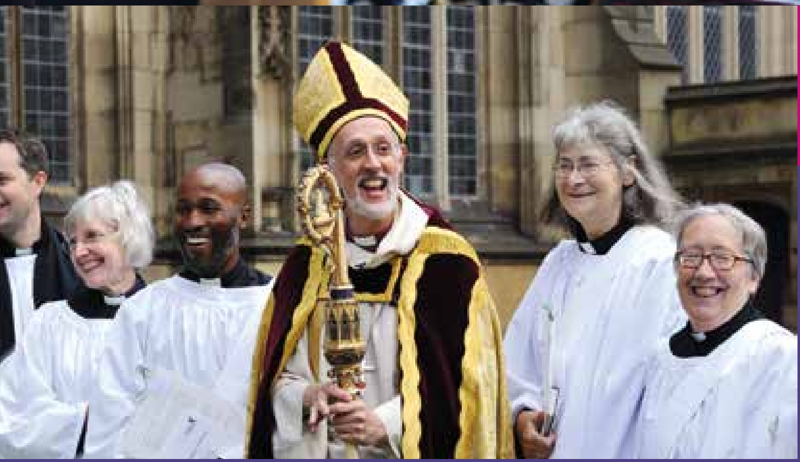
The Church Commissioners for England

THE CHURCH OF ENGLAND

Investing in the Church's growth



The Church Commissioners Annual Report 2017

The Church Commissioners Annual Report 2017
Investing in the Church's growth

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

Any enquiries about this report should be sent to the Church Commissioners' Secretariat at their registered office:

Church House
Great Smith Street
London SW1P 3AZ

commissioners.enquiry@churchofengland.org

Registered Charity Number 1140097

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Picture credits
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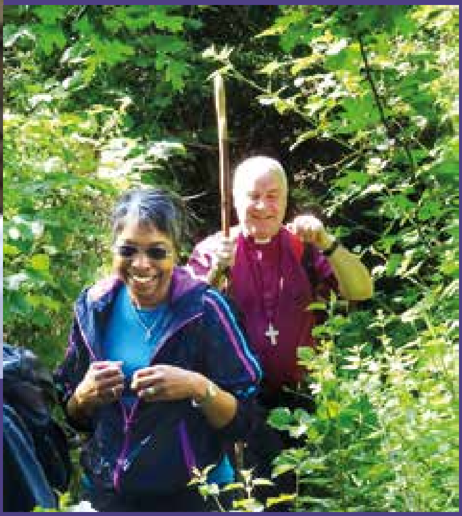
Overview

The Church Commissioners exist to support the work and mission of the Church of England today and for future generations.



Above: Bishop of Manchester, David Walker, with newly ordained deacons at Manchester Cathedral in July 2017.
Right: Bishop of Chelmsford, Stephen Cottrell, on a Rogation Sunday walk in May 2017.

We manage an £8.3bn investment fund in a responsible and ethical way. Each year we use the returns from our fund to:

— Provide funding for mission activities

— Support those dioceses with fewer resources with their ministry costs

— Pay for bishops' ministry and some cathedral costs

— Administer the legal framework for reorganising parishes and settling the future of closed church buildings

— Pay clergy pensions for service prior to 1998

— Run the national payroll for serving and retired clergy

THE CHURCH OF ENGLAND NETWORK

16,000
church buildings (12,500 parishes)

20,000
ordained clergy

93%
of churches provide support for food banks

59%
of churches run parent and toddler groups

38%
of churches provide support for night shelters for the homeless

21%
of churches provide support for rehabilitating ex-offenders

The Archbishop of Canterbury

Justin Welby
Archbishop of Canterbury

> The Church Commissioners' work proves that a passion for the Gospel, an ethical foundation and rigorous stewardship can successfully coincide.

This year's Annual Report bears witness to the crucial role the Church Commissioners continue to play in ensuring the long-term stability and growth of the Church.

Throughout 2017, the Church Commissioners contributed approximately 15% of the Church's annual running costs, providing ministry support, funding bishops, cathedrals and other crucial expenditures that enhanced our network of 12,500 parishes and 20,000 ordained clergy.

In addition to ongoing running costs, the Commissioners also awarded funds for Strategic Development Funding, part of the Renewal and Reform programme. The funds are allocated to projects and initiatives which accelerate ambition and growth across the dioceses. In 2017, funding was awarded for 23 projects spread over 20 dioceses, totalling £44m. Throughout this year's Annual Report there are encouraging case studies of how these projects are already making a difference to the lives of those we serve.

Effective stewardship of investments remained an absolute priority in 2017, as the Commissioners continued to focus on their publicly recognised role in ethical and responsible investment.

The successful launch of the Transition Pathway Initiative ('TPI') at the beginning of 2017 has been followed up with great enthusiasm by other asset owners and managers who have joined since its launch. The initiative is now supported by over 25 global asset owners and managers with more than £5trn/$6.5trn combined assets under management, giving participants the opportunity to assess, on a sector-by-sector basis, the preparedness of leading companies in their transition to the low-carbon economy.

The Church Commissioners continue to use engagement and their voting rights to file shareholder resolutions with some of the world's largest oil and gas suppliers to drive the change we want to see. This has happened in a range of companies, most notably Exxon, which has now committed to increased disclosures on the business implications of climate change following a shareholder resolution tabled and successfully passed by the Church Commissioners and the New York State Common Retirement Fund.

In 2017 we also welcomed the appointment of Loretta Minghella as the First Church Estates Commissioner following the stepping down of Sir Andreas Whittam Smith, following 15 years' service. Loretta Minghella is a skilled and distinguished leader with an exceptional record of service and has already brought her outstanding track record in business, investment and economic affairs to the role.

In other changes, Andrew Mackie, who has served as Third Estates Church Commissioner since January 2013, stood down from his role and was followed by the appointment of Dr Eve Poole, who will commence her duties in April 2018. I would like to thank Andrew Mackie for the outstanding contribution he has made to the Commissioners in his five-year tenure.

The Church Commissioners' work proves that a passion for the Gospel, an ethical foundation and rigorous stewardship can successfully coincide. I look forward to continuing to partner with them as we work together to support the Church of England's mission to see the Gospel of Jesus Christ lived and proclaimed in word and deed.

Justin Welby
Archbishop of Canterbury

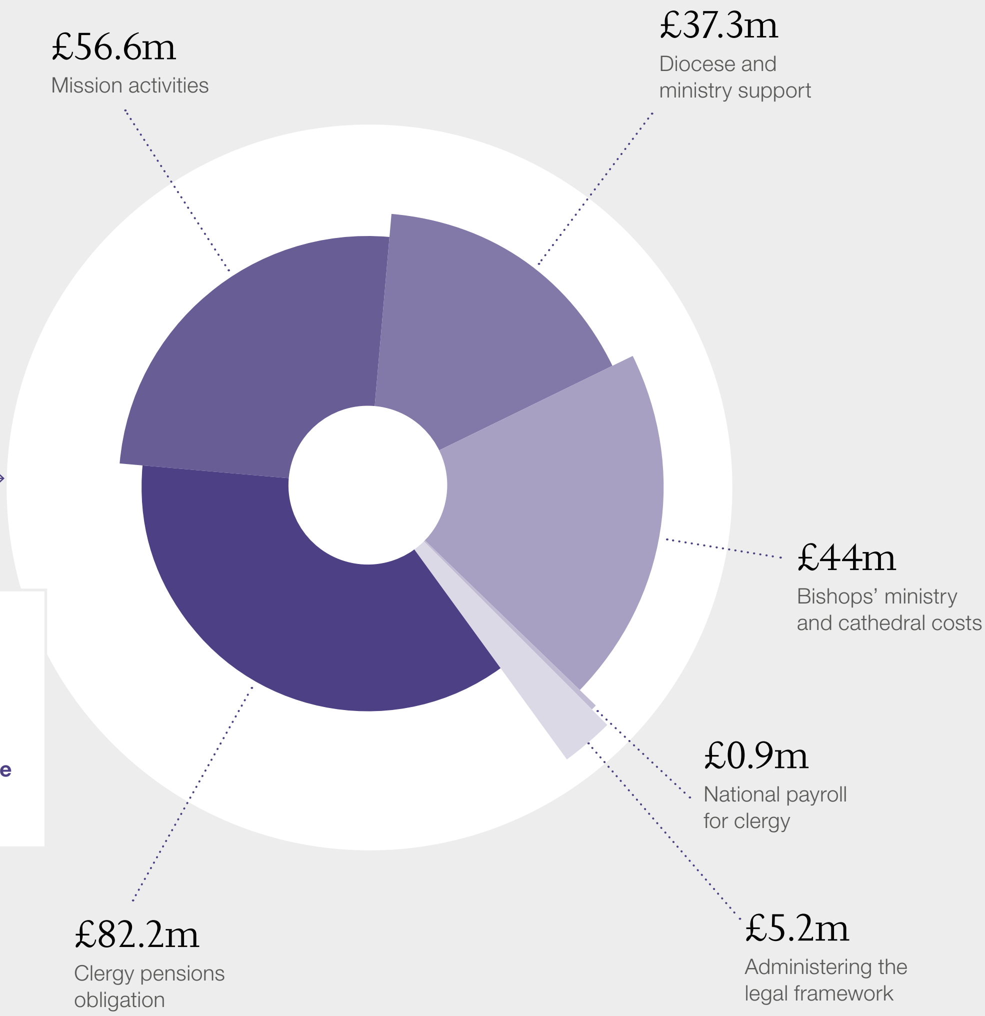
The Church Commissioners at a glance

We use the returns generated each year from our fund to support the mission and ministry of the Church of England, including grants for mission activities, bishops and cathedrals.

£8.3bn
Total investable assets

9.4% p.a.
Total return over 30 years

7.1%
Total return for 2017



£226.2m
Total support for the Church of England in 2017

One of the largest charitable givers in the UK

The First Church Estates Commissioner

Loretta Minghella
First Church Estates Commissioner

> In my short time here, I have found the Commissioners consistently aiming high – not only regarding investment performance but also responsible investment, engagement and the long-term flourishing of the Church.

Arriving in November 2017 as First Church Estates Commissioner, I found the advice of my predecessor Sir Andreas Whittam Smith instructive. He described the "minimum purpose" of the Church Commissioners as being to "maintain the real value of the fund through time…in practice, however, we aim considerably higher."

I am grateful to my fellow Church Commissioners, to Andrew Brown, Tom Joy and the whole team here for the warm and professional welcome which attended my arrival in post. In my short time here, I have found the Commissioners consistently aiming high – not only regarding investment performance but also responsible investment, engagement and the long-term flourishing of the Church. The perpetual nature of the fund – and with it the responsibility to support the Church of today and the Church of tomorrow – requires long-term thinking in all that we do.

This year's total return was 7.1%, shy of this year's target of 9.1% (RPI +5%). As we all know, 2017 was a very strong year for equity markets, but bond markets were relatively weak and for UK investors sterling strength was a headwind. Given our highly diversified, global portfolio, these features obviously had an impact on performance, as did our liquid reserve holding in cash and other highly liquid instruments, deliberately on hand to reinvest selectively when valuations recalibrate. Such an approach is not always open to many other asset owners and the Commissioners have successfully resisted short-termism in favour of readiness for longer-term opportunities.

The value of the Commissioners' investment assets at the end of December 2017 was £8.3bn compared with £7.9bn at the start of the year. After taking account of clergy pensions obligations, the balance sheet value is estimated to have increased from £6.1bn to around £6.4bn.

With a well-documented target to generate a return of inflation (RPI) +5% p.a., it is good to be able to report that we have matched or exceeded our target over 3, 5, 10, 20 and 30 years. Over the last 30 years the fund has achieved an average return of 9.4% p.a.

Such a long-term approach has allowed us to play our part in the revival and flourishing of the Church. During 2017, the Church Commissioners contributed approximately 15% of the Church's annual running costs and increased distributions to include funds for Strategic Development Funding in 23 projects across the country as well as contributing to the Church's work with people in areas of deprivation across the country. In total, the Church Commissioners contributed £226.2m to the Church of England in 2017.

Throughout 2017, our financial stewardship of investments worked hand in hand with our committed leadership in ethical and responsible investment.

The new ethical investment policy on the extractive industries was launched in November with widespread media coverage and interest from other investors and throughout the Anglican Communion, generating an ongoing and necessary discussion about the opportunities and risks associated with extraction as well as the merits of engagement versus divestment.

This debate is presently at its most acute in relation to those companies most associated with climate change.

"In the spirit of maintaining continuity while providing innovation, I am excited by the possibility of exploring more scope for impact investing where it makes good financial and business sense.

Above: Members of the congregation at the Bishop's Certificate Presentation at Southwark Cathedral in September 2017.

The Transition Pathway Initiative, the National Investing Bodies' tool for tracking corporate alignment with the transition to a low-carbon economy, ended the year with asset owner and asset manager support from institutions responsible for over $6trn of investment assets.

ExxonMobil announced in December that it would implement the shareholder proposal on climate-related reporting, for which the Commissioners acted as lead co-filers, and which was passed at the company's AGM in May. Exxon committed to making disclosures on the 'implications of two-degree Celsius scenarios' and Exxon's 'positioning for a lower-carbon future'.

And in October, the Commissioners won their first award for responsible investment in private equity, emerging joint winners of the British Private Equity & Venture Capital Association ('BVCA') 'Overall ESG Framework' award for institutions with more than £1bn under management.

Looking forward, markets are likely to be more volatile and returns more muted. We remain committed to a long-term, highly diversified, responsible and ethical approach to investment. With the flourishing of the Church firmly front of mind, I am excited by the possibility of additional scope for impact investing that makes strong financial and business sense, as well as additional opportunities in venture capital for the longer term.

The Church Commissioners will support the Church in its 2018 aims, including facilitating growth and contributing to the common good. I and my fellow Commissioners are privileged to be part of this and look forward to playing our role in 2018.

Loretta Minghella
First Church Estates Commissioner

Mission

The Church Commissioners provide funding and support for churches, dioceses and cathedrals throughout the Church of England.

Above: Archbishop of York, John Sentamu, during a visit to the Diocese of Durham.

Objectives

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

Secretary to the Church Commissioners

Andrew Brown
Secretary to the Church Commissioners

> The returns on our investments are used to help the Church further her mission across the country, proclaiming the Gospel of Jesus Christ.

It is with gratitude that I once again look back on a satisfactory year for the Church Commissioners. We exist to support the work and mission of the Church of England – that means it is important for us to be both a responsible and ethical investor. The returns from those investments are used to help the Church further her mission across the country, proclaiming the Gospel of Jesus Christ and serving local communities.

As ever, this report is not only a chance to demonstrate that, but also to showcase a few of the projects which our financial returns have been able to support. For example, the Diocese of Blackburn (page 13) is using Strategic Development Funding for its outer estates leadership programme, making sure that it has the resources and people in place to bring the good news of Jesus to the poorest communities in the diocese. Initiatives like this put what we do into context.

After very strong investment markets in 2016, last year's performance was more muted for all investors. Notwithstanding this, the Commissioners achieved a very creditable 7.1% return, driven through various asset management initiatives.

We have a duty to manage the resources entrusted to us on behalf of the Church in an ethical and responsible way, but we only do so in order to support the mission of the Church of England across the country as it proclaims the Gospel and serves communities.

This year saw the departure of our previous First Church Estates Commissioner, Sir Andreas Whittam Smith. Sir Andreas provided outstanding leadership to the Church Commissioners over his tenure. I thank him for his leadership, wise counsel and support over our time working together – it was a privilege.

Following someone like Sir Andreas in their role is no easy task, but I am delighted that in our new First Church Estates Commissioner, Loretta Minghella, we have someone who is more than able to pick up and run with the baton. Her background in financial services, coupled with her tenure as Chief Executive of Christian Aid, make her an ideal fit for the role, and I have greatly enjoyed working under her leadership over the past few months.

This year also saw the end of Andrew Mackie's time with the Commissioners. Andrew's tenure as Third Church Estates Commissioner was marked by both his character and the enormous skill he brought to the role. I greatly appreciated our time working together, and it goes without saying that he will be greatly missed.

As ever, I want to place on record my thanks to all of the Church Commissioners, our staff, and our partners within the Church of England – both at the other National Church Institutions and in dioceses across the country. Without their continued goodwill and support we could not be as effective as we have been able to be in achieving our aim of supporting the Church.

It continues to be an enormous privilege to serve as Secretary to the Church Commissioners, and I look forward to seeing the continued impact of our work in the months and years ahead.

Andrew Brown
Secretary to the Church Commissioners

Mission and ministry

The Church Commissioners exist to support the mission and ministry of the Church of England, funding projects across the country to help churches share the gospel of Jesus Christ and contribute towards the common good.

The Church Commissioners make funds available to the Archbishops' Council for mission initiatives in dioceses across England.

2017 saw the introduction of major changes to the distribution of this funding as part of the Renewal and Reform programme, designed to address some of the deep-rooted missional challenges facing the Church of England.

As part of the process, we worked with the Archbishops' Council to re-examine how funding for mission is distributed to dioceses. Half of the available funding is now distributed as Lowest Income Communities Funding, and half as Strategic Development Funding.

Dioceses with reduced funding (compared to the amount received under the previous formula) will receive transitional funding for up to ten years. They will also receive a one-off sum for restructuring to help them adjust to the new arrangements. We have agreed to make additional time-limited distributions of up to £45.7m in 2017–19 for the transitional funding.

The Strategic Investment Board has responsibility, on behalf of the Archbishops' Council, for determining the distribution of the funding and evaluating its impact, and for advising the Council on funding strategy. The Board's membership includes the First Church Estates Commissioner and two other members of the Church Commissioners' Board of Governors. A new Funding Monitoring Group (jointly established with the Archbishops' Council) will advise on the efficient distribution of the funds and the arrangements for monitoring and evaluating their use.

As part of the new funding arrangements, a system of peer review has been put in place, facilitating mutual learning and accountability between dioceses. The first cycle of peer review meetings with all dioceses has now been completed. Following a review of the programme, a second cycle will begin during 2018.

The Church Commissioners develop three-year spending plans with the Archbishops' Council. It has been agreed that funding for dioceses', bishops' and cathedrals' ministry will, as in previous triennia, move by the same percentage amount in 2017–19. The funding for each category increased by 3.21% in 2017 and will increase again by 3.21% in 2018. Funding levels for 2019 are under review.

Lowest Income Communities Funding

Lowest Income Communities Funding is designed to support and develop mission in low-income communities across England. This is given to dioceses based on a formula taking into account the number of residents in dioceses with an income below the national average.

Dioceses in receipt of the Lowest Income Communities Funding will be asked to provide information annually on how they have used the funding. This will facilitate shared learning on how to develop the Church's mission in these areas.

25 dioceses receive Lowest Income Communities Funding and have been notified of the amounts they will receive over the next three years.

Strategic Development Funding

Established in 2014, Strategic Development Funding supports major projects within dioceses that can make a significant impact on their mission to the communities they serve.

Tranches 4–6 of Strategic Development Funding were awarded in 2017 to 23 projects in 20 dioceses. The funding is awarded on the basis that the cash drawdown keeps within the limits of the monies allocated for it in the three-year spending plan period, reflecting the fact that the projects supported run for up to six years. In 2017, the grants awarded totalled £44m, which will be drawn down over several years.

Tranche 4 (awarded January 2017)

- Birmingham: £2.56m to work with younger people in proclaiming the Christian faith in Birmingham's diverse multi-cultural context.
- Bristol: £950,000 to develop three parish churches to become the resource churches for specific mission areas.
- Chelmsford: £2m to support the development of resource churches and a network of new church communities in new housing developments in four strategic mission priority areas, and a new congregation in Forest Gate.
- Chichester: £825,000 for the diocese's ongoing programme of church planting.
- Leicester: £1.03m to improve mission strength in multi-faith/multi-ethnic communities.
- Liverpool: £1m to develop a low-cost model to multiply congregations to complement conventional church planting.
- Worcester: £750,000 to recruit up to ten children and young people's mission enablers, including their training and development.

CASE STUDIES

Outer Estates Leadership Programme
Blackburn

Blackburn Diocese was awarded £1.5m of Strategic Development Funding in December 2017 to fund work in outer urban estates and parishes over six years. Made up of three projects, the programme focuses on training new leaders – both lay and ordained – with a view to providing a model for other dioceses and strengthening mission in the areas where the work is located.

In Blackpool, the award is funding 20 young adults to take part in a new ministry experience scheme over the next six years. Participants will be living on the Mereside Estate as well as in nearby deprived urban parishes in the town. The first participants in the scheme have begun their work, spending almost a year in the town working with local churches and gaining experience in different kinds of ministry.

Elsewhere in the town, the funding is being used for a lead evangelist and pioneer evangelist, based at Grange Park Church Army Centre of Mission and working with the churches of St Mark's, Layton and St Luke's, Staining. Vicar Revd Peter Lillicrap said: "This is an amazing step of faith by the Church Commissioners as we seek to take the Good News of the Gospel to a neglected part of this large parish."

The funds will also enable the Diocese to launch M:Power – a groundbreaking new way of discerning, forming and sending leaders from and for urban parishes. M:Power, for clergy and laity, is being delivered in partnership with St Mellitus College, and will be based at St James Lower Darwen, near Blackburn, where placement opportunities will also be provided for those training for ordination.

> I am delighted to hear the news of the success of our application for SDF funding. I believe passionately that if we are serious about the renewal of the Church we must commit ourselves afresh to proclaiming Good News to the poor.

Bishop Philip North

Growing the Rural Church
Exeter

Exeter Diocese has 607 church buildings, of which 88% are listed. More than half are in a rural location but with only 25% of the total population of the diocese. £1m of Strategic Development Funding over seven years was awarded to the diocese in June 2016 for their Growing the Rural Church programme. The project began at the beginning of 2017, and works with rural mission communities to develop their resources and, in particular, their church buildings, enabling them to grow in prayer, make new disciples and serve the people of Devon with joy.

At the end of 2017 there were eight live projects, including the West Dartmoor mission community. After discussions with the Growing the Rural Church team, St Mary's Walkhampton in the mission community was identified as being able to fill a gap in the local economy by offering accommodation to the many walkers and tourists visiting the area. The church is partnering with the Churches Conservation Trust as a Champing venue, a growing 'slow tourism' initiative offering guests accommodation in the peaceful setting of rural churches.

From spring 2018 St Mary's will become the first Champing site in Devon. Members of both the worshipping and local communities are delighted that the church is being used in this way, and it will provide a welcome boost to the church's income. The diocese aims to engage with around 100 rural churches during the initial seven-year project. It anticipates that the proactive approach will release existing church members to focus their time, money and energy on growing in prayer and making new disciples and also that the act of engaging and partnering with the wider community will in itself be missional.

> Walkhampton Church is not just a place where people come to worship every Sunday. There should be no divide between the sacred and the secular. We have to bring the world into our church and the church has to go out into the world.

Revd Nick Shutt
Rector, St Mary's Walkhampton

Mission and ministry continued

Tranche 5 (awarded June 2017)
- Coventry (and Ebbsfleet): £1.77m to grow and support disciples in churches, Coventry cathedral and schools, supported by locally delivered courses, a digital learning platform and resource church hubs.
- Guildford: £1.08m for new worshipping communities on housing developments; church plants into under-resourced areas; and fresh expressions of church.
- Hereford: £525,000 for intergenerational missioners in six parishes (in three market towns and three of the diocese's poorest communities) with significant growth potential, focusing particularly on children and young people.
- London: £1.88m to transform youth ministry by developing new leaders and establishing 'youth minster' churches, alongside work in schools, parish projects, an apprentice scheme and two evangelistic mission weeks run in collaboration with other youth organisations.
- St Albans: £1.75m to develop existing and new fresh expressions of church and equip and commission new lay leaders and lay and ordained pioneer ministers.
- Salisbury: £1.27m to support rural ministry and mission through developing a rural Church of England Ministry Experience Scheme; training ordinands through a new rural training pathway developed jointly with Sarum College; and a development programme for rural leaders.
- Southwell and Nottingham: £1.06m to strengthen ministry in the middle of the county amongst rural communities and in the market town of Newark, growing and nurturing new disciples, especially amongst families, children, youth and young adults, through establishing two new resource churches.
- Truro: £1.2m to establish a resource church and student ministry in Falmouth and central capacity to develop the resource church model for a Cornish context.

Tranche 6 (awarded December 2017)
- Bath and Wells: £1.61m for nine new pioneer posts to pioneer fresh expressions of church in deprived areas, new communities and work with young people. The project will also identify, train and support voluntary pioneers.
- Blackburn: £1.54m for three models of mission and training in highly deprived outer estates in Blackpool and Blackburn.
- Bristol: £1.5m to plant a city centre resourcing church based in St Nicholas, Bristol which will play a major part in the diocese's church planting strategy.
- Leeds: £3.1m to strengthen mission across the city of Leeds by establishing five resource churches from which to establish nine church plants.
- Liverpool: £1.9m to create a resource church network: one church with three locations in Warrington, Widnes and St Helens.
- London:
  a) £4.8m to establish church growth learning communities for 120 churches and to designate or plant 15 resource churches.
  b) £3.9m to train up to 15 church planting curates for national deployment after an invitation from a diocesan bishop. The diocese is partnering with Holy Trinity Brompton ('HTB') to train ten curates. Five more will be available to HTB or other London-based resource churches who are ready to enable this work.
- Sheffield: £1.84m to mainstream the diocese's Centenary Project approach to all children, youth and families work in deprived areas, deploying workers to build teams of local volunteers to support ministry and work in local schools and across parish boundaries as they develop new expressions of ministry for young people and children. The project will develop youth hubs in Doncaster and Rotherham, an interns programme, and the SHINE programme of schools-based evangelistic events.
- Winchester: £4.23m to support mission in three rural areas; resource churches in Southampton and North Hampshire; mission in new housing developments; and student evangelism.

Strategic Capacity Funding
£2m of Strategic Development Funding has been earmarked in 2017–19 as Strategic Capacity Funding to help dioceses address constraints in their capacity to develop and implement their strategies. In 2017, £1.5m of Strategic Capacity Funding was awarded by the Archbishops' Council to 13 dioceses. This is being used in particular to strengthen their programme management.

Strategic Development Funding for non-diocesan projects
£6m of Strategic Development Funding has been set aside in 2017–19 for non-diocesan projects which support the overall strengthening of the Church's mission and growth:
- £3m for infrastructure development in the National Church Institutions ('NCIs') to make strategic interventions to advance the Church's mission and growth; and
- £3m for major (£0.5m–£1m) grants for projects to strengthen mission on themes where new approaches might be developed which would not easily stem from a diocesan or multi-diocesan application.

Funding for infrastructure development in the NCIs has been approved for five projects:
- £35,000 for a project to improve the data relating to clergy and the way that information is provided to the NCIs.
- £400,000 towards the cost of a project to develop a high-quality recruitment support service for dioceses and the NCIs;
- £1.26m towards the cost of a three-year project to invest in the Renewal and Reform programme and in the follow-up to the Setting God's People Free report on whole-life discipleship.

– £40,000 to the National Society to support the development of applications for Free Schools.
– £60,000 pump-priming funding for the Estates Evangelism Task Group.

The £3m for projects to strengthen mission will provide funding towards ideas supporting the Council's objective, to be 'A Church for All People', and specifically work targeted at the national priority areas:
– Evangelism and discipleship in relation to Black, Asian and Minority Ethnic ('BAME') communities
– Working class people (of all ethnicities)
– Work on disability

From the £3m available, the Strategic Investment Board has allocated £200,000 for capacity funding to enable potential partners to develop their ability to sponsor or deliver a proposal.

Church Growth Research Programme
In 2017, our funding supported a research project commissioned by the Archbishops' Council and carried out by the Church Army into examples of mission with young adults. The Church Army published their findings in January 2018, which are available to download from their website.

The Church Army are continuing their research into the development of Messy Churches over time and this should be concluded at the end of 2018.

The Centre of Theology and Community has been commissioned to undertake research into ways of encouraging, nurturing and supporting new BAME young leaders. This is due to be completed in summer 2018.

Payroll
The Church Commissioners administer the national clergy payroll for the Church of England, ensuring accurate and timely stipend payments to serving clergy. The web-based MyView tool for clergy enables users to access pay documents, change bank details, view their personal details and submit forms online.

Clergy pensions
The Church Commissioners meet the cost of clergy pensions earned in service until the end of 1997, ensuring that those who have served the Church can be secure in their retirement.

In 2017, the Commissioners' cash expenditure on clergy pensions was £121.2m (2016: £121.8m). At the end of 2017 the Commissioners were funding – in full or in part – the pensions of 9,714 retired clergy and 3,625 surviving spouses. Pensions in payment increase every year in line with the retail price index.

CASE STUDY

Acceler8
Coventry

The Acceler8 Project is encouraging all churches to think about their health, their strategy for growth, and their mission and ministry to young adults.

Launched in 2015, the Acceler8 Project seeks to expand Coventry Diocese's long-term strategy to develop healthier churches and to grow ministry into the critical 20s and 30s age group, which forms a significant but under-represented part of the diocese's demographic. Just over £600,000 of Strategic Development Funding was awarded to the diocese in June 2015, contributing around a third of the £1.6m total cost.

The project employs two Healthy Churches mentors, who encourage churches to use 'Natural Church Development' principles to improve the health of their church, as well as 20s-30s Development Leaders based in churches to help young people grow in their faith.

Since Acceler8 began there has been an increase in energy among young people across the diocese, with around 130 people in their 20s and 30s coming to faith. The 20s-30s Development Leaders have also organised a number residential weekends for young adults, started 13 weekly 20s-30s small groups and organised over 60 one-off events for young adults at their churches. The diocese has seen young adults becoming more involved in the life of their churches, with 46 20s-30s now in positions of leadership in their church that previously were not involved in leadership. 54% of diocesan staff are under the age of 40 and the project has attracted significant support from senior staff.

Bishops and cathedrals

Bishops and cathedrals are focal points for their dioceses and communities. The Church Commissioners contribute towards their vital work.

The Church Commissioners meet the stipends, office and working costs of the archbishops and bishops to support their ministry. Bishops are able to spend their funding according to local needs, including decisions on the level of funding to their area and suffragan bishops.

Since 2011 bishops have been able to retain unused funds at the end of each year to assist in better planning of their budgets and expenditure. However, since that time, significant levels of unallocated funding had built up in bishops' working cost accounts, in part due to interregna and vacancies in staffing in bishops' offices. In 2017, in consultation with regional representatives of the House of Bishops, the Commissioners achieved the return of £4.26m, which can be used to support other expenditure.

Lambeth Palace
Lambeth Palace is owned and maintained by the Church Commissioners. It is a focal point of the worldwide Anglican Communion and the home and office of the Archbishop of Canterbury. Like the Houses of Parliament, the Palace needs significant repair, including the provision of new services (water, gas, electricity and heating) which were last comprehensively refurbished in the late 1940s. The planning of these works is now well underway; a Project Board established during 2017 will provide oversight and explore the options for the future use of the Palace, particularly in the light of the construction of the Lambeth Palace Library's new building and its vacating of floorspace within the Palace.

Lambeth Palace Library
The Church Commissioners are responsible for the funding and maintenance of Lambeth Palace Library; the historic library and record office of the Archbishops of Canterbury and an invaluable resource for the Church and the nation.

The plans for a new library building to protect, preserve and make more accessible the nationally and internationally important collections made significant progress in 2017, with planning permission granted in April. Work continued throughout the year to prepare the site for construction.

The library continued to provide direct support to the work and mission of the Archbishop as well as hosting lectures and exhibitions marking significant events, such as the Luther anniversary. The library continued to welcome students, readers and the wider public, including participation in the Lambeth Heritage Festival and the London-wide City Read events. More information about the library is available at www.lambethpalacelibrary.org.

Bishops' housing
The Commissioners have a statutory duty to support diocesan bishops with housing and to provide suitable accommodation which facilitates the bishops' work and mission. In 2017 three houses became vacant with the retirement of the Bishops of Bristol and London and with the Bishop of Truro moving to become the Bishop at Lambeth. The opportunity is being taken to repair and refresh the décor of the Bristol and Truro properties. The Board has also identified funding for the structural repair and refurbishment of the Old Deanery, the home of the Bishop of London.

Cathedrals
Cathedrals are focal points not only for the Church but for the communities they serve and open their doors to millions of visitors each year.

We support the ministry of cathedrals through two funding streams. In 2017 £5.6m of funding provided under section 21 of the Cathedrals Measure supported the stipends and pension costs of the dean and two residentiary canons at all cathedrals except Oxford and the Isle of Man. Any part of the grant unused as a result of a vacancy can, at our discretion, be used to support the employment costs of other cathedral staff.

A further £3.6m in grant funding was provided under section 23 of the Measure to fund staff costs at cathedrals with the lowest unrestricted income. This funding frees up cathedral resources and helps facilitate their mission and ministry to their local communities.

In February 2017, the Board of Governors approved the establishment of the Cathedrals Sustainability Fund. This enables the Commissioners to give discretionary section 23 grants to cathedrals to provide seed funding for projects aiming to help them become more financially sustainable. £2.9m was allocated to the fund in 2017, and the first application to the fund, from Coventry Cathedral, was approved in April 2017.

During the year the Commissioners contributed to the work of the Cathedrals Working Group set up by the Archbishops to explore the adequacy of the current Cathedrals Measure and its possible revision. Chaired by Rt Revd Adrian Newman, the Bishop of Stepney, the group published its draft recommendations for consultation in early 2018.

Parish reorganisation and church buildings

The Church Commissioners play a role in the reorganisation of parishes and in finding alternative uses for closed church buildings.

Pastoral reorganisation
The Commissioners have a legal and advisory role in the reorganisation of parishes and benefices, serving dioceses by providing accountability and oversight as well as bringing in expertise from across the Church of England.

Following local consultation and approval by the diocesan bishop, proposals for reorganisation are sent to the Commissioners for validation. They are then published as a draft scheme or order for consultation, with an opportunity to make objections to the Commissioners, which may be considered at a public hearing. 191 schemes and orders were made during 2017. Reorganisation sometimes includes the closure of church buildings – during 2017 we made schemes providing for the closure of 26 church buildings in use for regular public worship. At least 38 new churches and places of worship were opened for worship during the year.

The Mission and Pastoral Committee considered objections in 12 cases during 2017, including one carried forward from the previous year for further consideration. This case had been subject to a public hearing during 2016. Public hearings, one in the locality, were held for two of those first considered in 2017, the other nine being considered on the papers only following assessment by a Sifting Group, although in one case members of the Committee made a fact-finding visit to the parish to help inform the Committee's decision. Ten schemes were allowed to proceed and two were not.

Other objections were resolved without the need for a decision by the Commissioners, either by the objection being withdrawn after further consultation or the scheme being withdrawn or amended. Objectors are entitled to seek permission to appeal to the Judicial Committee of the Privy Council against any aspect of a decision by the Commissioners to allow a scheme to proceed. There were two such applications in 2017: in one case leave to appeal was refused and the other had not been determined by the end of the year.

The Commissioners had put forward proposals to simplify and speed up the system of pastoral reorganisation, which were taken forward into legislation in 2017 and are expected to come into effect in 2018. Preparatory work and guidance on the changes progressed during the year, including the establishment of a working group drawn from across the Church on deanery planning.

Clergy housing and glebe land
The Commissioners – through the Mission and Pastoral Committee – also have a role in sales and other transactions relating to clergy housing and glebe land. Objections to transactions are handled in the same way as for parish reorganisation cases. One objection to a sale of part of the grounds of a parsonage where the Committee had deferred its decision in 2016, until it received further information from the diocese, was reconsidered in 2017 and the sale was allowed to proceed. Objections were also received to two sales of glebe, both of which were allowed to proceed. All these decisions were made on the basis of the papers only, following sifting.

We also approved a small number of other matters affecting parsonages and glebe where the Commissioners' approval is required.

Church buildings closed for regular public worship
The Commissioners settle the future of closed church buildings. Our regionally based specialist casework team works closely with dioceses to secure suitable alternative uses. In the minority of cases where no such use is found, we normally have to decide, following advice, between preservation by the Churches Conservation Trust or demolition. Objections to demolition proposals may, in certain circumstances, result in a non-statutory public inquiry; we still await a date for the first such inquiry in over 20 years.

Much of our work takes place before or after the statutory scheme-making process, but in 2017 we made 30 schemes settling the future of closed church buildings or their sites; 25 provided for alternative use, three for preservation by the Churches Conservation Trust and two for demolition or site disposal.

The chart on page 18 shows how the future of 1,956 closed church buildings or their sites have been settled since 1969.

The Church Buildings (Uses and Disposals) Committee considered objections in seven cases, deciding in each that the scheme should go ahead notwithstanding the representations. One was considered at a public hearing and the others on the papers only following the simplification of our procedures for handling such cases.

In June, the Committee visited several church buildings in Chichester Diocese. These included some successful conversions to alternative use, but also other large urban buildings facing uncertain futures. Our visit explored the role of church plants in offering potential solutions in some cases, with Brighton St Peter providing a highly successful example. We learned at first hand of the rewards and challenges in growing a Christian presence in such a strategic

Parish reorganisation and church buildings continued

location while dealing with major repairs and the lack of on-site physical facilities for social outreach and mission.

Such visits inform our work on closed church buildings and provide insights into the context in which parishes care for and use their buildings for mission.

Contribution to the Church's mission
A slight increase on 2016 saw £1.54m raised in net proceeds from the disposal of closed church buildings and sites and apportioned to support the 'living church' and contribute towards the Church's share of funding the Churches Conservation Trust. In the past ten years we have transferred £18.6m from proceeds to diocesan pastoral accounts to support ongoing mission.

Churches Conservation Trust
With the Government we co-sponsor the Churches Conservation Trust, which preserves, in the interests of the nation and the Church of England, around 350 outstanding closed church buildings for which no suitable alternative use has been found. In July, General Synod approved the Payments to the Churches Conservation Trust Order 2017 authorising the Church's funding for the Trust for the triennium starting on 1 April 2018.

During the year, three buildings were transferred to the Trust. In a difficult funding climate we work together closely to identify any opportunities to lease or divest buildings currently in its care and to maintain our continuing ability to vest suitable buildings where appropriate.

	1969–2007	2008–2012	2013–2017
Alternative use			
Adjuncts to adjoining estates	6	0	0
Arts, crafts, music or drama	28	5	0
Civic, cultural or community	119	16	19
Educational	32	1	6
Light industrial	6	0	2
Monument	131	11	12
Museums	16	0	0
Office or shopping	46	9	4
Other	5	0	0
Parochial or ecclesiastical	61	13	6
Private and school chapel	23	1	2
Residential	256	29	30
Sports	11	2	1
Storage	17	0	2
Worship by other Christian bodies	130	29	17
Alternative use sub-total	**887**	**116**	**101**
Demolition and site disposal			
Additions to churchyards	48	3	4
Housing associations	80	3	1
Local authorities	68	2	0
New places of worship	63	1	4
Not yet decided	4	4	1
Other community purposes	29	2	0
Other purchasers	161	9	4
Demolition and site disposal sub-total	**453**	**24**	**14**
Preservation			
Churches Conservation Trust	336	6	10
Diocesan Board of Finance	5	0	0
Secretary of State	4	0	0
Preservation sub-total	345	6	10
Grand total	**1,685**	**146**	**125**

CASE STUDIES

Growing the volunteer team to serve the city
Sheffield Cathedral

Sheffield Cathedral completed its Gateway Project in 2014. The project was hugely ambitious, renewing the interior of the building for worship and mission, expanding the cathedral's learning activities programme for children, young people and adults, and a vigorous community engagement programme.

Since the completion of the project, the cathedral has worked towards growing its volunteer team, ensuring it can serve the city in line with its aims as effectively as possible. Volunteers can be involved in activities across the life of the cathedral, including as a heritage guide, a welcomer, in fabric and fixtures conservation, in the archive or in the office.

Prior to the Gateway Project, the cathedral had 16 volunteers. This has now grown to 150, with almost two-thirds of those active weekly. Jonny Shipton (pictured above), a student at Sheffield University, volunteers in the gift shop for four hours a week. He says: "Overall the cathedral is a great space to work in. It has become a real highlight of my week and is something that has been a real pleasure but also very formative for me. I'd highly recommend getting involved here to people of all ages".

Finding alternative uses for closed church buildings
Trinity Medical Centre, Hove

Holy Trinity Church in Blatchington Road, Hove had been standing empty since 2007 following a review by the Diocese of Chichester. The nearby Holy Cross Church offered a similar tradition of worship, and the site was not found to be suitable for church planting.

The Church Commissioners have a legal responsibility for helping dioceses to settle the future of closed church buildings, and worked with the Diocese of Chichester to find a suitable alternative use for this Grade II building, which dated from the mid-19th century.

Having worked through the process for finding alternative uses for closed church buildings, Holy Trinity was sold in February 2016, and was developed by Medical Centres GB in conjunction with Deacon + Richardson Architects. Having been sensitively redeveloped, it has now re-opened as Trinity Medical Centre, a state-of-the-art primary care facility with 17,000 registered patients.

Having stood empty for a number of years, the building is now once again at the centre of its local community.

Investment

The Church Commissioners manage an investment fund of £8.3bn in an ethical and responsible way, returning 7.1% in 2017.

Above: Coniston Court Gardens on the Hyde Park Estate, redesigned and reopened in May 2017 and dedicated to former First Church Estates Commissioner Sir Andreas Whittam Smith.

Objectives

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

Fund strategy and performance

The Church Commissioners manage a diversified portfolio spread across a broad range of asset classes, consistent with our ethical guidelines.

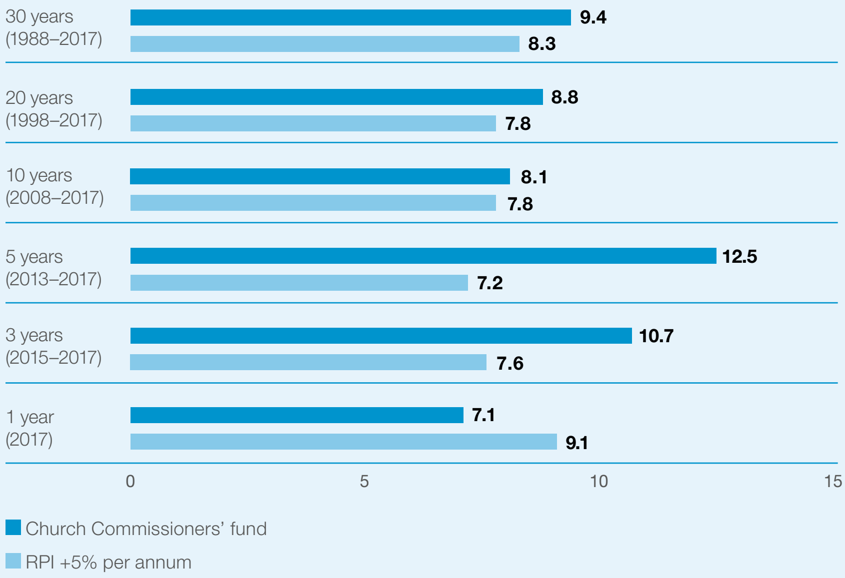
Fund strategy

Our investment objective is to generate a return of inflation (RPI) +5% p.a., on average, over the long term to support the work and mission of the Church of England today and for future generations. We have managed to match or exceed this objective over 3, 5, 10, 20 and 30 years. Over the last 30 years, the fund has achieved an average return of 9.4% every year: 6% ahead of RPI inflation.

Meeting or exceeding our performance objective allows us to meet our pension obligations and to grow, in real terms, our support for the Church, balancing the needs of both current and future beneficiaries. In 2017 our charitable distributions were £226.2m.

The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes consistent with our ethical guidelines and our Responsible Investment ('RI') Framework, discussed in more detail on pages 26–29. The asset returns chart (overleaf) shows our asset weightings at the end of 2017 and how these have changed in recent years.

Total returns per annum
(against the Church Commissioners' target return of RPI +5% per annum)



Fund performance

The Commissioners' fund returned 7.1% during 2017. Our longer-term performance, which is significantly more important in terms of determining our distributions, also remains strong. Our 3, 5, 10, 20 and 30 year numbers are all ahead of our inflation +5% p.a. target.

In 2017, eight years of aggressive monetary stimulation finally produced widespread synchronised global growth, transitioning the focus of central banks from easing toward tightening. However, inflation was contained and came in roughly in line with weak expectations, so pressures on central banks to tighten were fairly minimal, especially given the asymmetric risks of over-tightening. This environment supported all assets, but was particularly beneficial for equity markets.

Other risk assets, like property, performed acceptably but were more muted compared to equities. Unsurprisingly given the growth out-turn, relative to expectations, fixed income markets were more challenged; yield curves flattened as shorter maturity bond yields rose whereas longer maturities, 10 years plus, stayed relatively stable. Given the extremely low level of yields generally, this translated into lacklustre returns for most fixed income assets.

Another important dynamic in 2017 was the recovery in sterling, mainly against the US dollar, following the collapse in 2016. This was a headwind for all our US dollar-based strategies and had a material impact on our overall return in the multi-asset strategies, private equity and private credit.

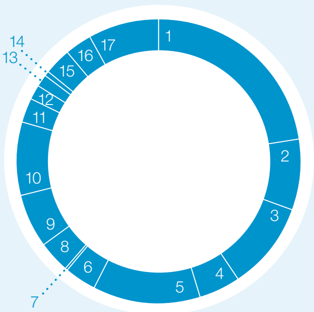
Unlike 2016 where performance was strong across the board, in 2017 most of

Fund strategy and performance continued

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

Total returns % p.a.	1 year 2017	3 years 2015–2017	5 years 2013–2017	10 years 2008–2017	20 years 1998–2017	30 years 1988–2017
Commissioners' total assets	7.1	10.7	12.5	8.1	8.8	9.4
Retail price index +5%	9.1	7.6	7.2	7.8	7.8	8.3
CC return v RPI	3.0	8.1	10.3	5.3	6.0	6.1
Commissioners' main asset classes						
Global equities	18.6	17.7	17.2	10.3	9.2	10.4
UK equities	15.1	11.3	12.3	7.3	6.9	9.8
Private equity	7.2	20.6	15.4	12.5	n/a	n/a
Commercial property	10.5	10.6	18.5	9.5	11.2	10.7
Residential property	6.1	13.1	15.3	12.2	16.3	15.2
Rural let land	4.9	7.8	10.2	11.6	14.0	13.8
Strategic land	8.8	14.0	16.2	9.7	16.8	n/a
Indirect property	2.1	10.0	10.8	4.3	9.8	n/a
Timberland	(7.4)	8.4	11.6	n/a	n/a	n/a
Value linked loans	3.5	12.5	17.1	9.0	10.6	8.4

Commissioners' asset allocation (as at 31 December 2017)



1	Global equities	**22.7%**
2	Defensive equities	**8.0%**
3	UK equities	**10.1%**
4	Private equity	**4.7%**
5	Multi-asset absolute return	**12.3%**
6	Timberland	**3.6%**
7	Infrastructure	**0.3%**
8	Commercial property	**3.5%**
9	Residential property	**6.1%**
10	Rural let land	**8.5%**
11	Strategic land	**2.6%**
12	Indirect property	**1.8%**
13	Value linked loans	**1.3%**
14	Emerging market debt	**0.6%**
15	High-yield bonds	**3.1%**
16	Private credit strategies	**2.9%**
17	Cash and cash-like assets	**8.0%**

the fund's return was driven by our public equities. This was boosted by the strong outperformance of our managers relative to the market. Another notable positive was the successful active management by the in-house property team, in challenging markets, which also added to our overall performance.

We also achieved our highest ever ratings from the UN-backed Principles for Responsible Investment, including A+ ratings for Manager Selection, Appointment and Monitoring for all asset classes. We also remained at the very forefront of investor action on climate change, launching the Transition Pathway Initiative to track corporate alignment with the low carbon transition, and seeing the climate change resolution we co-filed for the Exxon AGM pass with 62% support in a landmark shareholder vote.

Distribution strategy

In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries. This process is described more fully on page 43.

Following the actuaries' most recent full review of the fund as at the end of 2015, we informed beneficiaries of our plan to make ongoing non-pensions distributions totalling up to £318.1m during the 2017–2019 triennium, together with time-limited distributions of up to £97.7m – mainly to fund additional transitional grants to dioceses and projects on Lambeth Palace and Lambeth Palace Library. An update of the valuation work as at the end of 2017 concluded that, in aggregate, the 2017–2019 plans continued to be affordable.

Equities

Public equities

In 2017 the Commissioners' equity portfolio generated strong returns of 15.9%, outperforming the market, which returned 13.2%. Outperformance versus the market is also strong over longer time periods.

Our active UK smaller companies manager and our global managers performed particularly strongly and outperformed across the board. Our emerging markets portfolio, which delivered strong absolute returns, also contributed usefully to returns in the equities portfolio.

The defensive equity portfolio, which comprises low-volatility equity managers who are expected to generate good relative performance in down markets and to capture enough upside in periods of positive equity market performance to provide attractive returns in the long run, returned 10% in 2017.

Private equity and venture capital

The private equity portfolio, which invests in unlisted companies, achieved a total return of 7% in 2017. We agreed further commitments to the portfolio totalling £129m during the year. Over the long term, our private equity portfolio has significantly outperformed quoted equity markets and we are looking to increase our allocation, if we can find managers we like to partner with.

Around 23% of the private equity allocation is to venture capital. In 2017 we made the decision to target more direct relationships, focusing on a select group of the strongest performing managers in the industry. We made our first commitment to one of the target managers in December 2017 and expect to do more in the course of 2018 and beyond.

Multi-asset

The multi-asset portfolio represents around 12.3% of the total portfolio. It is designed to generate attractive positive returns independent of the external environment but we would normally expect it to lag equities in periods of strong growth.

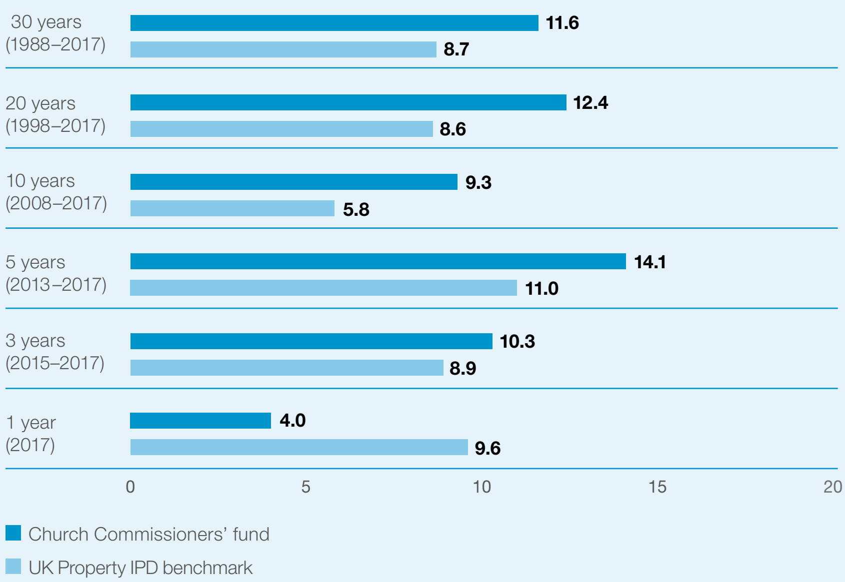
These strategies generated a total return of 1.2% in 2017. The underlying managers performed satisfactorily in local currency terms but the strength of sterling, particularly against the US dollar, reduced the return in sterling terms.

Fixed income

Our fixed interest portfolio is intended to generate interest income to help meet the cash needs of the Commissioners as well as to generate relatively stable capital gains. The portfolio, which includes investments in global high-yield bonds, emerging market debt and structured credit, returned 4.8% in 2017 as credit markets rallied due to continued economic growth and improvements in corporate earnings, though returns were negatively impacted by the strength of the pound sterling.

Our private credit portfolio allocates capital to interesting opportunities to further diversify and improve the return profile of the fund. We made one new commitment to a music royalties fund during the year. In aggregate, these strategies generated a combined return of -1.6% in 2017. The performance in local currency terms was positive but was negatively affected by the strength of the pound sterling.

Church Commissioners' combined real asset returns (against UK Property IPD benchmark)



Real asset performance

The Church Commissioners' real asset portfolio consists of property, timberland and infrastructure investments, enabling us to take a long-term approach in line with our charitable objectives.

On the back of strong performance in previous years, financial returns from the real assets portfolio were much more muted in 2017, delivering 4.0%. Active management were our keywords and we continued to work actively across all of our real assets, many of which offer opportunities to create further value.

Our approach continues to be one of looking to the longer term, and encouraging careful stewardship of the Commissioners' well-diversified and high-quality holdings. Commercial property markets continued to perform strongly, generating double-digit returns, but other markets, including London residential property and English farmland, were flatter. The strengthening of sterling against the dollar acted as a headwind for many of our overseas holdings.

We continued to use the strong market to make selective sales to take profits and manage our overall real asset allocation. In total, the real asset portfolios generated over £191.7m in capital receipts during 2017, taking the total sales in the past five years to £1.3bn.

We believe that prospects going forward are more muted than the recent past and we therefore retained our cautious approach, focusing efforts to create long-term value. In the absence of a market correction in the near term, we will likely find ourselves in a low-returning environment for some years to come. This may present a challenge over the next few years. Our portfolios remain defensively positioned to cope with any significant fall in values, and we expect lower returns for the next few years compared with those we have seen since the financial crisis. This will mean that returns are generated principally by income and active asset management.

Rural

Our largest single allocation is our UK land holdings, and we continued to add value by improving income across the estates and actively managing the holdings. Our strategy is to work closely with our farmer tenants to improve farm incomes. This enables the Commissioners to share in their success with farms that are well established and positioned to grow in the future. In 2017, we generated sales of around £11.6m, at a premium to opening year valuations.

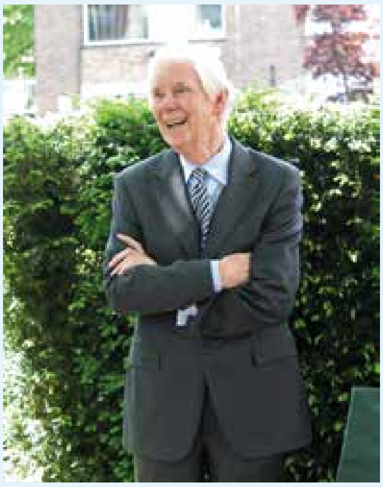
We continued to monitor and review rural land markets in light of market uncertainties, and the effects of the Brexit referendum. We developed a 4MW solar farm in Wales and entered into four mineral leases for new areas of workings.

Strategic land

The strategic land team had a busy year, making good progress with mainly residential schemes across the country. A planning consent for 500 homes was issued in Ryhope and planning applications were made for distribution centres at Peterborough (1.6m sq. ft.) and Exeter Gateway (1.2m sq. ft.), and for 300 new homes at Falmouth.

CASE STUDY

Coniston Court Garden
Hyde Park Estate



Coniston Court Garden is at the heart of the Hyde Park Estate, providing both a visually arresting design and an interesting and captivating garden experience for residents, who can stroll through and immerse themselves within the garden's rich mix of planting styles.

The garden plays a key part in the Church Commissioners' environmental and ecological strategy on the Hyde Park Estate. The original site consisted simply of a central lawn area surrounded by a circular tarmac road, and was rarely used by residents. The new design seeks to create both a contemporary stroll garden for residents and to provide a visually stimulating garden vista when viewed from above.

The garden was designed by Tony Heywood and Alison Condie. Tony and Alison are horticultural installation artists and exhibit internationally. They were recently made Fellows of the Royal British Society of Sculptors.

The garden is dedicated to Sir Andreas Whittam Smith (pictured above) in recognition of his 15 years' service as the First Church Estates Commissioner.

> The Hyde Park Estate is one of the jewels in the crown of the Church Commissioners' real asset portfolio. We are committed to maintaining and enhancing its rich and varied heritage, ensuring it remains a great place to live and visit.

Mark McKeown and Laura Whyte
Managers, Hyde Park Estate

We also successfully marketed consented land at Ely North Phase 1 (200 homes), Lincoln (500 homes), Sherburn (120 homes), Coxhoe (50 units) and Wetheral (50 units). In addition to providing much-needed new homes, including affordable houses, these sales will generate in excess of £20m to help fund the work and mission of the Church across the country.

70% of the sites in our strategic land portfolio are now allocated for higher-value, mainly residential, uses – many with planning permission granted or at an advanced stage. Work is also in hand preparing further planning applications to be submitted in 2018.

Our strategic land portfolio generated sales receipts of £16.3m for the year.

Residential

Following the devastating fire at Grenfell Tower in June 2017, we quickly undertook a full review of all fire safety arrangements on the Hyde Park Estate, including an independent audit which provided reassurance regarding our practices. Further work continues and we are investigating further fire suppression initiatives across the Estate.

We maintained a high level of active management, in the face of a broader market slowdown caused by stamp duty changes and uncertainty around Brexit. We generated £17.4m of capital receipts through new leases, lease extensions and sales.

We reinvested £9.4m improving the Estate and refurbishing properties. We continued to make improvements to the public realm, including reinstalling 17 cast iron balconies on Connaught Street, and creating a new residents' garden in the heart of the Village, dedicated to Sir Andreas Whittam Smith, who completed his service as First Church Estates Commissioner in June.

At Connaught Village we completed five new lettings to unique and independent traders.

Commercial

Our focus throughout the year remained on active management across the commercial property portfolio and we negotiated a number of lease variations, lease renewals and planning representations. We also remained open to selected sales, including the disposal of a multi-let industrial estate in West Drayton for £19.3m, at a yield of 3.9%. We also completed two new lettings and one rent review.

Indirect property

Our focus in 2017, on achieving key sales and a return of capital, continued. The indirect property portfolio generated £87.6m, the largest of which was from a co-investment in an office in Burbank, California which generated £19.2m, a realised annualised return of 26% and a net multiple of 2.2. We also invested in Greenway Plaza, Houston, a large office complex that we expect to provide strong returns during the coming years.

Timberland and forestry

The Commissioners' forestry estate covers 91,992 acres in the UK, the United States and Australia. All of our UK and US forests are operated to the highest standards and all wood produced is fully certified as sustainable.

Log prices strengthened during 2017 in the UK and contributed to robust performance from our UK forestry holdings, most of which are in South Scotland. We continued to explore renewable energy opportunities, and during 2017 planning permission was granted for a 126MW wind farm in Scotland.

In the US, we sold our Idaho timberland property, generating £25.7m, following strong pricing in recent years. We also devoted considerable time and resource to managing our Sandalwood investment in Australia, which we expect to generate high returns in future years.

Infrastructure

Our infrastructure allocation covers two investments: an energy credit strategy focused on developed markets, and a wastewater investment targeting anaerobic digestion, water efficiency and renewable biogas investment in the US. We expect the wastewater investment to meet our required returns, and to help reduce harmful greenhouse gases by producing green biogas from sustainable sources, and to recycle water, minimising usage and waste.

Responsible investment

Taking account of environmental, social and governance issues is an intrinsic part of being a good investor. Our ambition is to be at the forefront of responsible investment.

The Church Commissioners' approach to responsible investment is shaped by the ethical policies we have adopted on the recommendation of the Church of England Ethical Investment Advisory Group ('EIAG') and by our commitment to the UN-backed Principles for Responsible Investment ('PRI').

Our approach involves incorporation of environmental, social and governance issues; action on climate change risks and opportunities; impact investments; ethical investment exclusions; and engagement and voting.

The Commissioners were rated A+ for Responsible Investment ('RI') Strategy & Governance by PRI in our annual assessment and gained A+ ratings for Manager Selection, Appointment and Monitoring for all asset classes.

We won our first award for RI in private equity in 2017, emerging joint winners of the British Private Equity & Venture Capital Association ('BVCA') 'Overall ESG Framework' award for institutions with more than £1bn under management.

Finally, we received the highest, AAA, rating for our management of climate risk by the Asset Owners Disclosure Project, who placed us 12th out of 500 asset owners from across the world.

Environmental, social and governance issues
As PRI signatories, the Commissioners are committed to incorporating environmental, social and governance ('ESG') issues into our approach to investment. Our RI Framework sets out how we do this, and in particular the way in which we select, appoint and monitor external asset managers.

We use a rating system to assess the RI practice of managers and determine whether they meet our minimum standards, are good RI practitioners, or outstanding. All managers must meet our minimum standards. Discussion of RI practice, and advocacy of good and outstanding practice, are an integral part of our monitoring of, and engagement with, our managers.

As part of our monitoring we review the ESG characteristics of as much as possible of our listed equities portfolio, using third party data from MSCI ESG Research and make a comparison against our blended UK/global listed equities benchmark.

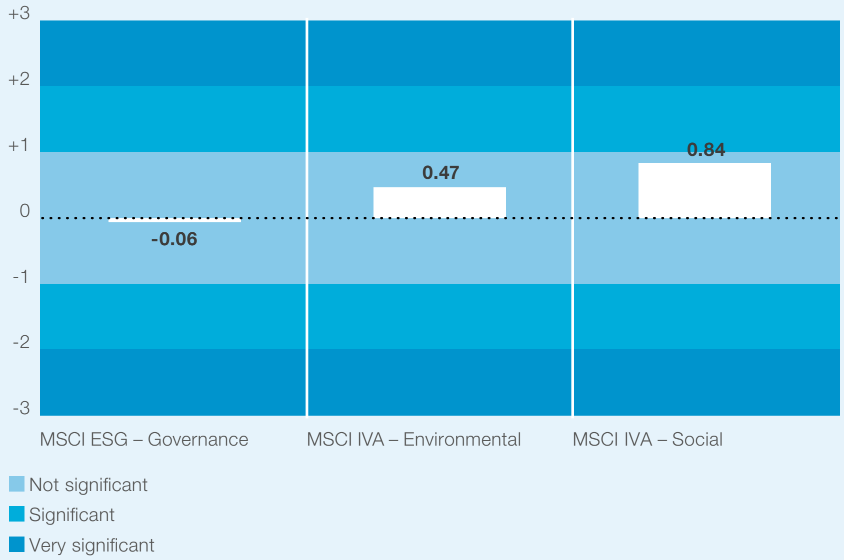
This data indicated that at the end of 2017 our listed equity portfolio was tilted towards companies with better environmental and social characteristics, but not significantly.

Climate change
We regard climate change as a particularly important issue for responsible investors. The Church Commissioners support the Paris Agreement and the goal of the international community to restrict the global average temperature rise to well below two degrees Celsius.

These disclosures on climate change are guided by the recommendations for asset owners of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures.

Climate change governance
The Commissioners' response to climate change is overseen by the Assets Committee. Climate change-related issues featured in Assets Committee papers or discussions in five out of six meetings in 2017. These issues included the Transition Pathway Initiative, the shareholder proposal at Exxon co-filed by the Commissioners, other climate change-related engagement, climate change-related proxy voting, UK emissions disclosure regulation, and our asset managers' approaches to climate change captured in our RI assessments.

Church Commissioners' Portfolio Style Skyline™ Report



Climate change-related risks are incorporated into the Commissioners' risk register, which is reviewed for, and at, every Assets Committee meeting.

Climate change strategy

The principal risk for the Commissioners is that our asset allocation, our asset managers or individual investment assets will be poorly positioned for the investment risks and opportunities associated with the transition to a low-carbon economy. For our property, rural and forest assets, we carefully take into account the physical risks associated with climate change, such as flooding and fire.

There are significant uncertainties around the direction of public policy, developments in technology and its uptake, and the nature and severity of the physical impacts of climate change. The most significant challenge for investment decision-making is that global public policy is not aligned with the target of the Paris Agreement to restrict the global average temperature rise to well below two degrees Celsius.

Although it is intended that governments will ratchet up their commitments to emissions reduction – their 'Nationally Determined Contributions' – it is not clear that governments will do this, or will do so in time. Governments may also not live up to, or may renege upon, the commitments they have made.

The biggest risk to the Commissioners in the long term – beyond 2050 – is that the global average temperature rise is not restricted below two degrees Celsius, causing economic, environmental and social damage that it will not be possible to avoid via asset allocation or investment selection.

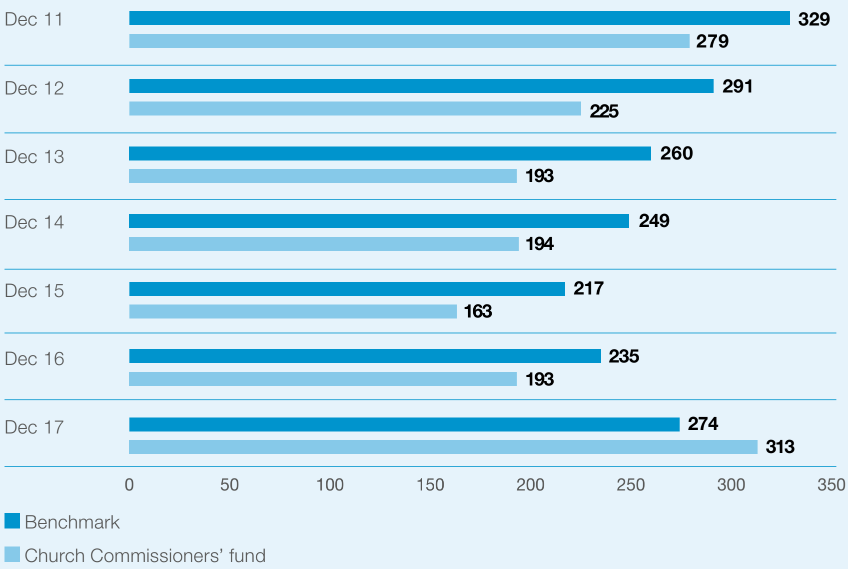
In order to enhance our understanding of our exposure to climate risk, we commissioned investment consultants Mercer to conduct climate scenario analysis on our portfolio in 2015. This assessed our portfolio against a range of climate change scenarios, which modelled the investment impacts of a global average temperature rise of two, three and four degrees Celsius by 2100.

The assessment found that the Commissioners' strategy of portfolio diversification was supportive of resilience in all four climate scenarios, including the two degrees scenario. In such a 'Transformation' scenario aligned with the goal of the Paris Agreement, the Commissioners' investments in developed market equities (including UK equities) were expected to be negatively impacted by a rapid transformation of the economy, but this was offset considerably by the positive expected impact on returns for emerging market equities, property, timber and infrastructure.

In the time since this analysis was conducted in 2015, the Commissioners have increased our exposure, for broader risk management reasons, to assets that are not expected to be sensitive to the risks posed by climate change, namely developed market sovereign bonds, multi-asset strategies and cash.

Listed equities carbon footprint 2011–2017

Tonnes CO_2 equivalent per £1m revenue



Responsible investment continued

Climate change risk management
The Commissioners' approach to climate change and climate-related risk management is set out in our Climate Change Policy. The management of climate-related risk and opportunity is also integrated into our RI Framework and included in our monitoring of, and engagement with, asset managers.

The key risk management tools we deploy are:

- Active engagement with public policymakers, companies and our asset managers
- Divestment from high carbon assets
- Investment in low carbon assets
- Monitoring our carbon footprint

Climate change metrics and targets
In line with our long-term objective to reduce our portfolio-related greenhouse gas emissions, the Commissioners use data from a third party, Trucost, to monitor the carbon footprint of as much as possible of our public equities portfolio and to make a comparison against our blended UK/global listed equities benchmark. This data indicated that at the end of 2017 the carbon footprint of our portfolio was 313 tonnes of 'carbon dioxide equivalent' per £1m of corporate revenue, compared to 274 tCO_2e for our benchmark.

This is the second consecutive year in which benchmark carbon emissions intensity has increased. We have established that the increase in the emissions intensity of the benchmark in 2017 is due to carbon-intensive companies joining the FTSE All-Share Index and an increase in carbon intensity for some index constituents.

This is the first year of publishing carbon footprint data – we have published data covering 2011 onwards – that the emissions intensity of our public equities portfolio has exceeded that of our benchmark. We have established that this is entirely accounted for by one position in an electric utility valued at just under £4m in our global equities portfolio. We are engaging with the company as part of the Transition Pathway Initiative ('TPI') and have raised the emissions profile of the company with the relevant asset manager.

Our policy is to divest from companies that make a significant contribution to emissions of greenhouse gases but do not take seriously their responsibilities to assist with the transition to a low-carbon economy. The Commissioners will review companies covered by TPI against this policy in 2020, taking into account Transition Pathway Initiative assessments and our engagement experience.

At the end of 2017, the Commissioners were 'underweight' in oil and gas. Comparing as much as possible of our public equities portfolio against our blended UK/global listed equities benchmark, we find that 4.48% of our portfolio comprised integrated oil and gas companies, compared to 6.99% of the benchmark.

At the end of 2017, the Commissioners were 'overweight' climate solutions companies. Comparing as much as possible of our public equities portfolio against our blended UK/global listed equities benchmark, using MSCI ESG Research Sustainable Impact Metrics data, we find that 9.71% of our portfolio comprised climate solutions companies (companies deriving more than 10% of their revenues from alternative energy, energy efficiency or green buildings) compared to 7.94% of the benchmark.

The Commissioners monitor the value of investments qualifying as low-carbon investments under the methodology of the Global Investor Coalition on Climate Change. At the end of 2017, £296m of the Commissioners' total investable assets (approximately 3.6%) qualified as low-carbon investments:

- Sustainably certified forestry portfolio – £256m
- Impax Environmental Markets plc Fund – £34m
- Equilibrium Wastewater Opportunity Fund – £6m holding

In addition, the Commissioners pursue all appropriate opportunities to add to commercial renewable power generation – both wind and solar – on our rural and forest land. At the end of 2017, we had operational wind farms with 32MW of capacity on our UK forest estate and operational solar farms with 9MW of capacity on our UK rural estate.

The Commissioners' largest listed equity mandate, valued at £403m at the end of 2017, is with Generation Investment Management, which was co-founded by former US Vice President Al Gore, and all of whose investments must meet sustainability criteria. This represents a further 4.9% of the Commissioners' overall investment portfolio.

Impact investments

The Commissioners made our first qualifying ‘impact investments’ in 2016. Impact investments have an explicit objective of delivering positive social and/or environment impact – as well as financial returns – and these impacts must be measured and reported. Like all of our investments, these investments must meet our investment risk/return criteria. We do not have a specific impact investment allocation in our portfolio.

Our first impact investment was a £32m commitment to Equilibrium Capital Management’s Wastewater Opportunity Fund, which develops anaerobic digestion and other waste treatment facilities. Our second investment was a £10m commitment to an impact private equity fund raised by Palatine Private Equity, who are based in Manchester and invest mainly in small and medium enterprises in the English North West. The fund is expected to invest in areas such as renewable energy, vocational education, ethical consumerism and companies addressing the issues of financial exclusion. Both investments are making good progress deploying investors’ capital.

Signatory of:

PRI | Principles for Responsible Investment

BVCA Responsible Investment Awards 2017
Winner: Overall ESG Framework: Firms with more than £1bn under management

AAA AODP Global Climate Index 2017 | Asset Owners Disclosure Project
2017 GLOBAL CLIMATE INDEX
THIS FUND RANKS AMONG THE TOP 3% OF ASSET OWNERS IN THE WORLD WHEN IT COMES TO MANAGING CLIMATE RISK.

CASE STUDY

ExxonMobil
Achieving change through active ownership

> Climate change is one of the most significant long-term risks investors face, and it is essential that companies confront the challenge that it poses.

Edward Mason
Head of Responsible Investment

2017 saw a hugely significant milestone in our ongoing engagement with ExxonMobil on climate change.

Following successful resolutions filed at BP, Shell and major mining companies as part of the ‘Aiming 4 A’ initiative in 2015 and 2016, we filed a shareholder resolution at ExxonMobil in 2016 in conjunction with New York State Common Retirement Fund. Similar to those previous resolutions, it asked the company to disclose the expected impact of measures to limit climate change to two degrees on their business. After the Paris Agreement in 2015, this ask had taken on a greater urgency, as governments looked to be working together in an unprecedented way to set out a common ambition and way forward on carbon reduction.

Despite similar resolutions at other companies having attracted the support of their boards, ExxonMobil’s vigorously opposed it. Despite this, more than 60 institutional investors with over $10trn of assets under management between them predeclared their support, and at the AGM our resolution attracted 38% support. At that point, it was the highest vote ever recorded for a climate resolution at ExxonMobil, representing a significant shareholder revolt and demonstrating a significant degree of support.

Having unsuccessfully appealed to the company with other investors to agree to the kind of reporting we were looking for, we filed the same resolution again with New York State in 2017. This time it gained 62% support from investors at the AGM in May – an unprecedented victory in the face of such strong opposition from the company.

After further discussions with the company, Exxon agreed to our request at the end of 2017, committing to publish a two-degree scenario analysis as we and the majority of their shareholders had asked for. The first report was published by the company in early 2018.

In our 2015 Climate Change Policy we set ourselves the task of engaging robustly with companies on climate change. Our work with ExxonMobil is the clearest indication yet that this strategy is producing results and changing companies’ behaviour.

We have a deep-seated ethical and theological motivation for engaging thoroughly on climate change as a faith investor. We are also convinced that thorough climate-related financial disclosure is a prerequisite for successful investment management.

As responsible, long-term investors it is crucial that companies take the challenge of climate change seriously, for the sake of the common good and for the ongoing returns that will help support the Church of England for decades to come.

Engagement, voting and screening

We believe active ownership and engagement can drive positive change in corporate behaviour, and are a crucial part of our commitment to being a responsible investor.

Our approach
As an integral part of our commitment to responsible and ethical investment, the Church Commissioners and Church of England Pensions Board have a dedicated team responsible for engagement, screening and voting.

The team's responsibilities are:
- Analysing investee companies and developing independent measurement tools to track company performance against our engagements
- Screening companies against our ethical policies
- Engaging with companies (often in collaboration with other investors)
- Voting at, on average, 2,500 company meetings annually
- Building collaborations with other Church investors – through the £17bn Church Investors Group or other non-Church investors through the United Nations-backed Principles for Responsible Investment and the Transition Pathway Initiative ('TPI').

The engagement team also work closely with CCLA on behalf of CBF Church of England Funds on different engagements such as alcohol and climate change. We seek alignment and collaboration on our engagement across the three National Investing Bodies and are active members of the Church Investors Group ('CIG') supporting CIG engagements on issues such as Modern Day Slavery and water. The Commissioners and Pensions Board's engagement on corporate tax is on behalf of the CIG.

The Church Commissioners believe active ownership and engagement can drive positive change in corporate behaviour. Importantly, we do not seek perfection in companies' conduct but do expect that where we have concerns, companies engage with us sincerely.

This means we engage robustly and often at Board level, use our votes at AGMs, and collaborate with other faith and non-faith investors.

Disinvestments will also sometimes be made, either from a sector or group of companies (e.g. thermal coal and tar sands producers) or where a company is unresponsive to our individual engagement concerns (e.g. Vedanta Resources and Soco International). Such disinvestments are agreed with CCLA/CBF so that there is alignment across all three of the National Investing Bodies.

All engagements are undertaken using indicators developed to track and monitor company performance. For example, the TPI, which was developed with the Grantham Research Institute at the London School of Economics, is being used to track companies' alignment to two degrees.

Engagement, voting, public statements and exclusions/disinvestments are all tools deployed by the Commissioners and Pensions Board.

There are 19 Ethical Investment Policies that set out the National Investing Bodies' position on key policy issues. In 2017 the engagement team proposed its engagement priorities for 2018–2020, which were adopted by the Assets Committee. These priorities are outlined in the chart below.

Engagement
Over the past year there was a significant increase in the number of engagement contacts with companies. During the year the team undertook 112 engagements on behalf of the Commissioners. These contacts ranged from letter-based to regular meetings with the Chair or Board members. The largest proportion of face-to-face meetings remained with companies in the extractive industries. Our contact and depth of engagement with companies will continue to increase as we roll out our five priority engagement programmes.

Climate change
2017 was an important year in advancing the Commissioners' engagement programme on climate change. January saw the launch at the London Stock Exchange of the TPI which is now supported by funds with over £5trn in assets under management (see page 33). In May, the Church Commissioners saw the resolution they had co-filed with New York State Common Retirement Fund supported by 62% of shareholders at ExxonMobil, despite strong opposition from the board (see page 29).

Engagement priorities 2018–2020

Climate change	Extractives	Alcohol	Governance	Corporate tax
150 companies	Under development	32 companies	350 companies	50 companies
Indicators TPI London School of Economics & FTSE Russell	**Indicators** Under development	**Indicators** Vigeo EIRIS's independent annual assessments	**Indicators** ISS voting data and in-house assessment	**Indicators** PRI and independent tax expert

Extractive industries
A high level of engagement continued with individual extractive industry companies on issues of health and safety, climate, tailings dams and their licence to operate. Following the launch of the National Investing Bodies' new Extractive Industries Ethical Investment Policy, these individual engagements will now form part of a dedicated Extractive Industries Programme that will be launched in 2018.

Mining Faith Reflections Initiative
The engagement team continued to support Bishop David Urquhart and to represent the wider Church of England perspective in the Mining and Faith Reflections Initiative ('MFRI') with company CEOs. A half-day roundtable was held at Lambeth Palace and hosted jointly with Methodist representatives. There was participation from senior Vatican representatives as well as CEOs from five mining companies. The outcome was a commitment from the churches to develop a common vision for the mining sector that supported the common good. The First Church Estates Commissioner presented the new Extractive Industries Policy.

Corporate tax programme
A new engagement programme on corporate tax was developed and launched in 2017. The programme will run to 2020 and be underpinned by independent data analysis. The programme is a collaborative effort through the Principles of Responsible Investment ('PRI') involving 12 other asset owners and over 30 fund managers.

Responsible alcohol programme
This year also saw the launch of a new phase in our engagement on responsible alcohol. This included the development and consultation on a set of new alcohol responsibility standards. Company performance against the indicators is being independently assessed by Vigeo Eiris. Following the finalisation of the standards a letter and questionnaire were sent to all UK and global companies in scope. The majority (72%) of companies in scope are not currently investments for the Church Commissioners or Pensions Board. Companies will become unrestricted if they are able to demonstrate they meet the alcohol responsibility standards. The alcohol programme is a collaborative engagement across the three National Investing Bodies.

Corporate governance programme
The team has continued to strengthen engagement on corporate governance issues relating to company board independence, diversity, executive remuneration and length of service of company auditors. Many of these issues are translated into the Commissioner's joint voting template with the Church Investors Group. For the first time, we publicly outlined to the media our voting intentions ahead of the main AGM season. This generated considerable media coverage. Additionally, we contacted companies in the FTSE 350 that we voted against and that had high levels of shareholder dissent.

Voting
One of the most effective ways to encourage change in companies' behaviour is to use our votes at company AGMs and meetings.

The Commissioners and Pensions Board vote in over 2,500 company meetings each year. In 2017, we voted against 50% of remuneration packages in the UK. Each year, the three NIBs align voting priorities through the CIG, enabling a larger group of funds to be aligned in their approach to voting.

Discretion was used 149 times to deviate from standard voting outcomes under the CIG template.

Climate change
There has been a continuing increase in the number of climate change shareholder proposals in the US (Exxon, Occidental Petroleum) and also in Australia.

The Commissioners supported the 'Follow This' resolution on climate change at Shell, along with major Dutch asset owners. We also made our position on the vote public ahead of the AGM, which was reported in various media. The resolution received 6.3% of support, which was a considerable increase on the previous year, when we abstained. The resolution was the cause of some debate amongst investors and, in December, Shell responded by being the first oil and gas company to produce 'ambitions' that included scope 1-3. The significance of Shell's ambitions means that for the first time we should be able to assess an oil and gas company against two degrees pathways through the TPI assessment.

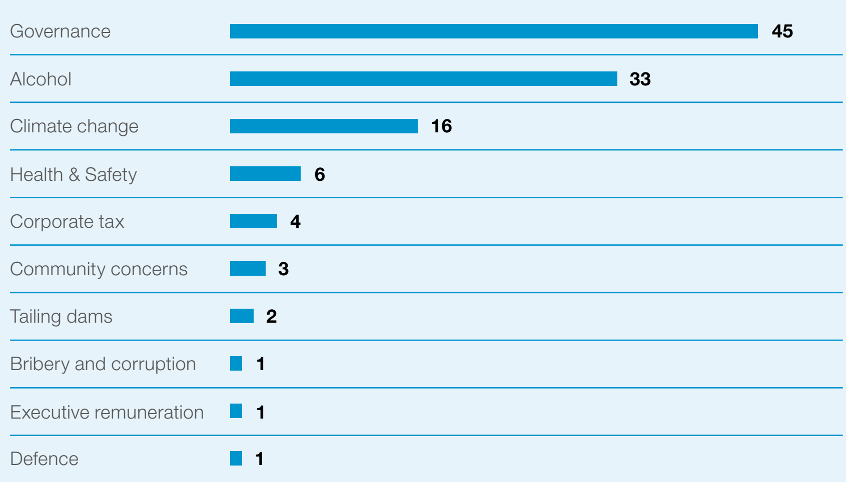
Screening
We maintain a comprehensive range of ethical investment restrictions. We exclude from our direct investments companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, human embryonic cloning, extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds.

Our policy on alcohol involves assessing companies against minimum standards of responsible marketing and retail. We exclude companies from direct investments if they do not meet our standards, or on the basis of a revenue threshold for companies we have not yet assessed.

Our new Extractive Industries Policy, adopted in 2017, sets out our commitment to engage with extractive companies on issues of sustainability and responsible practice. Like our Statement of Ethical Investment Policy, this policy allows for investment restrictions on a case-by-case basis.

Our approach to indirect investments is shaped by our Pooled Funds Policy. This sets parameters for the use of pooled funds and a cap on indirect exposure to restricted investments.

2017 Engagements by theme



Engagement, voting and screening continued

2017 voting template

Theme (policy)	Criteria	Vote
Executive Remuneration Executive Remuneration Policy	– Excessiveness of executive pay – Fairness of pay compared to pay at below-executive level – Use of non-financial criteria in the determination of incentives – Long-term balance of the incentive framework – Breaches of local good practice	– Against remuneration report/policy or incentive schemes.
Governance Statement of Ethical Investment Policy	– Board composition and independence	– Against re-election of non-independent directors when the Board independence is not in line with local good practice.
Diversity Statement of Ethical Investment Policy	– Board diversity	– Against Chair of Nomination Committee when Board female balance is below 25%.
Audit Statement of Ethical Investment Policy	– External auditor independence – Length of tenure – Size of non-audit fees – Other concerns over independence of external or internal audit	– Against the re-election of director: Chair of the Audit Committee when conditions in the policy are met. Refer all audit committee members for re-election if conditions in the policy are met.
Climate Change Climate Change Policy	– Lack of disclosure against CDP assessment (to be translated into TPI-based assessments in coming years)	– Abstain the Report and Accounts where the Church Investors Group considers a FTSE 350 constituent company to be a CDP laggard.
Employee Pay Executive Remuneration Policy	– Living Wage (UK only)	– Against FTSE 100 constituent in either the Financial Services or Pharmaceuticals sector where the company is not a Living Wage accredited employer or meets Church CIG's engagement standard.

2017 voting activities

All resolutions	ISS recommendations	Church template recommendations	Actual votes
For	80.4%	79.1%	82.1%
Against (including withhold)	7.7%	14.0%	16.2%
Abstain	0.2%	0.6%	0.7%
Refers	–	4.6%	–
Other[1]	0.8%	0.7%	1.0%

1 The 'Other' category includes votes on resolutions related to timeframes of remuneration reporting, as well as instances of non-votes.

CASE STUDY

Transition Pathway Initiative
Our climate change policy in action

Launched in January 2017 at the London Stock Exchange, the Transition Pathway Initiative ('TPI') is an asset owner-led global initiative supported by funds with over £5trn/$6.5trn in assets under management. TPI identifies companies' preparedness for the transition to the low-carbon economy, supporting asset owner efforts to address climate change.

The TPI was created following the National Investing Bodies' Climate Change Policy and the Synod Resolution in 2015. It features a transparent and academically robust tracking tool, which was needed to guide engagement, inform voting and assess the risk of exposure to transition. The TPI is co-chaired by the Church of England Pensions Board and Church Commissioners with the Environment Agency Pension Fund. It draws on best available data and analysis by leading partner organisations: the Grantham Research Institute (of the LSE) and FTSE Russell.

Over 25 asset owners globally already support the TPI, committing to use it in a range of ways, including: informing investor research, supporting engagement and tracking managers' holdings.

Sector reports on steel, cement, coal, oil and gas, and electric utilities have been published, and are available free on the TPI website, with further sectors profiled soon.

> I applaud the TPI and its founding members. It represents yet another potentially powerful way of aligning real-world global investments with the real-world urgency of meeting the goals, aims and aspiration of the Paris Climate Change Agreement.

Patricia Espinosa
Executive Secretary, UN Climate Convention (UNFCCC)

Extractives policy
An ethical approach to extractives investments

In November 2017, the Church's three National Investing Bodies ('NIBs') – the Church Commissioners, Church of England Pensions Board, and CBF Church of England Funds (managed by CCLA) – launched a new policy on investing in extractive industries.

The policy provides a distinctively Christian approach to investment in the extractives industries and is the culmination of theological reflection, expert input, public consultation and site visits to mine sites and communities over a 24-month period. It states that key ethical concerns in the extractive industries are not to be found in extraction itself, but in business conduct, including management of risk, the effects of operations on communities and national economies, impacts on the environment and operating standards.

The new policy acknowledges the positive contribution that mining can make to development and the material that it provides for many of the products in modern life. However, it also highlights that extractives companies are particularly vulnerable to poor governance and ethical controversy, and harmful, long-lasting impacts on communities and the environment.

Under the policy, the NIBs commit to assess whether dialogue and engagement with companies that are unwilling or unable to uphold high standards is likely to produce improvement.

> This policy provides a clear ethical framework to encourage extractive industries to benefit society and the common good. As responsible investors, the Church's National Investing Bodies are committed to robust engagement with companies in the extractives sector.

Loretta Minghella
First Church Estates Commissioner

Governance

The Church Commissioners are committed to good governance and cost-effectiveness as we fulfil our responsibilities towards the Church of England.

Above: A service underway at Gloucester Cathedral.

Objectives

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

Trustees and accountability

The Church Commissioners are a well-governed charity, accountable to Parliament and committed to serving communities across the country.

The Church Commissioners for England ('the Church Commissioners') are a statutory body created by the Church Commissioners Measure 1947.

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

We are confident that the financial resources we provide to parishes, bishops and cathedrals help to promote the whole mission of the Church (pastoral, evangelistic, social and ecumenical) more effectively, at a national level, in the dioceses, and in individual parishes. In doing so, it provides a benefit to the public by:
- providing facilities for public worship, pastoral care and spiritual, moral and intellectual development both for its members and for anyone who wishes to benefit from what the Church offers; and
- promoting Christian values, and service by members of the Church in and to their communities, to individuals and society as a whole.

Throughout this report there are examples of this public benefit in action.

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

We are a statutory charity created by the Church Commissioners Measure 1947. We are also a registered charity (number 1140097) under the Charities Act 2011.

The Church of England is governed by a large number of legally independent bodies in its parishes, cathedrals and dioceses as well as at national level. These bodies are not related parties as defined in the Charities SORP or FRS 102.

The Church Commissioners are related to their subsidiaries, and to Church of England Central Services ('ChECS'), as they are a partner in this joint venture. The Commissioners are also related to the following pension funds, administered by the Church of England Pensions Board:

- Church of England Funded Pensions Scheme
- Church Administrators Pension Fund
- Church Workers Pension Fund

Further details are provided in the notes to the financial statements.

CASE STUDY

Bishop Christine Hardman
New Church Commissioner

Christine Hardman, the Bishop of Newcastle, is one of our newest Commissioners, joining in early 2017. As well as the Board, she is also a member of the Mission and Pastoral Committee, which deals with parish reorganisation on behalf the Church.

Appointed Bishop of Newcastle in 2015, Christine is a member of the House of Bishops in the General Synod, and also of the House of Lords. She has served on a number of different bodies during her ministry, including the Ethical Investment Advisory Group.

Bishop Christine holds a BSc (Econ) from the University of London, and a master's degree in Applied Theology from Westminster College, Oxford. She is married to Roger and they have two daughters and four grandchildren.

Trustees and accountability continued

CASE STUDY

Loretta Minghella
New First Church Estates Commissioner

Loretta Minghella was appointed the new First Church Estates Commissioner in June 2017, taking up her role in November. She is Chair of the Assets Committee, responsible for the management of the Commissioners' £8.3bn portfolio.

Loretta joined the Commissioners from Christian Aid, where she had been Chief Executive since 2010, responsible for its strategy and programmes worldwide.

A lawyer by training, Loretta began a career in financial regulation following practise in criminal law. She was the first Head of Enforcement Law, Policy and International Cooperation for the Financial Services Authority, later becoming Chief Executive of the Financial Services Compensation Scheme in 2004. In that role she oversaw the payment of over £21bn in compensation to victims of failure in financial services, and was awarded an OBE in the New Year's Honours 2010 for her service in that role.

She lives with her husband and two children in London, attending St Barnabas Church, Dulwich.

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

13 of the Board members are elected, either by General Synod or the Cathedral Deans. The others are appointed, either by the Crown or the Archbishops, for professional expertise of various kinds (actuarial, legal, investment). Governors are also expected to sit on at least one of the five committees which discharge the Commissioners' various responsibilities. These are the Assets Committee, Audit & Risk Committee, Bishoprics & Cathedrals Committee, Church Buildings (Uses and Disposals) Committee and Mission & Pastoral Committee. Apart from the Assets Committee, which is made up entirely of Commissioners, the committees also contain non-Commissioner members. This structure is supported by a staff team led by the Secretary (Chief Executive) Andrew Brown.

During the year we said farewell to our Deputy Chair, the Bishop of London, Dr Richard Chartres, and First Church Estates Commissioner Sir Andreas Whittam Smith, both after long and truly outstanding periods of leadership. We applaud both for their huge contributions and wish them well in the future.
We were delighted that the Archbishop of Canterbury appointed the Bishop of Manchester, David Walker, as our new Deputy Chair and by the Crown's appointment of Loretta Minghella OBE, formerly Chief Executive of Christian Aid, as the new First Commissioner. Both of them have taken to their roles with great skill and enthusiasm and are well placed to lead us into the future.

During the year we also said farewell to Revd Amanda Fairclough on her appointment to a parish in the Scottish Episcopal Church, and were pleased to welcome Revd Christopher Smith in her place. We also said goodbye to Hywel Rees-Jones and Ian Watmore, both of whom had served with great distinction. They are succeeded by Lord Best OBE DL and Alan Smith, and we look forward to working with both of them.

During the year the Bishop of Truro ceased to be eligible for membership of the Mission & Pastoral Committee and the Bishop of Doncaster stood down as a member of the Bishoprics & Cathedrals Committee. They were replaced by the Bishops of Leicester and Aston, respectively. We are enormously grateful to the new and departing members for their time, energy and expertise.

When appointed, new trustees receive a thorough induction programme, as well as regular briefings throughout their tenure.

Second Church Estates Commissioner

The Second Church Estates Commissioner, the Rt Hon Dame Caroline Spelman MP, maintains the statutory accountability of the Church Commissioners to Parliament by answering on their behalf in the House of Commons.

In 2017 Dame Caroline was asked a wide range of questions by MPs, most frequently on the future of Christian communities in the Middle East, diversity and employment, ethical investments, church buildings and support for the work of parishes in areas of deprivation.

The Second Church Estates Commissioner was closely involved in discussions with the Department for Business, Innovation and Industrial Strategy on the impact and operation of the Apprenticeship Levy, with the Treasury and Department for Digital, Culture, Media and Sport on the future of cathedral and church buildings, and with the Department for Education on church schools. She also communicated with the Foreign Office and Department for International Development (‘DFID’) on the overseas work of the Church. Following conversations with the Department for Environment and Rural Affairs, an exploratory project to utilise church buildings to boost mobile and broadband signals in rural areas is progressing well.

Dame Caroline has continued to host regular parliamentary receptions to highlight particular aspects of the work of the Church of England. During 2017 these primarily focused on the support being given by the Church of England to faith communities in conflict zones and their role in regional reconciliation initiatives, such as in Sudan and South Sudan as well as the Middle East. Dame Caroline was joined by Canon Sarah Snyder, the Archbishop of Canterbury’s Advisor for Reconciliation, and Lord Bates, the Minister of State for International Development from DFID.

Full details of the questions answered by Dame Caroline can be found at www.churchinparliament.org

Ethical Investment Advisory Group

The Ethical Investment Advisory Group (‘EIAG’) supports the Church of England’s National Investing Bodies (‘NIBs’) on ethical investment - the Church Commissioners, the Church of England Pensions Board and the CBF Church of England Funds managed by CCLA.

The EIAG provides timely and practical advice to support the Church Commissioners and other NIBs to invest ethically in a way which is distinctively Christian and Anglican. In particular, such advice may relate to:

- assets, sectors or markets in which it would not be appropriate for the NIBs to invest (including screening);
- stewardship by the NIBs of their investments (including voting and engagement);
- relationships with managers and other investors; and
- policy issues.

The EIAG’s members include representatives of General Synod, the Archbishops’ Council, the Council for Mission and Public Affairs, the investing bodies and co-opted members. There is a rich mix of theological, Church, investment and business experience.

Advice offered by the EIAG is considered by the Church Commissioners’ Head of Responsible Investment and Head of Engagement. After the Assets Committee has indicated its support it is then approved for incorporation into the Commissioners’ investments by the Board of Governors.

Attendance at Board and committee meetings

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	Mission and Pastoral	Church Buildings (Uses and Disposals)
Number of meetings	4	6	3	6	6	6
Archbishop of Canterbury, Justin Welby	The Archbishop of Canterbury chairs the Annual General Meeting. By arrangement he does not attend meetings of the Board of Governors. The Bishop of Manchester is the Archbishop's appointed deputy.					
Archbishop of York, John Sentamu	2					
Sir Andreas Whittam Smith, First Church Estates Commissioner (until July 2017)	2 of 2	3 of 3				
Loretta Minghella OBE, First Church Estates Commissioner (from November 2017)	1 of 1	1 of 1				
Dame Caroline Spelman MP, Second Church Estates Commissioner	3					
Andrew Mackie, Third Church Estates Commissioner	4			6	1	0
Bishop of Birmingham, David Urqhart	2	2				
Bishop of Chichester, Martin Warner	4			4		
Bishop of Leicester, Martyn Snow					0 of 1	
Bishop of Manchester, David Walker	4					
Bishop of Newcastle, Christine Hardman	2 of 3				0 of 4	
Bishop of Truro, Tim Thornton					2 of 5	
Dean of Gloucester, Stephen Lake	3			6		
Dean of Wakefield, Jonathan Greener	4			3	4	
Ven Penny Driver					4	
Revd Mary Bide				5		
Revd Stephen Evans					4	
Revd Amanda Fairclough	2 of 2	3 of 4				
Revd Rosalyn Murphy				3 of 5		
Revd Christopher Smith	2 of 2	1 of 1				
Revd Simon Talbott						3

* Those listed in italics are non-Commissioners.

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	Mission and Pastoral	Church Buildings (Uses and Disposals)
Revd Stephen Trott	3					4
Revd Canon Bob Baker	3				5	6
Revd Canon Peter Cavanagh						4
Canon Peter Bruinvels	3				6	
Canon Elizabeth Renshaw				3		
Ian Ailles			3			
April Alexander	4		2			3
Poppy Allonby	3	4				
Suzanne Avery	3 of 3	4 of 5				
Jeremy Clack	3		3			
Margaret Davies						5
Stephen East			3			
William Featherby QC	4				6	
Gavin Oldham	4	6				
Graham Oldroyd	4	6				
Hywel Rees-Jones	3		3			
Duncan Owen	3	5				
Susan Pope					4	
John Steel						5
Jonathan Templeman			3			
Jacob Vince	4			6		
Garth Watkins					3 of 4	
Ian Watmore	2					3
Mark Woolley	4	5				

* Those listed in italics are non-Commissioners.

People and organisation

The Church Commissioners work with the other National Church Institutions to serve the Church of England and ensure effective use of the Church's money.

The Church Commissioners work with the other National Church Institutions (the Archbishops' Council, the Church of England Pensions Board, Lambeth Palace and Bishopthorpe Palace – 'NCIs') and employ staff through a common employment scheme.

Our people
2017 saw continued growth across the NCIs with a 5.4% increase to the overall figure of 511 staff (permanent and fixed term), of which 17% were employed by the Church Commissioners. There has been an increasing use of staff on fixed-term contracts, with 62 staff contracted under this arrangement. Senior managers (bands 0–2) account for 123 (24%) of the total workforce. Our current voluntary turnover is 7.8%, which is 9% below the average in the not-for-profit sector.

In 2017, 45% of senior managers recruited were female, which led to a slight increase in representation at this level to 39%. BAME staff comprised 22.9% of new starters in 2017, which helped to lift the percentage of BAME staff to 15.8%, up from 14% in 2016. Within the Church Commissioners BAME staff made up 33% of new starters. In September BAME staff launched a new network to support individuals and act as a catalyst to further improve diversity and inclusion.

The percentage of people who classed themselves as having a disability was 4.5%, compared to 6% in 2016. Since 2013 the average age of staff has dropped from 46 to 43 years old.

Culture change
Fundamental to our ability to meet the increase in demand for services from dioceses and some cathedrals is the development of leadership and management capacity across the NCIs. A key landmark on this journey was the launch of our new manager framework. Based on our values of excellence, integrity and respect, the framework brings clarity and consistency to the expectations we have of our managers, how they work, and what their teams should expect of them, as well as a tool to develop our managers, and to help us recruit high-quality managers in the future.

Gender pay
We are committed to reporting our gender pay in an open and transparent way, which is why we were one of the first not-for-profit organisations to do so in August 2017. Our reporting covered 452 staff being paid under our common pay policy and the majority of staff employed by the Church Commissioners, of which 31 staff are covered by a separate performance-related policy.

For the NCIs, our data shows that for half of all staff there is no gap in pay between men and women, and for nearly three-quarters of our staff the pay difference is less than 1%. However, with nearly twice as many men as women in the most senior roles, and with three times as many female staff as male in the most junior roles, we know that we have work to do. When comparing the midpoint in salary for men and the midpoint salary for women against the midpoint for all staff, the differential in pay shows a disparity of 41% in favour of men over women.

For the Church Commissioners' 31 asset management staff, the differential in pay showed a disparity of 4% in favour of men over women (including performance or discretionary-related payments on top of salary).

The NCIs are committed to addressing these pay differentials and are taking a number of steps to that end. We are reviewing both our job evaluation system and our pay methodology, and we have appointed a Reward Manager. In August we launched our new careers service, Pathways, which is helping us to attract a greater diversity of candidates to roles at the NCIs.

Pathways to a new career
As well as jobs at the NCIs, Pathways promotes vacancies for clergy, employed, and volunteer positions right across the Church of England. In addition to a jobs board, the service includes applicant tracking software and shortlisting and reporting tools, giving subscribers national coverage and local control. Candidates can also create their own profile and sign up to email alerts notifying them when job opportunities become available. After a successful pilot phase in the autumn, 4944 candidates had applied to 273 jobs on Pathways by the end of the year. In December, we launched 'Do Something You Believe In'. The website, sponsored by the Church of England, promotes vacancies from faith-based organisations and from employers who want to reach people who want to contribute to the common good.

Staff remuneration and executive pay
The staff who provide support functions to the Commissioners are covered by a unified pay policy that operates across all the NCIs. The policy is designed to ensure the same level of pay for all staff in posts with work of equal value based on eight 'bands'. For certain staff with specialist skills, typically those whose role requires them to hold a professional qualification, a market adjustment may be applied, the value of which is determined by reference to the lower quartile and median of market-related salaries and is subject to annual review. The NCIs retain the services of AON Hewitt to advise on market rates.

Staff pay is reviewed annually and any increases as a result of the annual pay negotiations are awarded with effect from 1 January. The NCIs are committed to a being a UK Living Wage employer and, for those roles based in London, a London Living Wage employer for directly employed staff. Apprenticeships, interns and those on training schemes are paid the National Living Wage.

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

Investment staff
Staff engaged directly in the management of the Church Commissioners' investment portfolio are on separate contracts of employment and sit outside the general NCI pay arrangements described above. The Church Commissioners are a large and sophisticated institutional investor, investing in a broad range of asset classes, including significant property holdings, and, as such, seek to attract and retain high calibre investment professionals.

Accordingly, salaries are designed to reflect the market for investment specialists and incorporate an element of Long Term Incentive Payment ('LTIP') which encourages consistent outperformance of the Commissioners' target investment return of RPI +5% p.a. over a sustained period of five years.

The level of pay and the value of LTIPs is overseen by a Remuneration Committee, comprising trustees on the Assets Committee supported by independent benchmarking data. The scheme is reviewed for consistency with the executive remuneration policy adopted by the Church's National Investing Bodies on the recommendation of the Ethical Investment Advisory Group.

Amounts payable in relation to the fund performance are spread over three years, and the full amounts are only payable if the recipient remains in post during that time. By this method the Commissioners ensure incentives are directly aligned with their objectives and are also long-term in nature. In the year to 31 December 2017, nine asset management staff for the Commissioners received LTIP payments totalling £986,232 based on the long-term performance of the fund.

The highest paid member of staff received an LTIP payment of £250,962. The Secretary to the Church Commissioners does not participate in the LTIP scheme. During 2017 the highest paid member of staff received total annual remuneration (salary plus LTIP) 20.5 times the total annual remuneration received by the lowest paid member of staff and 8.1 times the median total annual remuneration. This is consistent with the recommendations on company remuneration adopted by the National Investing Bodies on the advice of the EIAG in 2013.

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

Risk management

The Church Commissioners' risk management process assists management by facilitating the identification and assessment of significant risks to the achievement of objectives. The process is supported by a risk management policy which outlines the roles and responsibilities of Commissioners, management and staff.

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

Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. Risks are prioritised using an agreed scoring methodology and are assessed at an inherent and residual level. The risk management process is facilitated and monitored by the Internal Audit and Risk Management Department. The management of key risks is subject to independent review and assurance through the internal audit process, which reports to the Audit and Risk Committee.

Major risks

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

Principal risk area	Key management actions and plans
Poor long-term market returns (below the level assumed by Church Commissioners' actuaries) impacting on the ability to provide stable and sustainable distributions	– Disciplined evaluation-driven investment process. Supported by high calibre and experienced non-executive members of the Assets Committee. – Significant portfolio diversification strategy and diversification of fund managers managed by a well-resourced internal investment team. – Regular review of overall portfolio asset allocation, performance monitoring and reporting to trustees in the Assets Committee and sub-committees. – Actuarial advice and guidance on distribution capacity. – Forward planning process to identify spending plans and identify potential issues due to investment performance.
Responses to significant increases in support costs and other financial demands impact on the level of distributions	– Review, approval and governance arrangements to control costs. – Ongoing communication with stakeholders to assist in the early identification of emerging costs. – Discretion over the allocation of funds to allow the protection of distributions. – Improved information gathering on the financial position of cathedrals and support services.
Loss of Church or societal confidence in the Commissioners' ethical investment policy	– Theologically grounded ethical investment policies by independent Ethical Investment Advisory Group and commitment to the UN-backed Principles for Responsible Investment. – Responsible Investment team which overseas implementation of ethical and responsible investment and leads communication to the Church and wider society. – Robust monitoring arrangements with third parties to review compliance with ethical investment requirements.
The cost and effectiveness of works to ensure the maintenance and delivery of Lambeth Palace and the Library project	– Ongoing and detailed surveys of work required, and the commencement of high priority works. – Ensuring adequate funding is available to undertake works. – Project board appointed to provide governance for the project. Board meets monthly and can act remotely between meetings. – Plans to ensure that disruption to the work of the Palace is minimised. – A professional and experienced Project Manager has been appointed for the duration of the project.
IT robustness and security and the effective management of data	– Policies, training and monitoring processes to assist compliance with legal and regulatory requirements. – Improvements to IT infrastructure and IT security have been undertaken and further developments are planned. – IT Governance Group to review the robustness of processes. – Proactively consider the implications and prepare for the EU Data Protection Regulation changes.

Long-term financial strategy

Reserves policy
It is the Commissioners' policy to invest its endowment to provide long-term financing to pay the pre-1998 clergy pension liability and to make charitable distributions to support the mission of the Church of England in perpetuity. The level of distribution each year is determined with the help of actuarial advice from Hymans Robertson LLP. There is an aspiration to increase the in perpetuity distributions in line with average earnings, where such an increase does not hinder the Commissioners' ability to make similar distributions to future beneficiaries. Further details are provided in the Independent Actuaries' Report on page 81, including their qualifications for providing such advice.

The total endowment fund of the Commissioners as at 31 December 2017 stood at £6.4bn, net of the provision for the pre-1998 clergy pension liability of £1.75bn which is due for payment in future years.

Under the terms of the Total Return Order obtained from the Charity Commission on 19 June 2012, the Church Commissioners account and report returns (whether capital or income) on a total return basis. On this date, the initial value of the base level of the endowment was £3bn and the initial value of the unapplied total return was £2.2bn. The level of unapplied total return at the end of 2017 was £3.7bn (2016: £3.4bn), and the trustees consider this to be sufficient, in light of their distribution policy, to meet their expenditure plans. Further information on the Total Return Order is provided in note 17 to the financial statements.

In addition to being able to spend unapplied total return, the Commissioners have a time-limited power, currently extended to December 2025, to spend capital on its clergy pension obligations.

Distribution policy
In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries.

Following the actuaries' most recent full review of the fund as at the end of 2015, we informed beneficiaries of our plan to make ongoing non-pensions distributions totalling up to £318.1m during the 2017–2019 triennium, together with time-limited distributions of up to £97.7m – mainly to fund additional transitional grants to dioceses and projects on Lambeth Palace and Lambeth Palace Library. An update of the valuation work as at the end of 2017 concluded that, in aggregate, the 2017–2019 plans continued to be affordable.

Trustees' Responsibilities Statement
The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK 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 and Group's transactions and disclose with reasonable accuracy at any time the financial position of the charity and the Group and enable them to ensure that the financial statements comply in all material respects with the Charities Act 2011, the Church Commissioners Measure 1947, and the Charity (Accounts and Reports) Regulations 2008.

The trustees are also responsible for safeguarding the assets of the Church Commissioners for England (the 'parent charity') and its subsidiaries ('the Group') 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The trustees' annual report was approved on 8 May 2018 and signed on behalf of the Board by:

Loretta Minghella

Loretta Minghella
First Church Estates Commissioner

Financial statements

For the year ended 31 December 2017

Bishop of Winchester, Tim Dakin, speaks to crowds on the cathedral green at a Thy Kingdom Come event in May 2017

Our ongoing responsibilities

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

Independent Auditor's Report
To the Church Commissioners for England

Opinion

We have audited the financial statements of The Church Commissioners for England (the 'parent charity') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the consolidated and Commissioners' statements of financial activities, the consolidated and Commissioners' balance sheets, the consolidated cash flow statement, and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
- give a true and fair view of the state of the Group's and parent charity's affairs as at 31 December 2017 and of the Group's and the parent charity's incoming resources and application of resources, including the Group's and the parent charity's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Basis for opinion

We have been appointed as auditor under section 151 of the Charities Act 2011 and report in accordance with regulations made under that Act. We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the charity's trustees, as a body, in accordance with section 154 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the parent charity's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the Trustees' Annual Report, set out on pages 4 to 43 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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
- the parent charity has not kept sufficient and proper accounting records; 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.

Independent Auditor's Report continued
To the Church Commissioners for England

Responsibilities of trustees for the financial statements
As explained more fully in the Trustees' Responsibilities Statement set out on page 43, the trustees are responsible for the preparation of the financial statements which give a true and fair view,and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the Group's and the parent charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the Group or parent charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 8 May 2018

Grant Thornton UK LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Consolidated statement of financial activities
For the year ended 31 December 2017

	Notes	2017 Other funds £m	2017 Endowment £m	2017 Total £m	2016 General fund £m	2016 Endowment £m	2016 Total £m
Income from:							
Donations and legacies		**2.0**	**–**	**2.0**	0.2	–	0.2
Investments	2	**–**	**164.0**	**164.0**	–	154.9	154.9
Other income		**1.3**	**–**	**1.3**	1.9	2.6	4.5
Transfer to income	17	**145.1**	**(145.1)**	**–**	107.0	(107.0)	–
Total income		**148.4**	**18.9**	**167.3**	109.1	50.5	159.6
Expenditure on:							
Raising funds	2(c)	**–**	**(59.6)**	**(59.6)**	–	(71.0)	(71.0)
Charitable activities							
Mission activities	3	**(56.6)**	**–**	**(56.6)**	(18.7)	–	(18.7)
Diocese and ministry support	3	**(37.3)**	**–**	**(37.3)**	(35.4)	–	(35.4)
Bishops' ministry and cathedral costs	3	**(44.0)**	**–**	**(44.0)**	(48.3)	–	(48.3)
National payroll for clergy	3	**(0.9)**	**–**	**(0.9)**	(0.9)	–	(0.9)
Administering the legal framework	3	**(5.2)**	**–**	**(5.2)**	(5.2)	–	(5.2)
Clergy pensions obligation	3, 15	**(1.1)**	**(81.1)**	**(82.2)**	(0.6)	(206.4)	(207.0)
Total charitable expenditure		**(145.1)**	**(81.1)**	**(226.2)**	(109.1)	(206.4)	(315.5)
Total expenditure		**(145.1)**	**(140.7)**	**(285.8)**	(109.1)	(277.4)	(386.5)
Total net expenditure before investment gains		**3.3**	**(121.8)**	**(118.5)**	–	(226.9)	(226.9)
Gains on investment assets	2(a)	**–**	**411.2**	**411.2**	–	1,072.4	1,072.4
Gains (losses) on derivatives		**–**	**14.3**	**14.3**	–	(80.1)	(80.1)
(Losses) gains on foreign currency		**–**	**(25.6)**	**(25.6)**	–	61.3	61.3
Total net income before taxation		**3.3**	**278.1**	**281.4**	–	826.7	826.7
Current taxation	10	**–**	**(0.3)**	**(0.3)**	–	(0.2)	(0.2)
Deferred taxation	10	**–**	**11.1**	**11.1**		(0.2)	(0.2)
Total net income after taxation		**3.3**	**288.9**	**292.2**	–	826.3	826.3
Other recognised gains and losses							
Actuarial (losses) on defined benefit pension schemes (staff pre 2000)	16(b)	**–**	**(4.7)**	**(4.7)**	–	(21.4)	(21.4)
Total other recognised gains and losses		**–**	**(4.7)**	**(4.7)**	–	(21.4)	(21.4)
Net movement in funds		**3.3**	**284.2**	**287.5**	–	804.9	804.9
Reconciliation of funds:							
Total funds brought forward		**–**	**6,099.4**	**6,099.4**		5,294.5	5,294.5
Total funds carried forward		**3.3**	**6,383.6**	**6,386.9**	–	6,099.4	6,099.4

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

The breakdown of other funds is shown in note 17.

Commissioners' statement of financial activities
For the year ended 31 December 2017

		2017			2016		
	Notes	Other funds £m	Endowment £m	Total £m	General fund £m	Endowment £m	Total £m
Income from:							
Donations and legacies		2.0	7.3	9.3	0.2	43.4	43.6
Investments		–	157.2	157.2	0.1	140.9	141.0
Other income		0.9	–	0.9	1.8	2.6	4.4
Transfer to income	17	145.1	(145.1)	–	107.0	(107.0)	–
Total income		148.0	19.4	167.4	109.1	79.9	189.0
Expenditure on:							
Raising funds		–	(61.3)	(61.3)	–	(53.4)	(53.4)
Charitable activities							
Mission activities		(56.6)	–	(56.6)	(18.7)	–	(18.7)
Diocese and ministry support		(37.3)	–	(37.3)	(35.4)	–	(35.4)
Bishops' ministry and cathedral costs		(43.6)	–	(43.6)	(48.3)	–	(48.3)
National payroll for clergy		(0.9)	–	(0.9)	(0.9)	–	(0.9)
Administering the legal framework		(5.2)	–	(5.2)	(5.2)	–	(5.2)
Clergy pensions obligation	3, 15	(1.1)	(81.1)	(82.2)	(0.6)	(206.4)	(207.0)
Total charitable expenditure		(144.7)	(81.1)	(225.8)	(109.1)	(206.4)	(315.5)
Total expenditure		(144.7)	(142.4)	(287.1)	(109.1)	(259.8)	(368.9)
Total net expenditure before investment gains		3.3	(123.0)	(119.7)	–	(179.9)	(179.9)
Gains on investment assets	2(a)	–	423.9	423.9	–	1,036.7	1,036.7
Gains (losses) on derivative financial instruments		–	14.3	14.3	–	(80.1)	(80.1)
(Losses) gains on foreign currency		–	(25.7)	(25.7)	–	49.7	49.7
Total net income before taxation		3.3	289.5	292.8	–	826.4	826.4
Current taxation		–	(0.3)	(0.3)	–	(0.1)	(0.1)
Deferred taxation		–	(0.3)	(0.3)	–	–	–
Total net income after taxation		3.3	288.9	292.2	–	826.3	826.3
Other recognised gains and losses							
Actuarial (losses) on defined benefit pension schemes (staff pre 2000)	16(b)	–	(4.7)	(4.7)	–	(21.4)	(21.4)
Total other recognised gains and losses		–	(4.7)	(4.7)	–	(21.4)	(21.4)
Net movement in funds		3.3	284.2	287.5	–	804.9	804.9
Reconciliation of funds:							
Total funds brought forward		–	6,099.4	6,099.4		5,294.5	5,294.5
Total funds carried forward		3.3	6,383.6	6,386.9	–	6,099.4	6,099.4

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

The breakdown of other funds is shown in note 17.

Balance sheets
As at 31 December 2017

		Consolidated		Commissioners	
	Notes	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Fixed assets					
Tangible assets	11	**93.7**	93.1	**92.7**	93.1
Heritage assets	12	**3.5**	3.4	**3.5**	3.4
Investments	2	**7,653.5**	7,173.6	**7,237.3**	6,838.6
Total fixed assets		**7,750.7**	7,270.1	**7,333.5**	6,935.1
Current assets					
Debtors	13	**41.1**	112.3	**474.4**	448.7
Current asset investments		**250.1**	314.6	**250.1**	314.6
Cash at bank and in hand		**370.5**	440.7	**366.5**	437.9
Total current assets		**661.7**	867.6	**1,091.0**	1,201.2
Liabilities					
Creditors: amounts falling due within one year	14	**(77.9)**	(77.6)	**(90.0)**	(87.3)
Net current assets		**583.8**	790.0	**1,001.0**	1,112.9
Total assets less current liabilities		**8,334.5**	8,060.1	**8,334.5**	8,048.0
Creditors: amounts falling due after one year	14	**(37.3)**	–	**(37.3)**	–
Provisions					
Deferred tax liability	10	**(0.3)**	(11.1)	**(0.3)**	–
Clergy pre 1998 pension obligation:					
Expected to fall due within one year		**(121.2)**	(121.6)	**(121.2)**	(121.6)
Expected to fall due after one year		**(1,633.5)**	(1,673.2)	**(1,633.5)**	(1,673.2)
Total clergy pre 1998 pension obligation	15	**(1,754.7)**	(1,794.8)	**(1,754.7)**	(1,794.8)
Net assets excluding pension scheme liabilities		**6,542.2**	6,254.2	**6,542.2**	6,254.2
Defined benefit pension scheme liabilities	16	**(155.3)**	(154.8)	**(155.3)**	(154.8)
Total net assets		**6,386.9**	6,099.4	**6,386.9**	6,099.4
Funds of the charity					
Endowment funds		**6,538.9**	6,254.2	**6,538.9**	6,254.2
Pension reserves	16	**(155.3)**	(154.8)	**(155.3)**	(154.8)
Unrestricted funds:					
Designated funds		**2.9**	–	**2.9**	–
General funds		**–**	–	**–**	–
Restricted funds		**0.4**	–	**0.4**	–
Total charity funds	17	**6,386.9**	6,099.4	**6,386.9**	6,099.4

By order of the Board

Loretta Minghella

Loretta Minghella
First Church Estates Commissioner

Date: 8 May 2018

Consolidated cash flow statement
For the year ended 31 December 2017

Statement of cash flows

	Notes	2017 £m	2016 £m
Cash flows from operating activities		**43.8**	(205.7)
Charitable expenditure paid from endowment capital	15	**(121.2)**	(121.8)
Net cash used in operating activities		**(77.4)**	(327.5)
Cash flows from investing activities			
Income from investments		**161.6**	154.9
Expenditure on raising funds paid from endowment capital	2	**(59.6)**	(71.0)
Tangible assets: additions	11	**(1.8)**	(0.1)
Tangible assets: sale proceeds		**1.3**	2.3
Investments: additions	2	**(1,753.8)**	(1,820.4)
Investments: sale proceeds	2	**1,685.1**	2,049.6
Net cash provided by investing activities		**32.8**	315.3
Change in cash and cash equivalents in the reporting period		**(44.6)**	(12.2)
Cash at the start of the reporting period		**440.7**	391.6
Change in cash and cash equivalents in the reporting period		**(44.6)**	(12.2)
Change in cash due to exchange rate movements		**(25.6)**	61.3
Cash at the end of the reporting period		**370.5**	440.7

Reconciliation of net income to net cash inflow from operating activities

	Notes	2017 £m	2016 £m
Net income for the year		**292.2**	826.3
Adjustments for:			
Depreciation of tangible assets	11	**0.1**	0.4
Gain on disposal of tangible assets		**(0.2)**	–
Expenditure on raising funds paid from endowment capital	2	**59.6**	71.0
Expenditure on charitable activities paid from endowment capital	3	**81.1**	206.4
Income from investments	2	**(164.0)**	(154.9)
(Gains) on investments	2	**(411.2)**	(1,072.4)
Losses (gains) on foreign currency		**25.6**	(61.3)
Movement in debtors, excluding accrued investment income	13	**73.5**	(70.1)
Movement in current asset investments		**64.5**	39.0
Movement in creditors	14	**37.6**	12.6
Movement in deferred tax provision	10	**(10.8)**	–
Effect of defined benefit pension scheme liabilities on net income	16	**(4.2)**	(2.7)
Cash flows from operating activities		**43.8**	(205.7)

Notes to the financial statements
For the year ended 31 December 2017

1. Accounting policies

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

(b) Basis of preparation
The consolidated and charity financial information has been prepared in accordance with:
- Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102');
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) ('the SORP'); and
- the Charities Act 2011.

The Commissioners meet the definition of a Public Benefit Entity ('PBE') as set out in FRS 100, and therefore apply the PBE prefixed paragraphs in FRS 102.

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

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

The Commissioners adopt a total return approach to investments. Note 17 explains how the unapplied total return and the use thereof is calculated.

The Commissioners have presented a consolidated cash flow statement, and have taken advantage of the exemption within FRS 102 from presenting a cash flow statement for the Commissioners only.

(c) Significant judgements and estimates
The key judgements and estimations, which have a significant effect on the amounts recognised in the financial statements, are described in the accounting policies and are summarised below:
- Clergy pension liability – the estimations surrounding the pre-1998 clergy pensions liability. Further details are disclosed in note 15.
- Pension deficit liabilities – the estimations surrounding the recognition of the Commissioners' defined benefit pension deficit liabilities. Further details are disclosed in note 16.
- Carrying value of investment assets and tangible fixed assets – the judgements around appropriate valuation methods used for the assets of the Commissioners. Further details are disclosed in note 1(m) and note 2.

(d) Going concern
After considering the Commissioners' role in funding the Church's ministry (described on pages 12 to 19 of the Annual Report), spending strategy, application of total return, and the legislation to allow endowment to be spent for specific pensions purposes, the trustees have reasonable expectation that the Commissioners have adequate resources and cash flows to meet their spending commitments for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

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

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

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

Notes to the financial statements continued
For the year ended 31 December 2017

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

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

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

Other loans
Interest on loans is recognised on the accruals basis.

Donations and legacies
All income is recognised when the Commissioners are legally entitled to the income and the amount can be quantified with reasonable accuracy. Pecuniary legacies are recognised as receivable once probate has been granted and notification has been received. Residuary legacies are recognised as receivable once probate has been granted where sufficient information has been received, on an estimated basis, as follows: cash elements are recognised at monetary value, with property and other assets, including investments, valued at probate or net realisable value.

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

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

Expenditure and liabilities are recognised when a legal or constructive obligation exists to make payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

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

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

(h) Provisions
The liability for the pre-1998 clergy pension obligation is recognised at the actuarial valuation provided by Hymans Robertson LLP. This is the best estimate of the total value of future discounted cash flows. The assumptions and methodology behind the cash flow projections are disclosed in note 15.

(i) Pensions
Pensions are described in note 16.

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

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

(j) Fixed assets: tangible assets
Costs incurred on acquiring, improving or adding to assets are capitalised if the cost is greater than £1,000. Repair and maintenance costs are charged to the SOFA in the period they are incurred.

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

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

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

Green energy generation assets are initially recognised at cost and are revalued at each balance sheet date. The assets acquired during the year ended 31 December 2017 have not been revalued because the cost of the asset represents its fair value at 31 December 2017.

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

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

Operational see house properties are not revalued under FRS 102 and are recognised at their deemed cost at the date of transition.

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

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

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

Historic contents of Lambeth Palace
Historic items are recognised at cost. On transition to FRS 102, the Commissioners re-based the deemed cost of these assets to their carrying value at 31 December 2013, based on the value attributed to them in a valuation carried out in 2007.

Any additional items purchased or donated are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred. The collection is reviewed for impairment at each accounting date.

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

Notes to the financial statements continued
For the year ended 31 December 2017

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

Historic contents of former see houses
Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost. On transition to FRS 102, the Commissioners re-based the deemed cost of these assets to their carrying value at 31 December 2013, based on the value attributed to them in a valuation carried out in 2007.

Any additional items purchased or donated since 1 January 2015 are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred. The collection is reviewed for impairment at each accounting date.

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

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

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

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

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

Financial liabilities are derecognised when the liability is extinguished; that is when the contractual obligation is discharged, cancelled or expires.

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

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

Property funds and **subsidiary undertakings:** annually valued at the Commissioners' share of the underlying net assets. Underlying assets are valued on the same basis as those held directly, that is in line with International Valuation Standards ('IVS'), on a rolling three-year programme or more frequently. For the subsidiaries in the Commissioners' individual financial statements, this is considered to represent the fair value of the subsidiary, with changes in fair value being recognised in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

Current investment assets
Current investment assets are investments in treasury bills which have maturity periods of less than one year. They are held to meet short-term cash commitments as they fall due. Movements in the value of these bonds are recognised in income under the effective interest method.

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

Notes to the financial statements continued
For the year ended 31 December 2017

1. Accounting policies (continued)
(n) 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.

Deferred taxation is recognised in the Commissioners' subsidiary undertakings on timing differences that have arisen between the recognition of gains and losses in the financial statements and recognition in the tax computation. A deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable tax profits from which future reversals can be deducted. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to be reversed.

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.

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

The Commissioners are related to their subsidiaries. Details are given in note 2(e). Transactions between the Commissioners and their subsidiaries are disclosed in note 20.

The Commissioners are related to ChECS, as they are a partner in this joint venture. Details are given in note 2(f). The Commissioners are also related to the following pension funds, administered by the Church of England Pensions Board: Church of England Funded Pensions Scheme; Church Administrators Pension Fund; and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 3, 9 and 16.

2. Investments
(a) Summary of movement on investments
Consolidated

	At 1 January £m	Net additions £m	Sale proceeds £m	Change in market value £m	Harvesting £m	At 31 December £m
Securities portfolio	4,772.1	1,692.4	(1,485.9)	385.0	–	5,363.6
Properties	1,667.6	32.1	(70.2)	80.8	–	1,710.3
Indirect property	215.8	21.4	(87.7)	0.8	–	150.3
Value linked loans	113.5	0.1	(12.9)	2.9	–	103.6
Timberland*	316.8	4.0	(26.8)	(43.5)	(10.4)	240.1
Indirect timberland	62.6	0.3	–	(3.4)	–	59.5
Infrastructure	25.2	3.5	(1.6)	(1.0)	–	26.1
Total	7,173.6	1,753.8	(1,685.1)	421.6	(10.4)	7,653.5

Commissioners

	At 1 January £m	Net additions £m	Sale proceeds £m	Change in market value £m	Harvesting £m	At 31 December £m
Securities portfolio	4,567.0	1,507.9	(1,419.2)	386.9	–	5,042.6
Properties	1,552.5	21.5	(59.5)	69.9	–	1,584.4
Indirect property	195.0	21.4	(87.0)	(1.4)	–	128.0
Value linked loans	113.5	0.1	(12.9)	2.9	–	103.6
Timberland*	122.3	2.5	–	10.9	(7.9)	127.8
Indirect timberland	–	–	–	–	–	–
Infrastructure	–	–	–	–	–	–
Subsidiaries	288.3	–	–	(37.4)	–	250.9
Total	6,838.6	1,553.4	(1,578.6)	431.8	(7.9)	7,237.3

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

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

Future commitments are disclosed in note 18.

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

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

Open derivative financial instruments at the balance sheet date are included at fair value in debtors or creditors, depending on their mark to market position, and not within investment assets. The net loss from operating the hedging programme was £11.2m (2016: loss of £10.7m), after deducting fees of £1.3m (2016: £1.2m).

Securities portfolio
The securities portfolio consists of listed public equities, private equity investments in unlisted companies, multi-asset funds, fixed income bonds, emerging market debt and private credit. The market value of listed investments includes stock on loan of £63.6m (2016: £62.0m). Net additions and sale proceeds during the year exclude the purchase and sale of foreign currency for the purposes of conversion and currency hedging.

Unlisted UK equities include £0.2m (2016: £0.2m) invested in shares in the Churches Mutual Credit Union Limited, which is a mixed motive investment, as defined in section 21 of the SORP.

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

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

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

Notes to the financial statements continued
For the year ended 31 December 2017

2. Investments (continued)

Timberland

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

	Consolidated		Commissioners	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Biological assets				
Standing timber at 1 January	**240.8**	190.6	**92.2**	84.3
Additions	**4.0**	22.2	**2.5**	2.1
Disposals	**(26.8)**	(0.8)	**–**	–
Harvesting	**(10.4)**	(8.6)	**(7.9)**	(4.1)
Movement in fair value	**(34.2)**	37.4	**7.1**	9.9
Standing timber at 31 December	**173.4**	240.8	**93.9**	92.2
Land and other assets	**66.7**	76.0	**33.9**	30.1
Total timberland	**240.1**	316.8	**127.8**	122.3

Indirect timberland

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

Infrastructure

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

(b) Detail of investments and investment income

	Fair value				Investment income	
	Consolidated		Commissioners		Consolidated	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Securities portfolio						
Listed UK equities	**941.3**	822.7	**941.3**	822.7	**30.5**	28.1
Listed overseas equities	**1,963.1**	1,733.5	**1,963.1**	1,733.5	**35.8**	35.2
Unlisted UK equities	**337.7**	375.0	**328.3**	370.0	**0.3**	11.3
Unlisted overseas equities	**1,617.1**	1,311.3	**1,305.5**	1,111.2	**17.2**	8.1
Listed UK fixed interest securities	**178.4**	174.2	**178.4**	174.2	**0.5**	1.0
Listed overseas fixed interest securities	**322.5**	351.8	**322.5**	351.8	**10.8**	4.1
Unlisted overseas fixed interest securities	**3.5**	3.6	**3.5**	3.6	**–**	–
Interest on cash and stock lending income	**–**	–	**–**	–	**2.2**	2.7
Total securities	**5,363.6**	4,772.1	**5,042.6**	4,567.0	**97.3**	90.5
Investment properties						
Freehold interests	**1,704.7**	1,661.2	**1,578.8**	1,546.1	**42.7**	39.7
Leasehold properties with more than 50 years to run	**5.6**	6.4	**5.6**	6.4	**0.1**	0.1
Total investment properties	**1,710.3**	1,667.6	**1,584.4**	1,552.5	**42.8**	39.8
Indirect property						
Unquoted UK funds	**57.0**	61.9	**35.0**	41.9	**1.5**	4.3
Unquoted overseas funds	**93.3**	153.9	**93.0**	153.1	**0.3**	1.1
Total property funds	**150.3**	215.8	**128.0**	195.0	**1.8**	5.4
Value linked loans						
To provide and improve Church property and for other purposes	**27.2**	30.3	**27.2**	30.3	**0.9**	1.0
To Church of England Pensions Board	**76.4**	83.2	**76.4**	83.2	**2.5**	2.7
Total value linked loans	**103.6**	113.5	**103.6**	113.5	**3.4**	3.7
Timberland						
UK timberland	**127.8**	122.3	**127.8**	122.3	**9.2**	4.8
Overseas timberland	**112.3**	194.5	**–**	–	**6.9**	8.7
Total timberland	**240.1**	316.8	**127.8**	122.3	**16.1**	13.5
Indirect timberland						
Overseas timberland	**59.5**	62.6	**–**	–	**1.5**	0.4
Total indirect timberland	**59.5**	62.6	**–**	–	**1.5**	0.4
Infrastructure						
Unquoted overseas funds	**26.1**	25.2	**–**	–	**0.7**	0.4
Total infrastructure	**26.1**	25.2	**–**	–	**0.7**	0.4
Subsidiaries	**–**	–	**250.9**	288.3	**–**	–
Total subsidiaries	**–**	–	**250.9**	288.3	**–**	–
Income adjustments						
Add income on current asset investments	**–**	–	**–**	–	**0.4**	1.2
Totals	**7,653.5**	7,173.6	**7,237.3**	6,838.6	**164.0**	154.9

Notes to the financial statements continued
For the year ended 31 December 2017

2. Investments (continued)
(c) Expenditure

	Direct costs £m	Internal management costs £m	Support costs (note 6) £m	2017 Total £m	Direct costs £m	Internal management costs £m	Support costs (note 6) £m	2016 Total £m
Securities	**34.7**	**3.2**	**3.5**	**41.4**	29.4	2.7	3.8	35.9
Properties	**14.4**	**1.9**	**1.1**	**17.4**	11.7	1.8	1.3	14.8
Indirect property	**0.1**	**0.2**	**0.1**	**0.4**	0.1	0.2	0.2	0.5
Value linked loans	**–**	**0.1**	**0.1**	**0.2**	–	0.1	0.1	0.2
Timberland	**(0.3)**	**0.3**	**0.2**	**0.2**	18.9	0.4	0.3	19.6
Infrastructure	**–**	**–**	**–**	**–**	–	–	–	–
Total	**48.9**	**5.7**	**5.0**	**59.6**	60.1	5.2	5.7	71.0

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

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

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

(d) Valuation of investments
The original cost of investments is not disclosed given the historic nature of many of the property investments.

The Commissioners have investments denominated in foreign currencies and are impacted by changes in foreign currency exchange rates. Non-sterling assets exposed to currency risk represented 54.9% (2016: 53.4%) of the investment portfolio. However, a currency overlay programme, utilising forward foreign exchange contracts, is used to hedge back into sterling 25.0% (2016: 30.1%) of these non-sterling assets.

Investment properties
The valuers of the properties were:
- Rural and strategic land properties: Bidwells LLP
- Commercial properties: Cushman & Wakefield LLP
- Residential properties: Jones Lang LaSalle Limited
- Mineral portfolio: Wardell Armstrong LLP

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

Value linked loans
All value linked loans were valued by Cushman & Wakefield LLP.

Timberland (including biological assets)
UK timberland was valued by Bidwells LLP. Overseas timberland was valued by local qualified valuers.

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

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

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

Registered in	Subsidiary (company number)
England and Wales	CC Trading Ltd (2080054), CC Lincoln Ltd (3687102), CC Projects (1765782), Cedarvale (2220037), CC Licensing (2245961), Quivercourt (1807330), Easton Tree Ltd (8135237) and Weston Tree Ltd (7859221).
US (Delaware)	Cherry Tree Timber LLC (W-115255), Lambeth Tree LLC (5599687).
Australia	Jahr Tree Co Pty Ltd (600392667)

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

Summary results for the material subsidiaries are shown below:

	CC Licensing		CC Projects		CC Trading Ltd		Cedarvale		Quivercourt	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Revenue	**8.9**	50.9	**4.7**	6.6	**7.3**	4.1	**1.7**	5.4	**3.1**	4.8
Expenditure*	**(14.1)**	(40.0)	**(2.8)**	(2.9)	**(7.3)**	(4.1)	**(0.1)**	(0.1)	**(0.2)**	(19.2)
Profit/(loss)	**(5.2)**	10.9	**1.9**	3.7	**–**	–	**1.6**	5.3	**2.9**	(14.4)
Assets	**406.6**	291.0	**40.8**	32.6	**11.8**	13.9	**23.2**	21.5	**22.0**	19.5
Liabilities	**(314.1)**	(232.7)	**(6.4)**	(0.2)	**(5.7)**	(7.8)	**(0.1)**	–	**(9.5)**	(9.9)
Net funds	**92.5**	58.3	**34.4**	32.4	**6.1**	6.1	**23.1**	21.5	**12.5**	9.6

* Includes Gift Aid payments to the Commissioners.

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

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

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

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

As at 31 December 2017, other than the amounts disclosed in debtors, £64,000 was owed by the Commissioners to ChECS (2016: £30,000 owed by the Commissioners to ChECS).

The Commissioners have no associated undertakings.

Notes to the financial statements continued
For the year ended 31 December 2017

3. Charitable activities

	Grant funding Note 4 £m	Direct funding Note 5 £m	Support costs Note 6 £m	2017 Total £m	Grant funding Note 4 £m	Direct funding Note 5 £m	Support costs Note 6 £m	2016 Total £m
Mission activities	**55.5**	**0.4**	**0.7**	**56.6**	16.9	1.0	0.8	18.7
Diocese and ministry support	**36.8**	**0.1**	**0.4**	**37.3**	35.3	0.1	–	35.4
Bishops' ministry and cathedral costs	**24.6**	**16.5**	**2.9**	**44.0**	27.9	17.5	2.9	48.3
National payroll for clergy	**–**	**–**	**0.9**	**0.9**	–	–	0.9	0.9
Administering the legal framework and other grants	**1.6**	**0.5**	**3.1**	**5.2**	1.5	0.7	3.0	5.2
Clergy pension obligation	**–**	**81.8**	**0.4**	**82.2**	–	206.2	0.8	207.0
Total costs of charitable activities	**118.5**	**99.3**	**8.4**	**226.2**	81.6	225.7	8.4	315.5

Mission activities
Mission activities comprise grants to the Archbishops' Council and direct grants to dioceses and parishes for strategic development initiatives (see note 4 for details of individual grants).

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

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

The Commissioners provide diocesan bishops and archbishops with an annual block grant to cover their stipend and working costs and that of their suffragan bishops. Pension contributions are paid from this grant to the Church of England Funded Pensions Scheme for bishops and their chaplains, and the Church Administrators Pension Fund for bishops' support staff (see note 16).

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

Clergy pension obligation
The Commissioners are obliged to meet the costs of clergy pensions for service up to 31 December 1997. This amount represents the movement in the provision for clergy pensions until 31 December 1997 in the year to 31 December 2017 (with associated administration costs) and payments to the clergy post 1997 scheme. The cash paid under the pre 1998 scheme was £121.2m (2016: £121.8m). Further details are provided in note 15.

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

Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings
The Commissioners have a legal and advisory role in:
- the reorganisation of parishes;
- sales and other transactions relating to clergy housing and glebe land; and
- settling the future of church buildings that have been closed for public worship.

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

If a closed church building is sold, the proceeds are shared between the relevant diocese (two-thirds) and the Commissioners (one-third), to be spent on certain purposes, including offsetting the cost of the annual grant to the Churches Conservation Trust. The amount paid to the Trust is set out in the Payments to the Churches Conservation Trust Order 2014, and granted to support its work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality.

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

4. Grant making

All grants are made to institutions.

	2017 £m	2016 £m
Mission activities		
Grant to the Archbishops' Council for Mission Development Funding	–	6.6
Grant to the Archbishops' advisors for Growth Research and Development	0.2	1.1
Grant to the Archbishops' Council for Strategic Development Funding	46.6	–
Grants to 0 (2016: 21) dioceses for Strategic Development Funding	–	9.0
Grant to the Archbishops' Council for Restructuring	8.6	–
Grants to 1 (2016: 6) diocese(s) for Growth Research and Development	0.1	0.2
Total grants to support mission activities	**55.5**	16.9
Diocese and ministry support		
Grant to the Archbishops' Council	36.8	35.3
Total grants for diocese and ministry support	**36.8**	35.3
Bishops' ministry and cathedral costs		
114 (2016: 113) grants to bishops in 42 (2016: 42) dioceses	19.6	18.9
Return of unspent grants from bishops	(4.3)	–
2 (2016: 0) grants to 2 (2016: 0) cathedrals – Cathedral Sustainability Fund	0.1	–
86 (2016: 85) grants to 42 (2016: 42) cathedrals – other grants	9.2	9.0
Total grants to pay for bishops' ministry and cathedral costs	**24.6**	27.9
Administering the legal framework and other grants		
Statutory grant to Churches Conservation Trust	1.5	1.4
Other grants	0.1	0.1
Total grants for administering the legal framework	**1.6**	1.5
Total grant funding	**118.5**	81.6

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

The grant-making activities can be analysed as follows:

Grants payable

	Consolidated and Commissioners	
	2017 £m	2016 £m
As at 1 January	13.6	6.1
Changes in liability due to:		
New grant commitments in the year	122.8	81.6
Return of unspent grants	(4.3)	–
Grant payments in the year	(70.7)	(74.1)
As at 31 December	**61.4**	13.6

Notes to the financial statements continued
For the year ended 31 December 2017

5. Direct funding

	2017 £m	2016 £m
Mission activities		
National research and development costs	0.4	1.0
Total mission activities	0.4	1.0
Diocese and ministry support		
Payments direct to parish clergy	0.1	0.1
Total diocesan and ministry support	0.1	0.1
Bishops' ministry and cathedral costs		
Bishops and archbishops' housing and office premises	3.1	3.4
Lambeth Palace Library running costs	1.0	1.0
Lambeth Palace Library project	1.3	1.7
Archbishops' stipends, office and working costs and other national costs	11.0	11.0
Archbishops' advisors	0.1	0.4
Total bishops' ministry and cathedral costs	16.5	17.5
Clergy pensions obligation		
Payments made to clergy for pre-1998 pension obligation	121.2	121.8
Actuarial adjustment to payments made for clergy pre-1998 pension obligation	(40.1)	84.6
Total expenditure under clergy pre-1998 pension obligation (note 15)	81.1	206.4
Administration charges for the clergy pre-1998 pension obligation	0.9	–
Interest on provision for clergy pensions post 1997 (note 16)	0.1	0.2
Remeasurement of liability for clergy pensions post 1997 (note 16)	(0.3)	(0.4)
Total clergy pension obligation	81.8	206.2
Administering the legal framework		
Chancel repair liability	0.5	0.7
Total costs of administering the legal framework	0.5	0.7
Total direct costs	99.3	225.7

6. Support costs

	Investment activities Note 2(c) £m	Charitable activities Note 3 £m	2017 Total £m	Investment activities Note 2(c) £m	Charitable activities Note 3 £m	2016 Total £m
Department costs	–	2.5	2.5	–	2.4	2.4
Shared services	2.6	3.4	6.0	2.5	2.9	5.4
Governance costs	0.4	0.7	1.1	0.9	1.1	2.0
Staff pension costs (note 16):						
Interest on staff pension scheme liabilities	2.0	1.7	3.7	2.3	2.1	4.4
Other costs	–	0.1	0.1	–	(0.1)	(0.1)
Total support costs	5.0	8.4	13.4	5.7	8.4	14.1

Department costs are costs incurred by the Commissioners for administering their charitable activities. These costs include salaries and other running costs. Overheads are apportioned according to an activity-based time split.

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

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

Allocation of costs

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

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

Fees paid to Grant Thornton UK LLP, excluding VAT, are shown in the table below:

	2017 £000	2016 £000
Audit of Church Commissioners:		
Current year	**150**	125
Prior year	**36**	–
Audit of subsidiary undertakings	**58**	55
Audit-related assurance services	**–**	1
Total audit fees	**244**	181

7. Staff numbers and remuneration

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

In addition to staff employed directly, the work of the Commissioners is supported by staff in shared service departments provided by ChECS, which provides finance, HR, communications, legal, IT and internal audit services to the NCIs. The SORP requirements are that the costs of staff employed by third parties who operate on an entity's behalf should be disclosed in the accounts. In order to comply with the spirit of the SORP, the costs of all ChECS staff are shown in aggregate in the tables below – the Commissioners' share of which was £4,068,000 (2016: £3,713,000).

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2017 Number	2016 Number	**2017 Number**	2016 Number	**2017 Number**	2016 Number
Average number employed	**34**	34	**32**	34	**171**	144

	£m	£m	**£m**	£m	**£m**	£m
Salaries	**3.7**	3.6	**1.6**	1.5	**6.5**	5.6
National Insurance costs	**0.5**	0.4	**0.2**	0.2	**0.7**	0.6
Pension contributions	**0.4**	0.3	**0.3**	0.3	**0.9**	0.8
Total cost of staff	**4.6**	4.3	**2.1**	2.0	**8.1**	7.0

Salaries includes £nil (2016: £441,000) paid by way of termination costs to zero (2016: six) individuals following a restructuring, the costs of which are accounted for in full in the year in which the restructure was announced.

Asset management and national Church functions

The cost of the planning and management of the Commissioners' assets is included in external management costs (note 2) and the cost of the administration of national Church functions is included in support costs (note 6).

Notes to the financial statements continued
For the year ended 31 December 2017

7. Staff numbers and remuneration (continued)

Staff loans

In addition to the amounts shown in the previous table, the Commissioners provide loans under the staff house mortgage scheme. These loans are included in loans (note 13) at £0.1m (2016: £0.1m). The scheme, which was closed to new business in 2004, has four (2016: six) loans outstanding to four (2016: six) members of staff.

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

Staff emoluments

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2017 Number	2016 Number	**2017 Number**	2016 Number	**2017 Number**	2016 Number
£60,001 to £70,000	**5**	4	**1**	1	**9**	4
£70,001 to £80,000	**1**	1	**3**	2	**4**	5
£80,001 to £90,000	**4**	2	**1**	1	**5**	8
£90,001 to £100,000	**–**	–	**–**	–	**3**	–
£100,001 to £110,000	**–**	1	**–**	–	**–**	–
£110,001 to £120,000	**1**	1*	**–**	–	**–**	–
£120,001 to £130,000	**1***	–	**–**	–	**2**	1
£140,001 to £150,000	**–**	1*	**–**	–	**–**	1
£150,001 to £160,000	**–**	1*	**–**	–	**–**	–
£160,001 to £170,000	**1***	–	**1****	1**	**–**	–
£170,001 to £180,000	**1**	3*	**–**	–	**–**	–
£180,001 to £190,000	**1***	–	**–**	–	**–**	–
£190,001 to £200,000	**1***	–	**–**	–	**–**	–
£200,001 to £210,000	**2***	–	**–**	–	**–**	–
£210,001 to £220,000	**–**	1*	**–**	–	**–**	–
£230,001 to £240,000	**1***	–	**–**	–	**–**	–
£240,001 to £250,000	**–**	1*	**–**	–	**–**	–
£280,001 to £290,000	**–**	1*	**–**	–	**–**	–
£320,001 to £330,000	**1***	–	**–**	–	**–**	–
£460,001 to £470,000	**–**	1*	**–**	–	**–**	–
£510,001 to £520,000	**1***	–	**–**	–	**–**	–

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

Employee benefits include gross salaries and termination payments but do not include employer pension contributions.

All of the staff above are members of the Church Administrators Pension Fund (note 9). Of those managed directly by the Commissioners, 18 (2016: 14) accrue benefits under a defined contribution scheme for which contributions for the year were £225,000 (2016: £151,000). The remaining nine (2016: nine) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, 15 (2016: nine) accrue benefits under a defined contribution scheme for which contributions for the year were £164,000 (2016: £104,000). The remaining eight (2016: nine) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Director of Investments who earned £264,000 (2016: £259,000) and an LTIP of £251,000 (2016: £202,000) based on the long-term performance of the fund. Eight (2016: nine) other members of staff received LTIPs in the year totalling £735,000 (2016: £846,000). Further details of the Commissioners' remuneration policy are included in the Governance section of the Board's report on page 41.

The Commissioners' senior executive leadership team comprises eight individuals, three of whom are employed directly by the Commissioners and five by ChECS. Their aggregate remuneration, including LTIPs, National Insurance and pension contributions, is £1,552,000.

8. Trustees' emoluments and expenses

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

	2017 £000	2016 £000
First Church Estates Commissioner		
Salary	**47**	59
National Insurance costs	**6**	7
Pension	**2**	–
Total Church Estates Commissioners' costs	**55**	66

Pensions paid to former First and Third Church Estates Commissioners of £24,000 (2016: £24,000) were charged to the staff pension provision (note 9).

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 17 (2016: 27) trustees claimed expenses or had their expenses met by the charity, totalling £17,000 (2016: £21,000) in respect of travel and subsistence. The Commissioners meet the expenses of committee members in carrying out their duties. During the year, 13 committee members claimed expenses or had their expenses met by the charity, totalling £5,000 in respect of their travel and subsistence.

9. Staff pensions

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

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

Pensions are described in more detail in note 16.

10. Taxation

	UK Corporation Tax £m	Australian Corporate Income Tax £m	Australian Withholding Tax £m	2017 £m	2016 £m
Consolidated					
Current tax	–	–	0.3	**0.3**	0.2
Deferred tax	–	(11.4)	0.3	**(11.1)**	0.2
Total taxation charge	–	(11.4)	0.6	**(10.8)**	0.4
Commissioners					
Current tax	–	–	0.3	**0.3**	0.1
Deferred tax	–	–	0.3	**0.3**	–
Total taxation charge	–	–	0.6	**0.6**	–

The Church Commissioners are a registered charity. As such, under UK tax law, they are exempt from Corporation Tax on all their investment income and chargeable gains. They are, however, subject to Corporation Tax on non-primary purpose trading income. A tax charge of £nil arose in 2017 (2016: £0.2m) in respect of such income. The UK-resident subsidiaries of the Church Commissioners are, prima facie, subject to Corporation Tax on their income. However, all these subsidiaries have Deeds of Covenants to distribute all taxable profits to the Church Commissioners. As such distributions are tax deductible, no tax liability arises in the subsidiaries.

Notes to the financial statements continued
For the year ended 31 December 2017

10. Taxation (continued)
The overseas subsidiaries of the Church Commissioners are subject to tax in accordance with the laws of the relevant jurisdiction. A deferred tax charge of £0.3m was accrued in respect of withholding tax on accrued interest between the Commissioners and their Australian subsidiary (2016: £0.2m was accrued during the year in respect of profits earned during the year in Australia). £11.4m of deferred tax was released in respect of timberland investment revaluations (2016: £0.7m). Australian Corporate Income Tax (currently 30%) is expected to be paid in the future when these timberland investments are harvested or sold. The current deferred tax asset in respect of this investment is £0.5m (2016: liability of £11.1m).

11. Tangible assets
Consolidated

	Assets in the course of construction £m	Green energy generation £m	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	**Total £m**
Cost or valuation						
Balance at 1 January	–	–	1.9	2.1	93.0	**97.0**
Additions	0.8	0.9	–	–	0.1	**1.8**
Disposals	–	–	–	–	(1.1)	**(1.1)**
Balance at 31 December	0.8	0.9	1.9	2.1	92.0	**97.7**
Accumulated depreciation						
Balance at 1 January	–	–	(1.8)	(2.1)	–	**(3.9)**
Charge for the year	–	–	(0.1)	–	–	**(0.1)**
Balance at 31 December	–	–	(1.9)	(2.1)	–	**(4.0)**
Net book value						
Balance at 1 January	–	–	0.1	–	93.0	**93.1**
Balance at 31 December	0.8	0.9	–	–	92.0	**93.7**

Commissioners

	Assets in the course of construction £m	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	**Total £m**
Cost or valuation					
Balance at 1 January	–	1.9	2.1	93.0	**97.0**
Additions	0.8	–	–	–	**0.8**
Disposals	–	–	–	(1.1)	**(1.1)**
Balance at 31 December	0.8	1.9	2.1	91.9	**96.7**
Accumulated depreciation					
Balance at 1 January	–	(1.8)	(2.1)	–	**(3.9)**
Charge for the year	–	(0.1)	–	–	**(0.1)**
Balance at 31 December	–	(1.9)	(2.1)	–	**(4.0)**
Net book value					
Balance at 1 January	–	0.1	–	93.0	**93.1**
Balance at 31 December	0.8	–	–	91.9	**92.7**

Assets in the course of construction relate to the works on the Lambeth Palace Library project after planning permission was granted on 12 September 2017. Costs incurred prior to this date have been expensed and are shown in note 5.

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

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

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

All tangible fixed assets are located in the United Kingdom.

12. Heritage assets

Analysis of heritage assets

	Lambeth Palace £m	Contents of Lambeth Palace Library £m	Historic contents of Lambeth Palace £m	Historic contents of former see houses £m	**Total £m**
Balance at 1 January	–	0.2	1.1	2.1	**3.4**
Additions	–	0.1	–	–	**0.1**
Balance at 31 December	–	0.3	1.1	2.1	**3.5**

Lambeth Palace
Lambeth Palace has been the historic London residence of the Archbishops of Canterbury since the 13th Century. It was acquired by the Commissioners as a result of an Order in Council given in 1946 in accordance with the Episcopal Endowments and Stipends Measure 1943 and was transferred to the Commissioners at its original deemed cost. At the time of acquisition, the Commissioners' best estimate of the historic deemed cost was £1. Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Whilst the building continues to have operational use, being used as the Archbishop's London residence and including a team of staff employed to support him in his work, it continues to be maintained by the Commissioners as a result of its significant historical and cultural importance as an important exhibit to the public of the history of the work of the Archbishops of Canterbury and the Church of England. The grounds of Lambeth Palace are also home to the Lambeth Palace Library. The Commissioners are responsible for the ongoing upkeep and maintenance of the building. Maintenance costs are charged to the SOFA in the period they are incurred.

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

Historic contents of Lambeth Palace
Included within heritage assets are the historical contents of Lambeth Palace. These items are held primarily for their historical and artistic value. The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents of Lambeth Palace, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2017 and the full professional valuation obtained as at 31 December 2007.

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

Notes to the financial statements continued
For the year ended 31 December 2017

12. Heritage assets (continued)
The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2017 and the full professional valuation obtained as at 31 December 2007.

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Purchases					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace Library	0.1	–	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Donations					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace library	–	–	0.2	–	–
Contents of Lambeth Palace	–	–	–	–	–
Total additions	0.1	–	0.2	–	–

13. Debtors

	Consolidated		Commissioners	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade debtors	9.7	12.0	7.0	11.0
Subsidiary undertakings	–	–	434.4	340.1
Joint venture (ChECS)	0.5	0.5	0.5	0.5
Dioceses (clergy stipends and diocesan debtors accounts)	0.4	1.3	0.4	1.3
Loans	3.8	4.0	3.8	4.0
Other debtors	1.2	5.4	0.7	1.3
Deferred tax asset	0.5	–	–	–
Prepayments	1.6	71.4	1.3	68.9
Accrued income	15.4	13.0	18.3	16.9
Derivative open contracts	8.0	4.7	8.0	4.7
Total debtors	41.1	112.3	474.4	448.7

Consolidated trade debtors of £9.7m (2016: £12.0m) is after deducting a provision for bad and doubtful debts of £0.6m (2016: £0.3m).

Other loans, which are interest bearing and consist of mortgages and loans to Church bodies, cathedrals and staff, and car loans to clergy, are reported within debtors. Unrealised gains on derivative financial instruments are described in note 2.

14. Creditors
Falling due within one year

	Consolidated		Commissioners	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade creditors	7.3	11.1	7.1	11.0
Subsidiary undertakings	–	–	24.8	25.3
Dioceses and other Church bodies	4.2	5.1	4.2	5.1
Other creditors	3.7	2.5	3.2	1.8
Taxation and National Insurance contributions	5.9	4.9	4.5	4.9
Accruals and deferred income	31.0	30.5	20.4	15.6
Grants payable	24.1	13.6	24.1	13.6
Derivative open contracts	1.7	9.9	1.7	10.0
Total creditors	77.9	77.6	90.0	87.3

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

Falling due after one year

	Consolidated 2017 £m	Consolidated 2016 £m	Commissioners 2017 £m	Commissioners 2016 £m
Grants payable	**37.3**	–	**37.3**	–
Total creditors	**37.3**	–	**37.3**	–

15. Provisions
Provision for clergy pre-1998 pension obligation

	Notes	Consolidated and Commissioners 2017 £m	Consolidated and Commissioners 2016 £m
As at 1 January		**1,794.8**	1,710.2
Release of provision for:			
Pensions to clergy for service prior to 1998		**(83.9)**	(84.7)
Lump sum payments on retirement for service prior to 1998		**(7.3)**	(7.8)
Pensions to clergy widows and children for service prior to 1998		**(28.8)**	(28.9)
Benefits under the Deaconesses and Lay Workers (Pensions) Measure 1980		**(0.2)**	(0.2)
Transfers out of scheme		**(1.0)**	(0.2)
		(121.2)	(121.8)
Changes in provision for:			
Interest on provision	3	**50.8**	63.5
Changes in assumptions and due to experience	3	**30.3**	142.9
		81.1	206.4
As at 31 December		**1,754.7**	1,794.8

History
Prior to 1998, the Commissioners were responsible for paying the pensions benefits to clergy who accrued years of pensionable service as members of the Church of England Pensions Scheme. By the mid-1990s this financial burden had become unsustainable and legislation was enacted to provide for new pensions schemes to be established and administered by the Church of England Pensions Board, with contributions for future service to be paid by all responsible bodies and employers (dioceses, cathedrals, the NCIs, and other church organisations). This effectively capped the Commissioners' obligation for clergy pensions for clergy for which they are not the 'responsible body' to service up until 31 December 1997 only.

Details of the Commissioners' financial responsibilities in respect of their role as the 'responsible body' for bishops, cathedral clergy and certain other clergy for service since 1 January 1998 are described in note 16(a).

Church of England Pensions Scheme
The Commissioners are obliged to pay pension benefits to clergy who accrued years of pensionable service until 31 December 1997 as members of the Church of England Pensions Scheme. The Scheme is administered by the Church of England Pensions Board on behalf of the Commissioners. The obligation is recognised in full using the actuarial valuation carried out by Hymans Robertson LLP, independent qualified actuaries. A full valuation is carried out every three years and it is rolled forward in other years. The last full valuation was carried out as at 31 December 2015.

The valuation uses the projected unit method and assumes all benefits, including post-retirement increases, continue to be paid in accordance with current practice. It uses financial assumptions reflecting the term structure of interest rates and inflation. These assumptions include the prospective rate of investment returns, future increases in the RPI, the starting level of pensions and the rate of post-retirement pension increases.

Notes to the financial statements continued
For the year ended 31 December 2017

15. Provisions (continued)
The principal assumptions were:

	2017 %	2016 %	2015 %	2014 %	2013 %
Prospective annual rate of return on investments	**4.4**	4.3	5.0	5.0	5.9
Rate of future stipend and increases in the starting pension	**3.1**	3.2	2.3	2.3	3.3
Rate of post-retirement pension increases	**3.1**	3.2	2.3	2.3	3.3
Retail price inflation	**3.1**	3.2	2.3	2.3	3.3

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.

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

16. Pensions
The legal status and accounting and disclosure requirements under FRS 102 and the SORP for each of the pension schemes are shown in the sub-sections to this note below. The table below shows the pensions reserves:

	Clergy	Staff			Clergy	Staff		
	Post-1997 service Note 16(a) £m	Pre-2000 service Note 16(b) £m	Post-1999 service Note 16(c) £m	2017 £m	Post-1997 service Note 16(a) £m	Pre-2000 service Note 16(b) £m	Post-1999 service Note 16(c) £m	2016 £m
Pension reserves at 1 January	**7.8**	**133.3**	**13.7**	**154.8**	8.9	113.1	14.1	136.1
Benefits/contributions paid	**(1.0)**	**(5.3)**	**(1.5)**	**(7.8)**	(0.9)	(5.3)	(1.5)	(7.7)
Interest on liability	**0.1**	**3.5**	**0.2**	**3.8**	0.2	4.1	0.3	4.6
Remeasurement of liability	**(0.3)**	**–**	**0.1**	**(0.2)**	(0.4)	–	0.8	0.4
Effect on net income	**(1.2)**	**(1.8)**	**(1.2)**	**(4.2)**	(1.1)	(1.2)	(0.4)	(2.7)
Actuarial losses (gains)	**–**	**4.7**	**–**	**4.7**	–	21.4	–	21.4
Pension reserves at 31 December	**6.6**	**136.2**	**12.5**	**155.3**	7.8	133.3	13.7	154.8

The total amounts charged to the balance sheet are £7.8m and the total amounts shown in expenditure are £3.6m. This gives an effect on net income over and above the cash contributions made to the schemes of £4.2m.

(a) Clergy pensions post 1997: Church of England Funded Pensions Scheme
Pensions in respect of service from 1 January 1998 are provided by the Church of England Funded Pensions Scheme, administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee.

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

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

The most recent valuation of the Scheme was carried out by an independent qualified actuary using the projected unit method at as 31 December 2015. This revealed a deficit of £236m, based on assets of £1,308m and a funding target of £1,544m. In light of this, the contribution rate of pensionable stipends will be changed with effect from 1 January 2018.

The contribution rate of future pensionable stipends payable by the Commissioners is made up of the following components:

	From 1 January 2018 %	From 1 January 2017 %	From 1 January 2015 %
Normal contributions	**26.5**	24.3	24.6
Deficit contributions	**11.9**	14.1	14.1
Contributions towards administration expenses	**1.2**	1.2	1.2
Total contribution	**39.6**	39.6	39.9

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

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

(b) Staff pensions pre 2000: Church Commissioners Superannuation Scheme

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

This is a multi-employer scheme where each employer is able to ascertain their share of the scheme assets and liabilities. The Commissioners' share is therefore provided for in the balance sheet in accordance with section 28 of FRS 102. The provision is estimated each year by Hymans Robertson LLP, independent qualified actuaries, with a full valuation being carried out every third year and rolled forward in other years. The last full valuation was carried out as at 31 December 2014.

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

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

	2017 %	2016 %	2015 %	2014 %	2013 %
Discount rate (annual rate of return on AA-rated corporate bonds)	**2.45**	2.65	3.75	3.40	4.3
Rate of salary increases	**4.40**	4.45	4.25	4.25	4.3
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	**2.40**	2.45	2.25	2.25	2.3
for service since 1 April 1997 (RPI)	**3.40**	3.45	3.25	3.25	3.3

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

History of experience gains and losses:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Actuarial (gain)/loss	**4.7**	21.4	(11.1)	13.8	1.6

Notes to the financial statements continued
For the year ended 31 December 2017

16. Pensions (continued)
(c) Staff pensions post 1999: Church Administrators Pension Fund
Pensions in respect of service from 1 January 2000 are provided by the Church Administrators Pension Fund ('CAPF'), administered by the Church of England Pensions Board. The Board publishes the Fund's financial statements, and is its custodian trustee.

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

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

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

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

Following the valuation, the employers have collectively entered into an agreement with CAPF to revise their total contribution rate to 19.1% of pensionable salaries and make deficit payments of £2.5m per year for the next 8.5 years in respect of the shortfall in the defined benefit section (increasing each year by 3.3% p.a.). These deficit contributions are made by each employer in proportion to the pensionable salaries of those in the defined benefit section. Section 28.11A of FRS 102 requires agreed deficit recovery payments to be recognised as a liability. This liability represents the present value of future deficit contributions and has been valued using assumptions set by reference to the duration of the deficit recovery payments.

17. 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 at which the Order is made, and subsequent movements are shown in the table overleaf. 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 Commissioners in April 1948 (£155.8m), inflated in line with RPI and deducting clergy pensions paid from capital, since the Pensions Measure 1997 became effective. The base level of the endowment at 1 January 2012 was £3,000.4m and the unapplied total return was £2,202.0m. The base value and unapplied total return, together with the general fund reserve, made up the total fund value of £5,237.6m at 1 January 2012.

The total return each year remains part of the endowment fund, until it is transferred to the general fund and becomes 'applied total return'. The transfer is shown in the table overleaf 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.

The clergy pension liability has been allocated to unapplied total return as the Commissioners do not have indefinite power to spend endowment on clergy pensions, but only for a seven-year period ending in 2025. At that point, it is expected, but not presumed, that this power will be extended for a further seven years. As such, the base value of endowment is reduced each year by the clergy pensions paid in that year, with movement in the provision being taken against the unapplied total return.

	Notes	Base value of endowment £m	Unapplied total return £m	Total endowment fund £m	Other funds £m	Total funds £m
At 1 January 2017		2,683.2	3,416.2	6,099.4	–	6,099.4
Add investment return for the year:						
Income return – gross income	2	–	164.0	164.0	3.3	167.3
Income return – cost of raising funds	2	–	(59.6)	(59.6)	–	(59.6)
Capital return and foreign exchange		–	399.9	399.9	–	399.9
Taxation payable	10	–	10.8	10.8	–	10.8
Total investment return during the year		–	515.1	515.1	3.3	518.4
Less						
Clergy pensions paid	3	(121.2)	–	(121.2)	–	(121.2)
Release of clergy pensions paid		–	121.2	121.2	–	121.2
Movement on clergy pensions provision	15	–	(81.1)	(81.1)	–	(81.1)
Loss on defined benefit pension schemes (staff pre 2000)	16	(4.7)	–	(4.7)	–	(4.7)
Charitable expenditure: non-pensions	3	–	–	–	(145.1)	(145.1)
Total other movements during the year		(125.9)	40.1	(85.8)	(145.1)	(230.9)
Add indexation on base value of endowment		110.0	(110.0)	–		
Application of non-applied total return		–	(145.1)	(145.1)	145.1	–
At 31 December 2017		2,667.3	3,716.3	6,383.6	3.3	6,386.9

Other funds comprise the following balances:

	At 1 January 2017 £m	Income £m	Expenditure £m	Transfers £m	At 31 December 2017 £m
Restricted funds					
Thy Kingdom Come	–	0.6	(0.4)	–	0.2
Reconciliation	–	0.3	(0.2)	–	0.1
Renewal and Reform	–	0.1	(0.1)	–	–
Closed churches	–	0.6	(0.6)	–	–
Other restricted funds individually below £0.1m	–	0.1	–	–	0.1
Total restricted funds	–	1.7	(1.3)	–	0.4
Unrestricted funds (designated)					
Cathedral Sustainability Fund	–	0.1	(0.1)	2.9	2.9
Unrestricted funds (general)					
General fund	–	1.5	(143.7)	142.2	–
Total unrestricted funds	–	1.6	(143.8)	145.1	2.9
Total other funds	–	3.3	(145.1)	145.1	3.3

Details of the significant restricted and designated funds are given below.

Thy Kingdom Come

The Archbishop of Canterbury receives external funding to plan and deliver the Thy Kingdom Come project, which is a global prayer movement. The funding is for staffing, events, communications and a very wide range of resources required to deliver the project in churches, cathedrals and online.

Notes to the financial statements continued
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17. Funds (continued)
Reconciliation
The Archbishop of Canterbury receives external funding for his Reconciliation Ministry, which is now based at Lambeth Palace. The scope of the funding covers staffing, office and IT costs, conferences and hospitality, UK and overseas travel, training and other resources in relation to the Archbishop's Reconciliation Ministry.

Renewal and Reform
This fund represents donations to support the Renewal and Reform programme, aimed at helping the Church of England to become a growing Church for all people and all places.

Closed churches
This fund represents the Commissioners' share of income received from the sale of closed churches. For further details, see note 3.

Cathedral Sustainability Fund
In February 2017, the Board of Governors agreed to create a fund to promote the financial sustainability of cathedrals by setting aside monies that had been received from unrestricted legacies to make additional distributions to cathedrals under section 23 of the Cathedrals Measure 1999. The funding is approved by the Board upon receipt of a detailed bid and fully costed financial plans. The timing of expenditure on the fund is dependent on bids being received from cathedrals that meet the bid criteria.

The transfer from unapplied total return to the Cathedral Sustainability Fund represents the amounts that have been received in unrestricted legacies from 1 January 2011 to 31 December 2016. In previous years, these funds have been used to reduce the amount transferred to income from the unapplied total return, and so this transfer compensates the designated fund for the unrestricted legacies used instead of the unapplied total return in previous years.

The net assets of the Commissioners split between their funds, on a consolidated basis, are as follows:

	General fund £m	Designated fund £m	Restricted £m	Pension reserve £m	Endowment fund £m	**2017 £m**
Fixed assets	1.1	–	–	–	7,749.6	**7,750.7**
Current assets	69.3	2.9	0.4	–	589.1	**661.7**
Creditors: amounts falling due within one year	(33.1)	–	–	–	(44.8)	**(77.9)**
Creditors: amounts falling due after one year	(37.3)	–	–	–	–	**(37.3)**
Provisions	–	–	–	–	(1,755.0)	**(1,755.0)**
Defined benefit pension scheme liabilities	–	–	–	(155.3)	–	**(155.3)**
Total funds	–	2.9	0.4	(155.3)	6,538.9	**6,386.9**

18. Capital commitments and contingent liabilities
Capital commitments

	Consolidated		Commissioners	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Securities portfolio	**369.2**	445.3	**248.1**	313.7
Indirect property	**32.6**	32.8	**30.6**	30.7
Timberland	**64.5**	72.5	**–**	–
Infrastructure	**40.5**	48.2	**–**	–
Total capital commitments	**506.8**	598.8	**278.7**	344.4

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

Contingent liabilities

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

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

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

19. Leases

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

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

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

	2017 £m	2016 £m
Amounts due within one year	**5.0**	4.6
Amounts due after one year but not more than five years	**13.2**	14.2
Amounts due after five years	**132.2**	111.9
Total rents receivable under non-cancellable operating leases	**150.4**	130.7

Notes to the financial statements continued
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20. Related party transactions

Like many charities, subsidiary companies carry out certain activities on behalf of the Commissioners. The transactions disclosed below are included in the Church Commissioners' stand-alone financial statements, but are eliminated on consolidation. All transactions disclosed below are made between the Commissioners and one or more of its wholly owned subsidiaries, and so any cash or other assets transferred to a subsidiary are included within the consolidated financial statements.

If taxable profits are generated by the subsidiaries, these are paid to the Commissioners as donations made under gift aid. The Commissioners has accrued Gift Aid payments of £7.3m from its subsidiaries in the year to 31 December 2017.

As disclosed in notes 13 and 14, the Commissioners maintain inter-company accounts between itself and its subsidiaries. The total debtors and creditors relating to subsidiary undertakings are disclosed in these notes. The Commissioners use these accounts for efficient cash management across the Group and charge or pay interest at 1% above Bank of England Base Rate on these balances. This has resulted in the Commissioners receiving £4.8m and paying £0.3m interest in the year to 31 December 2017.

In January 2017, CC Licensing acquired the entire interest in the LiquidAlts H20 Force 10 Feeder Fund from the Commissioners for £57.8m. This transaction was made at open market value.

In September 2017, CC Projects acquired land at Paston Reserve, Peterborough from the Commissioners for £5.6m. It also acquired land at Hawton Lane, Newark from the Commissioners for £0.3m in March 2017. This transaction was made at open market value.

The Commissioners hold loan notes issued by its subsidiary Jahr Tree Co Pty in Australia totalling £23.1m at 31 December 2017. The interest accrued on these loan notes in the year ended 31 December 2017 was £2.8m. This transaction was made at open market value.

During the year ended 31 December 2017, Palace Public Occasions Limited was charged £0.1m by the Commissioners for costs incurred by the Commissioners on behalf of the company. An additional £0.1m was charged to the company by the Commissioners for the use of premises owned by the Commissioners.

21. Funds held on behalf of others

	2017 £m	2016 £m
Residential service charges, sinking funds and tenants' deposits	**12.7**	11.2
Trust funds	**8.0**	7.5
Total funds held on behalf of others	**20.7**	18.7

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

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

Trust funds
The Commissioners are trustees of 40 funds, mainly restricted permanent endowment funds. Their income, £0.3m (2016: £0.3m), is applied in accordance with the terms of the trusts.

Certain other trustees are directed to pay some or all of their income to the Commissioners for specified purposes. The total amount received in the year was £0.2m (2016: £0.2m).

Professional advisors

Bankers:	Lloyds Bank plc, 39 Threadneedle Street, London EC2R 8AU
Custodians:	JP Morgan Chase Bank, N.A, 25 Bank Street, Canary Wharf, London E14 5JP
Auditor:	Grant Thornton UK LLP, 30 Finsbury Square, London EC2A 1AG
Actuaries:	Hymans Robertson LLP, One London Wall, London EC2Y 5EA

Statement of responsibilities

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

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the charity and of the incoming resources and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:
- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed; and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

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

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

Money available resolution

As required by the Church Commissioners Measure 1947 (as amended), at the Annual General Meeting of the Commissioners to be held on 27 June 2018, 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 2017–2019.

At its meeting on 23 March 2018, the Assets Committee, having received updated advice from its actuarial advisors Hymans Robertson LLP (as required by the Pensions Measure 1997) which is summarised on the following page, resolved (i) to inform the Board that the Commissioners' expenditure plans for 2018 could be made firm and (ii) there was no reason to amend the following spending plans for 2017–2019 to support:
- Up to £371.0m for clergy pensions
- Up to £97.7m for non-pensions fixed-term distributions
- Up to £318.1m for non-pensions in-perpetuity distributions (recognising that in calculating this sum the cash paid out in Strategic Development Funding grants in 2017–2019 will be used, rather than the grants awarded during this period)

Independent Actuaries' Report

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

Our most recent detailed review was carried out as at 31 December 2015 and we carried out an annual update of this review as at 31 December 2017. The reviews involve calculating the capital value (also known as the present value) of the following three areas of future expenditure from the assets, according to their term (we call these the 'building blocks'):

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

Having calculated the capital values of the building blocks, we compare the total with the value of the assets held to assess whether the planned distributions are sustainable. We also calculate the maximum sustainable in-perpetuity distributions.

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

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

The main results of our calculations were that:

(i) as at 31 December 2017, £1,755m of the Commissioners' assets were required to meet their clergy pension obligations and a further £136m to meet the staff pensions liabilities;
(ii) we had no objection to the package of longevity-related, fixed-term and in-perpetuity building blocks payments agreed in principle for the 2017–2019 triennium following the end 2015 full review. The affordability of this package of building blocks should be re-examined in detail at the next triennial assessment, due as at 31 December 2018;
(iii) before the next full assessment a decision should be made as to what actions would be taken in relation to the package of building blocks if future market conditions turn out to be adverse to the extent that the assets can no longer fully sustain the building blocks;
(iv) the Commissioners should continue to pay some of the in-perpetuity distribution, say at least between 5% and 10%, in a form that will automatically cease, or can be stopped, at relatively short notice, say within a year or two. This will put the Commissioners in a better position to reduce the distribution if necessary following the next full actuarial review in the circumstances of unfavourable future experience. We have noted that the movement towards targeted one-off grants from the start of 2017 has given increased flexibility to cut back the in-perpetuity distribution in this way.

Richard Crowhurst FIA
Peter Carver FIA CERA
For and on behalf of Hymans Robertson LLP
April 2018

List of larger investments

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

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

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

Top 20 most valuable property holdings	Top 20 most valuable equity holdings
19-26 Long Acre and 28-30 Floral Street	Acuity Brands Inc
Ashford Estate	Alphabet Inc
Canterbury Estate	Amazon.com Inc
Carlisle Estate	AstraZenica PLC
CastleLake Land	Baidu Inc
Cherry Tree	BP Plc
Chichester Estate	Cerner Corp
Ely Estate	GlaxoSmithKline PLC
Halsall Estate	Henry Schein Inc
Huntingdon Estate	HSBC Holdings PLC
Hyde Park Estate	Lloyds Banking Group PLC
Jahr Tree Timber	Microsoft Corp
London Lancaster Hotel, Bayswater Road	Naspers Ltd
Metrocentre (10% interest)	Oracle Corp
Millbank Estate	Prudential PLC
Rochester Estate	Royal Dutch Shell PLC
South Durham Estate	Samsung Electronics Co Ltd
South Lincoln Estate	Taiwan Semiconductor Manufacturing Co Ltd
UK Timber	Tesco PLC
York Estate	Vodafone Group PLC

The top 20 equity holdings represent 6.7% and the top 10 property holdings represent 13% of the Commissioners' total investable assets.

The Church Commissioners and Board of Governors at April 2018

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

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

Church Estates Commissioners appointed by
HER MAJESTY
Loretta Minghella OBE, First Church Estates Commissioner
Dame Caroline Spelman MP, Second Church Estates Commissioner

Church Estates Commissioner appointed by
THE ARCHBISHOP OF CANTERBURY
Eve Poole, Third Church Estates Commissioner

Elected by the General Synod
HOUSE OF BISHOPS
Bishop of Manchester,
David Walker **Deputy Chair**
Bishop of Chichester, Martin Warner
Bishop of Birmingham, David Urquhart

HOUSE OF CLERGY
Revd Canon Bob Baker
Revd Christopher Smith
Revd Stephen Trott

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

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

Nominated by
HER MAJESTY
Lord Best OBE DL
Duncan Owen
Suzanne Avery

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

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

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

Secretary to the Church Commissioners and Board of Governors
Andrew Brown

Assets Committee
Subject to any general rules made by the Board, has an exclusive power and duty to act in all matters relating to the management of the Commissioners' assets
Loretta Minghella OBE **Chair**
Revd Christopher Smith
Bishop of Birmingham, David Urquhart
Gavin Oldham
Poppy Allonby
Suzanne Avery
Mark Woolley
Graham Oldroyd
Duncan Owen
Committee Secretary Andrew Brown

Audit and Risk Committee
Acts in matters relating to the external auditors, the annual accounts and internal control systems
Jeremy Clack **Chair**
April Alexander
Ian Ailles
Stephen East
Jonathan Templeman
Vacancy
Committee Secretary Aneil Jhumat

Bishoprics and Cathedrals Committee
Acts for the Board in matters relating to episcopal and cathedral support
Eve Poole **Chair**
Bishop of Chichester, Martin Warner
Bishop of Aston, Anne Hollinghurst
Dean of Exeter, Jonathan Greener
Dean of Gloucester, Stephen Lake
Revd Rosalyn Murphy
Revd Mary Bide
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Rosemary Butler Representative of Bishops' spouses
Committee Secretary Paul Lewis

Mission and Pastoral Committee
Acts for the Board in matters relating to pastoral reorganisation, parsonages and diocesan glebe
Eve Poole **Chair**
Vacancy
Bishop of Leicester, Martyn Snow
Dean of Exeter, Jonathan Greener
Revd Canon Bob Baker
Revd Canon Stephen Evans
Ven Penny Driver
Canon Peter Bruinvels
William Featherby QC
Garth Watkins
Susan Pope
Acting Committee Secretary Andrea Mulkeen

Church Buildings (Uses and Disposals) Committee
Acts for the Board in matters relating to the future of church buildings closed for regular public worship
Eve Poole **Chair**
Revd Canon Bob Baker
Revd Canon Peter Cavanagh
Revd Stephen Trott
Revd Simon Talbott
Lord Best OBE DL
April Alexander
John Steel
Margaret Davies
Acting Committee Secretary Andrea Mulkeen

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THE CHURCH OF ENGLAND

Registered address:
Church Commissioners for England
Church House
Great Smith Street
London SW1P 3AZ

Tel: 020 7898 1135/1623
Email: commissioners.enquiry@churchofengland.org

Further copies of this review may be obtained free of charge.

churchofengland.org

Church Commissioners Annual Report 2017