathedrals Committee

Acts for the Board in matters relating to episcopal  
and cathedral support  
A Mackie *Chair*  
The Dean of Wakefield  
The Bishop of Birmingham  
The Bishop of Grimsby *Deputy Chair*†§  
The Dean of Wells §  
The Reverend Canon J M Haselock†§  
The Reverend M Bide†  
J P Vince MRICS  
Vacancy†§  
Mrs R Butler *Representative of Bishops' wives*‡‡  
*Committee Secretary* P Lewis MRTPI

**Pastoral Committee**  
Acts for the Board in matters relating to pastoral  
reorganisation, parsonages and diocesan glebe  
A Mackie *Chair*

The Bishop of Chester *Deputy Chair*  
The Bishop of Portsmouth †  
The Venerable P Driver†  
The Reverend Canon R M Baker  
The Reverend Canon S J Evans†  
The Dean of Wakefield  
Canon P N E Bruinvels  
Mrs J Flack†  
P Harrison QC  
Mrs S Ridge †§

*Committee Secretary* P Lewis MRTPI

#### Church Buildings (Uses and Disposals) Committee

Acts for the Board in matters relating to the future of  
church buildings closed for regular public worship  
A Mackie *Chair*  
The Reverend S J Trott *Deputy Chair*  
The Reverend Canon R M Baker  
The Revd Canon P Cavanagh†  
The Reverend S Talbott †  
B Carroll  
Mrs A R Alexander  
J Steel†  
C A Wilson†

*Committee Secretary* P Lewis MRTPI

During 2012 and early in 2013 we learned with great sadness of the deaths of former Commissioners Sir Stuart Bell MP and Janet Atkinson, of former Secretary Patrick Locke CBE and of our current QC Commissioner Peter Harrison. Sir Stuart had been the longest-serving Second Church Estates Commissioner in the history of the role, serving from 1997-2010, while Janet had been both a Commissioner for most of the 1990s and, latterly, a non-Commissioner member of the Pastoral Committee. Patrick Locke had been Secretary from 1992-1998. Peter Harrison was a talented lawyer and an outstanding contributor to the Board and Pastoral Committee and he is hugely missed.

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The Church Commissioners for England