The Church
Commissioners
for England

THE CHURCH
OF ENGLAND

The Church
Commissioners
Annual Report
2018

Supporting the work and mission of the Church of England

The Church Commissioners Annual Report 2018
Supporting the work and mission of the Church of England

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THE CHURCH COMMISSIONERS FOR ENGLAND

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Cover image: *Les Colombes* was installed at Salisbury Cathedral in May 2018. Created by Michael Pendry, it formed part of the First World War Centenary events, but also became a symbol of hope and resilience for the community during the recent nerve agent incidents. Further background on the project can be found on page 19. (Photo: Ash Mills)

The Church Commissioners support the work and mission of the Church of England across the country.

Overview

We manage an £8.2bn investment fund in a responsible and ethical way. Each year we use the returns from our fund to facilitate growth, contribute to the common good and reimagine ministry by:

— Funding mission activities

— Supporting dioceses with fewer resources with their ministry costs

— Paying for bishops' ministry and some cathedral costs

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

— Paying clergy pensions for service prior to 1998

— Operating the national payroll for serving clergy

Foreword by the Archbishop of Canterbury

Justin Welby
Archbishop of Canterbury

The Church Commissioners, throughout 2018, were key partners in providing the Church of England with the vital financial resources to help our 12,500 parishes proclaim the Good News of Jesus Christ across all communities.

Contributing approximately 15% of the Church's annual running costs, the Church Commissioners played a crucial role in the stability and growth of the Church by providing ministry support as well as funding for bishops and cathedrals.

In addition to running costs, the Commissioners also awarded funds for Strategic Development Funding ('SDF'), allocated to projects and initiatives designed to accelerate renewal and growth across the dioceses.

Since 2014, 59 projects have been supported in 36 dioceses. Two further tranches of SDF were awarded in 2018 to 20 projects in 20 dioceses, which appear throughout this Annual Report and in our Annual Review. The grants were made as part of the Renewal and Reform programme, creating a growing church in all places for all people.

At the July General Synod in 2018 the Church announced that more than 100 new churches are to be created in coastal areas, market towns and outer urban housing estates as part of the ongoing wider church planting initiative across the country, ensuring a Christian presence in every community. These projects are wonderful examples of how churches are seeking to be faithful to God – and faithful to their communities in love and mission.

The urgency of climate change continued to be a major theme for the Commissioners as they continued to use engagement and their voting rights with some of the world's largest oil and gas suppliers to drive change.

In 2018 General Synod affirmed its support for the Church Commissioners' (and other National Investing Bodies' 'NIBs') approach to tackling climate change.

The NIBs reaffirmed their commitment to engage urgently with companies rated poorly by the Transition Pathway Initiative ('TPI') and will begin in 2020 to start to disinvest from companies that are not taking seriously their responsibilities to assist with the transition to a low-carbon economy.

The successful launch of the TPI at the beginning of 2017 has been followed up by other asset owners and managers who use the tool to assess companies' preparedness for the transition to a low-carbon economy.

Since its inception, the TPI has become a leading corporate climate action benchmark and is now supported by investors with over £10.3tn/$13.2tn in combined assets.

Climate Action 100+ ('CA100+'), of which the Commissioners were founding supporters, now totals 323 investors with more than $32tn of assets. CA100+ is an investor initiative seeking to ensure that the world's largest corporate greenhouse gas emitters take the necessary action on climate change. Under CA100+ the Commissioners have been leading engagement with ExxonMobil, while the TPI was designated one of the CA100+ official data partners in 2018.

I look forward to a continuing partnership with the Church Commissioners in 2019 as we work together to support our wider mission of ensuring the Gospel of Jesus Christ is lived and proclaimed in word and deed.

Justin Welby
Archbishop of Canterbury

The Church Commissioners at a glance

The Church Commissioners manage an £8.2bn investment fund. We aim to generate a total return averaging inflation ('RPI') +5% per annum over the long term. We use these returns to support the mission and ministry of the Church of England, including grants for mission activities, bishops and cathedrals.

8.9% per annum
Total return over 30 years

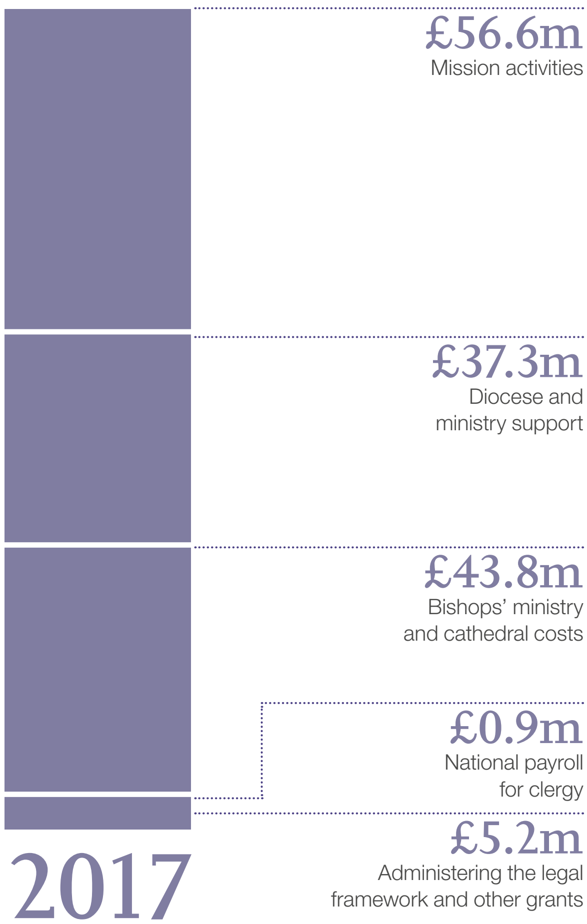
1.8%
Total return for 2018

£164.4m
Total charitable expenditure excluding clergy obligation*

9.4% per annum
Total return over 30 years

7.1%
Total return for 2017

£143.8m
Total charitable expenditure excluding clergy obligation*



£121.2m
* Cash paid on clergy pensions for both 2017 and 2018

The First Church Estates Commissioner

Loretta Minghella
First Church Estates Commissioner

"Our active engagement and voting record provide greater leverage and influence than we could ever hope to achieve by acting alone or by forced divestment."

It will come as no surprise that our full year financial results reflect a common sentiment in the markets: while in 2018 cold winds blew throughout the equity markets, other asset classes provided few places to shelter.

Despite this year's fall in fund performance, our long-term, actively managed and genuinely diversified approach allowed the Commissioners to continue to play a full role in supporting and revitalising the Church.

As a fund managed in perpetuity, we are clear about our objectives – to maintain the real value of the fund through time, to be a leader in responsible investment and to be a dependable and significant contributor to the Church's mission.

The money we raise is ultimately for the Church's benefit and I am delighted that in 2018 the Church Commissioners contributed approximately 15% of the Church's annual running costs, with increased allocations for Strategic Development Funding. Two tranches were awarded in 2018 to 20 projects in 20 dioceses, details of which appear on page 16. The grants were made as part of the Renewal and Reform programme, creating a growing church in all places for all people.

The range of projects being funded, covering the breadth of the country, is truly exciting, from fresh expressions of church to planting of new congregations.

The value of the Commissioners' investment assets stands at £8.2bn (31 Dec 2018) compared to £8.3bn (1 Jan 2018). Against a challenging backdrop, where the FTSE 100 index dropped by 12.5% over the year, the total return for the Commissioners' portfolio in 2018 was 1.8%.

We are blessed with a talented and committed investment team and, with a well-documented target to generate a return of inflation ('RPI') +5.0% p.a. over the long term, it is good to see 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 8.9%. As we move ahead, we are giving serious thought to the sustainability of our current return target, which looks increasingly unrealistic in the short to medium term.

I am pleased that the Commissioners' ethical investment policies had a positive impact on the performance of the equities portfolio, boosting the performance of the global and UK equities strategies by 0.6% and 1.8% respectively.

The main detractor from performance was weakness in global equity markets including the UK, which had its worst year since 2008. This was mitigated by our active management of the public equities and real assets portfolios, while negative returns from commercial and rural property were offset by strong returns from our strategic land and timberland portfolios. Our multi-asset, private credit and private equity strategies delivered positive returns, underlining the importance of a diversified portfolio.

We maintained £40m of investments dedicated to impact investing. We have also strengthened our commitment to impact investing by appointing an impact investment analyst who is actively searching for additional investments that meet our risk-return criteria.

Throughout 2018, our financial stewardship of the portfolio went hand-in-hand with our committed leadership in ethical and responsible investment. Amongst the top priorities we have focused on is climate change. The July General Synod in 2018 affirmed its support for our approach to tackling climate change, including our strategy of engaging with companies rather than disinvesting from them prematurely.

General Synod's vote, including a clear 2023 deadline for choices around continued investment, allows us to continue to push for real change in the fossil fuel sector and use engagement, our voting rights and rights to file shareholder resolutions to drive the change we want to see.

We have long maintained that our active engagement and voting record provide greater leverage and influence than we could ever hope to have achieved by acting alone or through forced divestment.

Winning arguments as a shareholder requires working hand-in-hand with other institutional shareholders. We have continued a steady programme of investor engagement not only on climate change, but also on executive remuneration and board diversity.

In April 2018, we were pleased to welcome Dr Eve Poole as our new Third Estates Commissioner. She has quickly demonstrated the value in expanding the role and is helping us engage more deeply with bishops and cathedral deans, including through her chairing of the Cathedrals Support Group.

I and my fellow Commissioners are proud to have played a key role in supporting the Church, facilitating its growth and contributing to the common good throughout 2018. We are most grateful to Andrew Brown and all our staff colleagues for their enormous dedication and achievements.

Loretta Minghella
First Church Estates Commissioner

Secretary to the Church Commissioners

Andrew Brown
Secretary to the Church Commissioners

> "Our focus to be a leader in ethical and responsible investment showed excellent results."

The dedication and passion of Christians working across the country to further the mission of Jesus Christ are truly humbling. The Church Commissioners support the Church's vital work in communities throughout England in addition to their responsibilities for the ongoing ministry and mission of bishops, cathedrals and of course for clergy pensions.

In 2018 the Commissioners continued to support the Renewal and Reform programme with £24.8m Lowest Income Communities Funding for 26 diocesan projects, with an additional £10.9m to support 20 of these dioceses to transition between funding approaches.

The Commissioners posted their tenth successive year of positive returns despite a challenging year for investment markets. Producing a more modest but positive return of 1.8% during 2018, the value of the Commissioners' investment assets now stands at £8.2bn.

Strategic Development Fund projects have been supported in 36 dioceses since 2014 and I'm pleased to say demand for the funding has grown considerably. Two further tranches of Strategic Development Funding were awarded in 2018 to 20 projects in 20 dioceses. The new grants awarded totalled £61.6m.

In Ely Diocese, for example, the Changing Market Towns project will focus on enabling and sustaining church growth in small and medium-sized towns, increasing engagement with the wider community and working to transform the life of whole towns.

Our focus on being a leader in ethical and responsible investment led us to achieve our highest-ever ratings from the UN-backed Principles for Responsible Investment. We also remained at the forefront of investor action on climate change, continuing to support the Transition Pathway Initiative to track corporate alignment with the low-carbon transition, as well as our industry-leading climate engagement programme.

Ongoing interest in the role of the Commissioners, and the Church more widely, continues to grow. During 2018 a total of 159 questions were answered in Parliament by the Second Church Estates Commissioner, the Rt Hon Dame Caroline Spelman who, having the statutory accountability of the Church Commissioners to Parliament, continues to be a leading and tireless advocate of all that we do.

At the end of the year we said farewell to five Commissioners: the Bishop of Chichester (the Rt Revd Martin Warner), the Dean of Exeter (the Very Revd Jonathan Greener), the Revd Canon Bob Baker, April Alexander and Gavin Oldham. They were succeeded by the Bishop of Bristol (the Rt Revd Vivienne Faull), the Dean of Ely (the Very Revd Mark Bonney), the Revd Anne Stevens, Jay Greene and Canon Betty Renshaw MBE. In addition, our QC Commissioner, William Featherby QC, reached the end of his term of office and was replaced by Morag Ellis QC. We are grateful to the outgoing members for their service and we extend a warm welcome to the new members, all of whom bring great skills and experience.

I continue to be thankful for the dedication and expertise of the Church Commissioners, our staff and partners, each of whom bring their time and talents to contribute to the common good of the Church and the many communities she serves.

I am privileged to serve the Church and look forward to seeing the impact of our work in the months and years ahead.

Andrew Brown
Secretary to the Church Commissioners

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

Strategic focus

The Church Commissioners' strategic focus is on key objectives that together support the Church's goals of facilitating growth, contributing to the common good and reimagining ministry.

Church's goals

- Facilitating growth
- Contributing to the common good
- Reimagining ministry

Our objectives

To manage our financial commitments	From a portfolio diversified to manage risk, achieve a real rate of return to allow Church Commissioners ('CCs') to meet pension obligations and maintain and grow over time support to the wider Church
To provide sustainable financial support to our beneficiaries	Control costs and liabilities so CCs support, especially for areas of need and opportunity, can be maintained and grown over time
To target resources on areas of need	Maximise effectiveness of the Board and executive's delivery, ensuring objectives are met and costs are in line with internal and external benchmarks and ensuring appropriate accountability to the Church
To research and share news of effective spending	Help develop the Church's effectiveness in the use of CCs' funding so money is intentionally used for mission and growth and outcomes is evaluated
To provide an administrative resource and skills base to the Church	Provide administrative resources to help different parts of the Church enhance the use of resources to advance mission and growth

2018 highlights		Priorities for 2019
— Positive portfolio return in very challenging market — Leadership in responsible investment field and building new stewardship and impact investment functions	— Initiated programme of Operations and IT systems' improvements and enhanced operational risk management framework — Actuarial retender done; thorough review of assumptions underway — Success taking forward strategic land for new homes during the year	Meet pension obligations and secure growth
— Successful active management of continued budget pressures — Consultation with House of Bishops on See house standards underway	— Lambeth Palace Library Project on time and budget to date — Good closed church sale proceeds and longstanding cases dealt with	Be at the forefront of responsible investment globally
— Significant turnover at trustee level managed (improved diversity profile) — Board self-evaluation conducted and follow-up work in hand	— Recruitment and induction of Board members achieved and good working relationships established with new Third Commissioner — Significant data management work done ('GDPR') — Development of new NCI's project management framework	Control costs and liabilities thus securing support in the long term
— Archbishops' Council's Strategic Investment Board working well and positive annual vote established — £61.6m of SDF awarded to dioceses	— £35.7m of Lowest Income Communities ('LInC') Funding and transitional funding distributed to dioceses — Consultation with House of Bishops on bishops' working costs underway	Ensure effective Commissioners' expenditure through evaluation of outcomes
— Merged functions of former Mission & Pastoral and Closed Churches committees — Supported simplification of legislative framework — Cathedral Sustainability Fund: 11 grants given in the year	— Supported work of Cathedrals Working Group — Established good working relationships with, and fully enabled the work of, new Third Commissioner — People Information system developed, progressing through feasibility phase	Provide administrative resources to equip the Church for mission

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.

The Strategic Investment Board has responsibility, on behalf of the Council, for determining the distribution of the funding, evaluating its impact, and advising the Council on funding strategy. The Strategic Investment Board's membership includes the First Church Estates Commissioner and two other members of our Board of Governors. 2018 marked the second year of revised funding distribution as part of the Renewal and Reform programme, designed to address some of the deep-rooted missional challenges facing the Church of England.

Half of the available funding was distributed as Strategic Development Funding ('SDF'), and half through formula-based Lowest Income Communities Funding ('LInC'). Dioceses with reduced formula-based funding, compared to the amount received under the previous formula, receive transitional funding up to 2026. A one-off sum for restructuring has also been made available to help them adjust to the new arrangements.

As the revised funding embeds into the Church, we will gather evidence to understand how it is supporting change and growth within dioceses.

Sharing learning and increasing accountability between and within dioceses was a key priority in 2018. The Strategic Learning Communities programme has supported 12 dioceses to come together to share learning between senior diocesan teams, with another eight dioceses joining the programme in early 2019. The first round of the diocesan Peer Review programme was concluded across all 42 of the Church's dioceses in early 2018. 17 dioceses have participated in second-round reviews with the remaining planned for 2019-20.

A Triennium Funding Working Group is examining options for the allocation of national church funds in 2020-22. In light of priorities identified by the House of Bishops, the Group will make recommendations to the Council and Commissioners in spring 2019.

Lowest Income Communities Funding
LInC was introduced in 2017 as part of the Resourcing the Future reforms alongside the expansion of SDF. The funding is designed to better support several dioceses' plans for developing mission and growth in low-income communities.

At the beginning of 2018, the 25 dioceses in receipt of LInC in 2017 reported on how they had used the funding in its first year.

It was found that 69% of LInC and transition funding had been directed towards deprived areas in dioceses through the Parish Share system and 8% of funding was used to support transition as dioceses help parishes in existing receipt of national funding to move away from subsidy. Additionally, a small number of dioceses invested some or all their funding to establish a mission fund for specific projects and, in some cases, used it to fund central staff.

In 2018, 25 dioceses received LInC totalling £24.8m. An additional £10.9m was paid to support dioceses that are receiving less funding than they did under the previous formula. A one-off sum of Restructuring Funding has also been made available for these dioceses in 2017-19 to help them adjust to their new funding levels. Most of these dioceses have submitted plans for the use of their Restructuring Funding and these have been noted by the Strategic Investment Board and the funding has been released.

In early 2019, dioceses will report on how they have used their LInC funding in 2018 to develop mission.

Right: The Revd Ben Woodfield with the congregation at Oldham's Church

Strategic Development Funding
Established in 2014, SDF supports major growth projects within dioceses. Since 2014, 59 projects have been supported in 36 dioceses and demand for the funding has grown considerably, with the Strategic Investment Board monitoring demand against the level of funding available.

Two further tranches of SDF were awarded in 2018 to 20 projects in 20 dioceses, which will be drawn down over more than one year. SDF is awarded on the basis that the cash drawdown

Manchester Diocese

Manchester diocese was awarded £2.1m of SDF to grow a younger and more diverse church, especially in areas of deprivation. The project includes two elements:

- The Children Changing Places project aims to create a ‘Christian discipleship pathway’ for children in the town of Bolton.
- The Small to Small Community Church Plants project aims to plant 16 small churches over the next six years in the poorest areas and those that currently have the lowest church attendance.

> “This grant will enable us to grow churches in our most deprived areas.”

Dr David Walker
Bishop of Manchester

The Bishop of Manchester, Dr David Walker, said: “This grant will enable us to grow churches in our most deprived areas that enrich people’s lives through new-found faith and the fellowship of others in their community. It will also enable us to develop our work with children and families in our Church Schools and local pre-school groups in the Bolton area, helping more young people to retain their Christian faith and identity.”

keeps within the limits of the monies allocated for this funding in the three-year spending plan period, reflecting the fact that the projects supported can run for periods of up to six years.

In 2018, SDF awarded totalled £64.9m: £61.6m awarded to fund projects in 20 dioceses, £0.8m to the Archbishops’ Council to fund non-diocesan projects, and £2.5m spent in Strategic Capacity Funding.

Mission and ministry continued

Tranche 7 (awarded June 2018): £27.0m
- **Bristol:** Pattern Church, a catalyst for mission in Swindon – £1.5m
- **Canterbury:** Engaging and growing disciples in the most marginalised and deprived communities – £0.8m
- **Ely:** Changing and growing the Church in market towns – £2.1m
- **Exeter:** Church engagement and growth in the deprived urban estates of Plymouth – £1.7m
- **Leicester:** Growing the Church in key city centre and market town locations – £5.3m
- **Manchester:** Nurturing and growing disciples amongst the young and those living in deprived outer estates and highly diverse communities – £2.1m
- **Newcastle:** Revitalising ministry in the heart of Newcastle – £2.6m
- **Peterborough:** Innovative and effective outreach to grow young disciples – £1.1m
- **Southwell and Nottingham:** Developing young leaders and growing new disciples across the diocese – £4.7m
- **Worcester:** Revitalising ministry in Worcester and Dudley – £5m

Tranche 8 (awarded December 2018): £34.6m
- **Birmingham:** Reimagining ministry across the diocese to strengthen and grow the Church – £5m
- **Blackburn:** Growing mission and revitalising ministry in Preston city centre – £1.5m
- **Chelmsford:** Strengthening mission in Southend, Stratford, the South Becontree estate and other areas across the diocese – £3.9m
- **Durham:** Church growth and engagement in Bishop Auckland, Durham, Gateshead, Stockton and Washington Oxclose – £3.9m
- **Leeds:** Revitalising ministry in Leeds and Bradford – £3.9m
- **Lincoln:** Strengthening mission in urban centres, including Lincoln and Stamford – £2.7m
- **Portsmouth:** Growing the Church in Southsea and Portsmouth – £2.2m
- **Sheffield:** Strengthening mission and ministry in the deprived areas of Rotherham, Wath and Goole – £3.5m
- **St Edmundsbury and Ipswich:** Mission and growth in Ipswich deanery and rural Suffolk – £5.0m
- **York:** Mission amongst those in their 20s-40s – £3.1m

SDF for non-diocesan projects
£6.0m of SDF was set aside in 2017–19 for non-diocesan projects which support the overall strengthening of the Church's mission and growth. £3.0m of this funding was allocated for infrastructure development in the National Church Institutions to make strategic interventions to advance the Church's mission and growth.

In 2018 the Strategic Investment Board awarded £0.8m of infrastructure funding for a project to create, support and nurture fresh expressions of church in every part of the Church of England over the next five years.

The remaining £3.0m in the 2017-19 period is available to support major (£0.5m–£1.0m) grants for projects to strengthen mission on themes where new approaches might be developed which would not easily stem from a diocesan application.

Strategic Capacity Funding
Since 2017, just under £4.0m of Strategic Capacity Funding has been awarded to support dioceses to develop their capacity and increase effectiveness. The funding has supported dioceses to invest in programme management capacity, to develop mission, stewardship and vocations and, in some cases, to support restructuring within the diocese.

In 2018, the Strategic Investment Board awarded £2.5m of SDF to 12 dioceses.

Research, Evaluation and Dissemination
£1.3m of SDF has been allocated for Research, Evaluation and Dissemination for the period 2017-19.

In 2018, the Church Army concluded its research into the development, longevity and impact of Messy Churches. This research was commissioned on behalf of the Archbishops' Council and served as a follow-up to the Church Army's earlier work on fresh expressions of church, *The Day of Small Things*. The research report and findings are available on the Church Army's website.

In 2018 awards from the Research, Evaluation and Dissemination budget included:
- £166,000 to support the evaluation of the Renewal and Reform programme including understanding the key demographic and behavioural characteristics of congregation members, collection of information on lay ministry and to support the more effective identification and quantification of fresh expressions of church.
- £20,000 to support the Talking Jesus course, which aims to equip people to share their faith.

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

New disciples and missional communities

Portsmouth diocese has been seeking to form new disciples and new missional communities by developing pioneering training and pioneering posts for lay and ordained ministers, focusing on hard to reach areas, new housing areas and work with young people. Following SDF awarded in 2015, Harbour Church was planted in the city centre, fresh expressions of church created and a cohort of lay pioneers recruited.

Harbour Church has now expanded to five congregations across three churches with 600 worshippers, with an average age of 26. Harbour Church is also running St Albans' Copnor's Tots and Toddlers groups, which are attended by 300 children and adults; and 210 people have completed the Alpha course at Harbour Church in the last 12 months. Across the diocese, fresh expressions are now reaching 2,465 people – up from 935 people in 2015.

In December 2018, a further SDF grant of £2.2m will help worshippers to repair and refurbish St Margaret's Church in Eastney, which had been closed in 2015. The funding will also enable Harbour Church to consolidate with its new partner churches, St George's, Portsea and St Alban's, Copnor; and it will allow St Luke's Church, Southsea, to employ two pioneer ministers.

The Revd Alex Wood, Vicar of Harbour Church and Priest-in-Charge of St George's, Portsea, said: "I have always been passionate about church being a place full of life, where people can find real friendship and community, and discover a faith that is real, and a relationship with Jesus that brings freedom."

> "At Harbour Church, we have a role in helping Anglican churches in the city to thrive."
>
> **Revd Alex Wood**
> Vicar of Harbour Church

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 2018 the Commissioners' cash payments for clergy pensions were £121.2m (2017: £121.2m).

Based on actuarial advice, the Commissioners have provided in full for the future clergy pension payments earned until the end of 1997. At the end of 2018 this provision was £1,542.5m (2017: £1,754.7m), a reduction of £212.2m against the previous year.

In 2018, the improved actuarial calculation results in a net reduction to expenditure of (£89.7m) (2017: net increase in expenditure of £82.2m).

At the end of 2018 the Commissioners were funding – in full or in part – the pensions of 9,671 retired clergy and 3,622 surviving spouses. Pensions in payment increase every year in line with the Retail Price Index.

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. Diocesan bishops are able to spend their funding according to local needs, including decisions on the level of funding to their area and suffragan bishops.

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 repair, its infrastructure not having been updated since well before the Second World War. The planning of these works continued in 2018, with a Project Board providing oversight, and works are expected to begin after the Lambeth Conference in 2020.

Lambeth Palace Library
The Church Commissioners are responsible for the funding and maintenance of Lambeth Palace Library, the historic library and archive of the Archbishops of Canterbury and an invaluable resource for the Church and the nation. They are funding the construction of a new building which will protect and preserve the collections and make them more accessible than ever before. The cost is £23.5m plus VAT and fees and the work is expected to take two years to complete.

Construction began in April when the Archbishop of Canterbury broke ground on site. By the year end much of the core structure had been erected and the project remained on time and on budget. The total costs of the project incurred in 2018 were £7.2m (2017: £2.1m).

In December the hoardings around the site, which were funded by an external partner, were decorated with images showcasing the work of the Church in London and Southwark and the Church of England's "Follow the Star" Christmas campaign, using artwork by children from the Evelina Hospital.

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 2018, three new diocesan bishops took office and the opportunity was taken to undertake works at bishops' houses in Bristol, London and Truro. One house became vacant with the retirement of the Bishop of Derby. The opportunity is being taken to refurbish the Derby property.

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 under the Cathedrals Measure 1999. In 2018, £6.1m was provided under section 21 of the Measure for 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 £3.7m 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 cathedrals' resources and helps facilitate their mission and ministry to their local communities.

The Church Commissioners continued to make grants from the Cathedrals Sustainability Fund in 2018, which was established in 2017. This fund 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. To the end of 2018, 11 cathedrals had been awarded grants from the fund totalling £1.5m.

Cathedrals Working Group
The Cathedrals Working Group ('CWG') report was debated at the July General Synod and a motion from the House of Bishops endorsing the report's recommendations was passed. The Cathedrals Support Group ('CSG') which is chaired by Eve Poole, Third Church Estates Commissioner, oversees the implementation of the CWG report. Each of the CSG workstream leads is twinned with someone from the cathedral community. The main CSG objective for the first half of 2019 is the preparation of the draft legislation for the new Cathedrals Measure which will start its passage through Synod in July 2019.

> “This exhibition brings with it the message that we can all come together to fold and create our own white doves that will fly as our symbol of hope, humanity and new beginnings.”

Jacquiline Creswell
Salisbury Cathedral’s
Visual Arts Advisor

City of Doves community project

As part of the Centenary of the First World War and following the nerve agent attack in Salisbury, the cathedral hosted an art installation in May 2018, highlighting messages of resilience, peace and hope.

Les Colombes, designed by artist Michael Pendry, saw thousands of paper doves suspended from the roof. With the artist’s permission, the project was extended to the wider Salisbury community with local businesses, schools and individuals creating and hanging their own doves.

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 Church 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. During 2018, 172 schemes and orders were made.

Reorganisation sometimes includes the closure of church buildings. During 2018 we made schemes providing for the closure of 23 church buildings in use for regular public worship. At least five new churches and places of worship were opened for worship during the year.

The Mission and Pastoral Committee considered objections in six cases during 2018; in two it held public hearings while the other four were considered on the papers only following assessment by a Sifting Group. All six schemes were allowed to proceed.

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. No such applications were made in 2018 and in one case where an application made in 2017 was outstanding, the application was withdrawn before a decision by the Judicial Committee had been made.

Twelve other representation cases were resolved without coming to the Committee. In ten, the representations were withdrawn following correspondence with Commissioners' staff or diocesan representatives; in one case, the draft scheme was withdrawn by the Bishop; and in the other, the draft scheme was amended and reissued.

The Mission and Pastoral etc (Amendment) Measure 2018 came into force during the year. Originating in the Simplification strand of the Renewal and Reform programme, various legislative changes were made to improve, simplify and speed up the process of consultation and reorganisation. We held four regional conferences to publicise these changes and updated the Code of Practice to the Mission and Pastoral Measure 2011. Approved Deanery Plans now have statutory force and we published guidance on their preparation and role in reorganisation.

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. Three glebe representation cases were considered by the Committee; in each case the transaction was allowed to proceed. From 1 July 2018 the right to object to glebe transactions was removed by the Mission and Pastoral etc (Amendment) Measure 2018.

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, working closely with dioceses, through our regionally based specialist casework team, 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 in the Churches Conservation Trust or demolition. Objections to demolition proposals may, in certain circumstances, result in a non-statutory public inquiry.

Much of our work takes place before or after the statutory scheme-making process but 34 schemes settling the future of closed church buildings or their sites have been brought into effect; 29 provided for alternative use, one for preservation by the Churches Conservation Trust, three for demolition and one site disposal. Encouragingly, we resolved the future of several problematic long-standing cases.

The table on page 21 shows how the future of 1,988 closed church buildings or their sites have been settled since 1969.

The Church Buildings (Uses and Disposals) Committee considered objections in 14 cases, an unusually high number, deciding in each case that the scheme should proceed but some either in an amended form or with additional covenants. Two involved public hearings and the others were considered on the papers under the new simplified procedures.

In June 2018, the Committee visited several city centre church buildings in the diocese of Bristol. We learnt how ongoing regeneration had resulted in the repopulation of Bristol city centre and of the plans in hand by the diocese in developing its mission, particularly among young people who had moved into the old city centre.

We also visited two churches in the care of the Friends of Friendless Churches in South Wales and learnt some of the challenges faced by the Church in Wales in its own stewardship of church buildings.

Contribution to the Church's mission
£3.4m was 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 £18.2m 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. The new funding triennium began on 1 April 2018 and under The Payment to the Churches Conservation Trust Order 2017 our annual grant will be £1.43m. An additional payment of £225,000 was made to the Trust linked to the level of sale proceeds achieved in the year.

During the year one building was vested in the Trust and an 'in principle' decision to vest was taken in three further cases. This does, however, mean that the Trust's triennial budget for new vestings is now mostly committed.

Streamlining the committees
At the end of the year the Board agreed to appoint a single committee in place of the Mission and Pastoral Committee and the Church Buildings (Uses and Disposals) Committee. This integration should encourage a broader overview of local structural and organisational challenges and enable us to better support the Church's mission in carrying out our functions.

	1969-2008	2009-13	2014-18
Alternative use			
Adjuncts to adjoining estates	6	0	0
Arts, crafts, music or drama	28	4	0
Civic, cultural or community	122	17	16
Educational	32	2	6
Light industrial	7	1	2
Monument	132	10	14
Museums	15	0	0
Office or shopping	48	6	7
Other	5	0	0
Parochial or ecclesiastical	65	8	7
Private and school chapel	23	3	0
Residential	264	28	35
Sports	13	1	1
Storage	17	0	2
Worship by other Christian bodies	138	23	22
Alternative use sub-total	**915**	**103**	**112**
Demolition and site disposal			
Additions to churchyards	48	4	3
Housing Associations	81	3	1
Local Authorities	69	1	0
New places of worship	63	1	5
Not yet decided	5	3	1
Other community purposes	29	2	0
Other purchasers	164	8	5
Demolition sub-total	**459**	**22**	**15**
Preservation			
Churches Conservation Trust	336	8	9
Diocesan Board of Finance	5	0	0
Secretary of State	4	0	0
Preservation sub-total	**345**	**8**	**9**
Grand total	**1,719**	**133**	**136**

Finding alternative uses for closed church buildings

St Nicholas, Bristol

An 18th century Listed church in Bristol city centre, St Nicholas ceased to be a place of worship following extensive damage during the Second World War. It was later used by Bristol City Council variously as a museum, a tourist information and marketing centre and council offices.

In 2018, the church was returned to its original purpose for worship and is now a City Centre Resourcing Church. Its aim is to resource mission and growth across the city and diocese, operating under a Bishop's Mission Order.

The Revd Toby Flint, who leads the church, said: "We are reaching out to people who have not been part of a church community before, including the local student population."

The project received SDF from the Church Commissioners which was used to equip the building and train the staff.

Fund strategy and performance

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

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

Our investment objective is to generate a return of RPI +5%, 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 5, 10, 20 and 30 years. Over the last 30 years, the fund has achieved an average return of 8.9% every year: 5.7% 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 2018 our charitable distributions were £164.4m.

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. Our ambition is to be at the forefront of responsible investment globally and this is discussed in more detail on pages 28-33. The chart on pg 25 shows our asset weightings at the end of 2018.

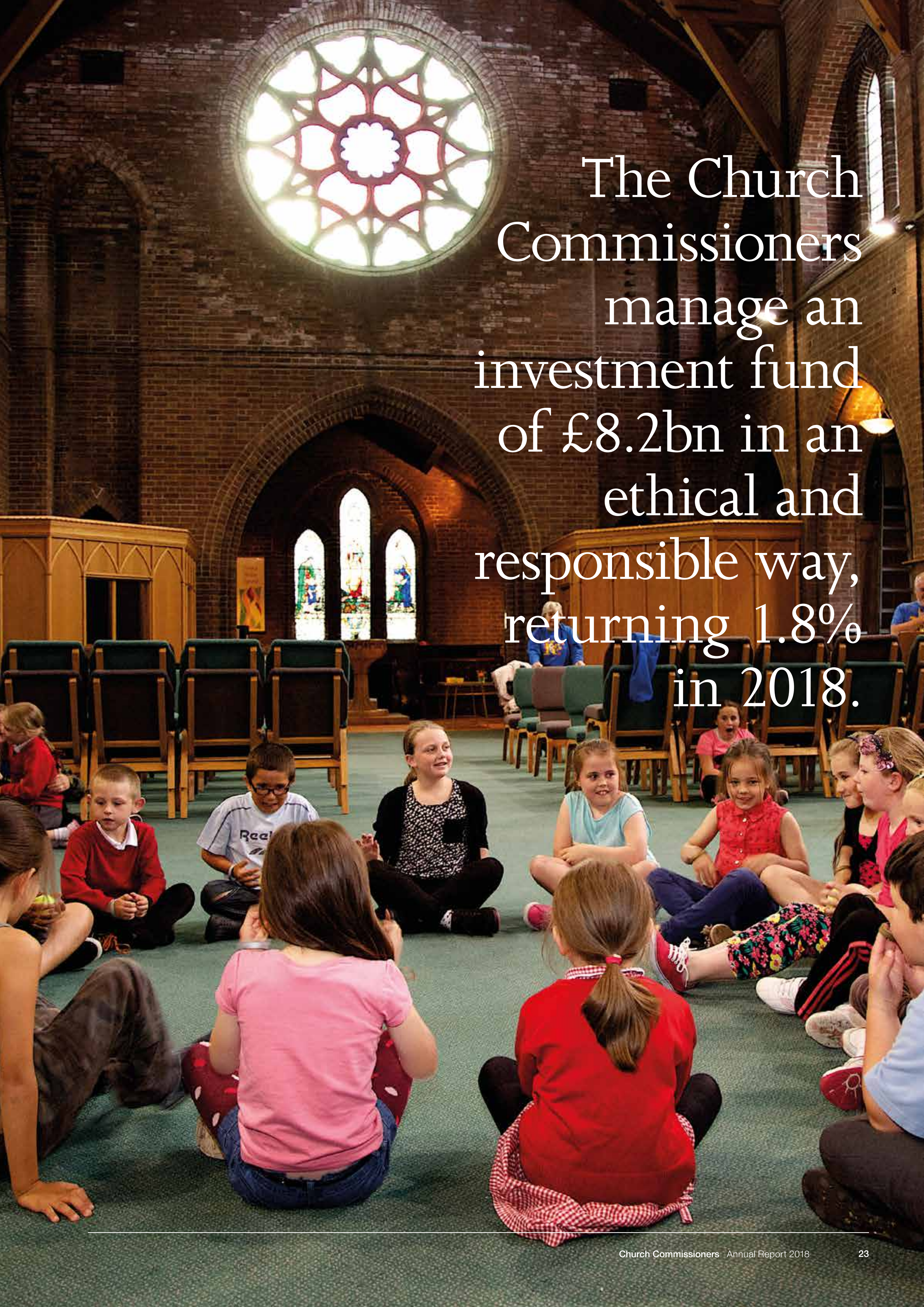
Fund performance

Despite a very challenging market environment the Commissioners managed to produce a modest positive return of 1.8% during 2018 and it is the tenth year in a row of positive returns. While our return in 2018 compares favourably to other multi-asset funds and stock markets it is behind inflation and our longer-term requirements and targets. 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 RPI inflation +5% per annum target.

2018 was the second year in a row where the prevailing sentiment at the start of the year was proved wrong. At the end of 2017, many investors were optimistic about 2018 but it proved to be a poor year for investment returns, as monetary tightening and rising political risk led to a rise in risk premiums and a fall in expected economic growth. At the end of 2016 and early in 2017, after the EU Referendum and President Trump's election, economists and investors were notably fearful about 2017, yet it turned out to be a very strong year for the global economy and stock markets.

What made things worse for investors in 2018 was that, unlike previous corrections, there were few if any places to hide in traditional assets. Defensive assets like government bonds produced very modest returns and were essentially flat for the year and hence did not provide much offset to the losses in stock markets. The Commissioners benefited from our genuinely diversified portfolio and decisions taken in previous years to prepare for more turbulent markets. Our holdings in strategic land, private equity, timber, infrastructure and

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



The Church Commissioners manage an investment fund of £8.2bn in an ethical and responsible way, returning 1.8% in 2018.

Fund strategy and performance continued

indirect real estate, combined with our elevated cash levels, all helped to keep the fund in positive territory.

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, continuing to support the TPI to track corporate alignment with the low-carbon transition, as well as our industry-leading climate engagement programme.

Brexit uncertainty

Concerns around a 'no deal' Brexit have been widespread and to manage the risks, a review of potential operational impacts to the management of the investments was undertaken. This included the external investment managers, service providers and tax and legal arrangements. We concluded that the portfolio was as well-placed as it could be, given the wide range of possible Brexit outcomes. Developments will be kept under close review.

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 75.

In 2018 the Commissioners retendered the actuarial appointment and reappointed Hymans Robertson LLP. At the full three-yearly actuarial review as at the end of 2018 the Commissioners reviewed their distribution policy, in advance of considering the level of distributions that could be planned for 2020-22.

This review also concluded that our plan to make ongoing non-pensions distributions totalling up to £318.1m during the 2017-19 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 – continued to be affordable.

Equities

Public equities

2018 was a poor year for equity markets with a total return from the global equity index of -3.8% for sterling investors, the lowest since 2011. The UK market suffered even worse with the FTSE All-Share down -9.5% – the worst year since 2008. The Commissioners' portfolio did better than the market but was not immune to this turbulence. Our global, UK and defensive equity mandates returned -3.7%, -8.9% and 0.0% respectively. This was the first time our defensive equity portfolio has been properly tested and it was pleasing to see that it did not lose money in 2018, providing a useful contribution to our outperformance.

Overall, our equity portfolio return was -4.2% versus the composite benchmark of -6.0%. Outperformance is also strong over the longer term in both UK and global equities where our portfolios are ahead of the respective indices over 5, 10, 20 and 30 years.

Private equity and venture capital

The private equity portfolio, which invests in unlisted companies, achieved a total return of 23.8% in 2018. We agreed further commitments to the portfolio totalling £143.1m during the year. Over the long-term, our private equity portfolio has significantly outperformed public equity markets and we continue to look to grow our allocation, if we can find managers we would like to partner with.

Following our decision, in 2017, to target more direct relationships focused on a select group of the strongest performing venture capital managers, we were very pleased to be able to commit £42.2m to four managers across 12 funds during 2018. Our pipeline also looks strong, which is testament to the in-house team building high-quality relationships in this area.

Multi-asset strategies

Our multi-asset portfolio, which represents around 13%, is designed to generate returns which are largely independent of the external environment.

2018 proved to be a good year for this part of our portfolio, which returned 8.6% despite the challenging market backdrop. This was in contrast to most multi-asset and hedge fund strategies, which lost money during 2018.

Fixed income

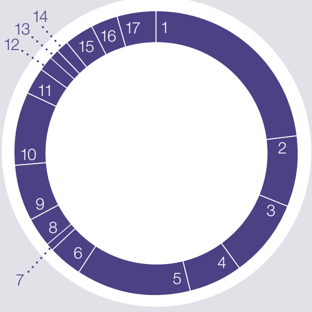
Our fixed income portfolio invests in credit strategies both liquid and illiquid. The liquid portfolio, which includes investments in global high yield bonds, emerging market debt and structured credit, managed to deliver a small positive return of 1.5% despite a very challenging environment.

Our private credit portfolio allocates capital to interesting opportunities to further diversify and improve the return profile of the fund. During the year we committed £84.2m to two new funds.

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

Total returns % per annum	1 year 2018	3 years 2016-18	5 years 2014-18	10 years 2009-18	20 years 1999-2018	30 years 1989-2018
Commissioners' total assets	1.8	8.5	9.6	10.7	8.2	8.9
Retail Price Index +5%	7.7	8.1	7.4	8.0	7.8	8.2
CC return v RPI	(0.9)	5.4	7.2	7.7	5.4	5.7
Commissioners' main asset classes						
Global equities	(3.7)	14.9	11.8	12.6	7.9	9.5
UK equities	(8.9)	6.7	4.8	10.3	5.7	9.2
Private equity	23.8	18.7	18.4	13.0	n/a	n/a
Commercial property	(1.5)	5.5	14.6	12.3	10.5	9.8
Residential property	5.1	8.3	12.1	14.0	16.0	14.4
Rural let land	(1.6)	4.1	7.6	10.7	13.8	12.9
Strategic land	29.2	17.3	19.7	18.4	15.5	n/a
Indirect property	13.9	10.5	11.8	7.8	9.1	n/a
Timberland and forestry	12.7	9.1	13.2	n/a	n/a	n/a
Value linked loans	3.1	4.9	13.0	12.4	9.7	6.9

Commissioners' asset allocation (as at 31 December 2018)



1	Global equities	**23.2%**
2	Defensive equities	**8.1%**
3	UK equities	**8.8%**
4	Private equity	**6.1%**
5	Multi-asset absolute return	**13.0%**
6	Timberland and forestry	**4.1%**
7	Infrastructure	**0.7%**
8	Commercial property	**3.3%**
9	Residential property	**6.4%**
10	Rural let land	**8.3%**
11	Strategic land	**3.0%**
12	Indirect property	**1.6%**
13	Value linked loans	**1.2%**
14	Emerging market debt	**1.4%**
15	High-yield bonds	**3.2%**
16	Private credit strategies	**3.2%**
17	Cash and cash-like assets	**4.3%**

Real asset performance

During 2018 we continued to actively manage our real asset investments to generate value and to manage our overall asset allocation. Selective sales, especially from our indirect property holdings (over £40m) and land for new housing here in the UK (£28m), generated over £110m (net £27.2m) in capital receipts during the year. This took the total receipts including rents during the last five years to over £1.1bn. The money we earn from our investments is used to support the work and mission of the Church across the country.

We invest for the longer term but also manage our holdings to meet and withstand more immediate challenges. To this end, we own and manage high-quality assets across a broad range of property-related sectors, including alternative asset classes such as farmland, forestry and renewable energy.

Whilst our commercial properties and farmland estates recorded falls in value, other parts of our portfolio performed more strongly, especially our strategic land holdings, which are well placed to provide much-needed new homes throughout England. Overall, the real assets portfolios returned nearly 6% in 2018, despite an uncertain investment landscape.

The Church Commissioners' real asset portfolios consist of a diverse range of property-related investments enabling us to take a long-term approach in line with good stewardship.

Rural/Let land
Whilst the financial returns from the portfolio were flat in 2018, owing largely to market uncertainty at this unsettled time, we have continued to add value by improving income across the estates and working with farmer tenants to actively manage the estates. We generated sales in 2018 of around £13m at a premium to opening values, and successfully restructured a number of tenancy agreements. We selectively added to the portfolio with strategic land acquisitions in Peterborough and Huntingdon, and further expanded the size of our minerals portfolio.

We continued to explore opportunities in the renewables and infrastructure sectors, in other farming areas including horticulture, and in the redevelopment of redundant farm buildings to bring them back into productive use.

Strategic land
The strategic land team had another very successful year in 2018, taking development sites through the planning system and making available land for new homes across England. Consistent and focused management, supported by a favourable planning outlook and continued demand for more homes, helped to generate returns for the year. We secured new housing allocations at Arun District in West Sussex including land at Barnham and at Bognor Regis which will deliver 6,000 homes when complete. Two sites in West Yorkshire at Dewsbury and Barnsley (1,600 homes in total) have both progressed through Local Plan examinations, with Barnsley's Local Plan now adopted. Planning permission was granted at Exeter Logistics Park, near Exeter Airport, for 1.2m sq. ft. of employment and distribution uses. Smaller planning applications for housing at Thorverton in Devon and Moor Farm near Ormskirk (39 homes in total) were approved. We received a resolution to grant planning permission at Ashford in Kent for a range of commercial and retail uses. A fresh planning application was submitted at Buckden in Huntingdonshire for 340 market and affordable homes.

We completed the sale of land for 200 homes at Ely North Phase 1 (£13.9m). The housebuilder is now on site constructing and expects to open the site for home sales in spring 2019. We sold land at Wetheral, Cumbria for £2.5m for the construction of 50 new homes and land at Leighton Buzzard, Bedfordshire for £4.3m which will facilitate the construction of new dwellings. In addition, we continued to generate receipts from the sale of new homes at Ashford, Peterborough and North Hykeham. Sales of strategic land generated in excess of £28m in 2018 to help fund the work and mission of the Church across the country.

Residential property
Active asset management was the key feature of our work on the Hyde Park Estate and against a market experiencing low volumes of transactions we generated £11.8m of capital receipts through lease extensions, freehold enfranchisement and new lease sales. We reinvested £13.2m in refurbishing residential properties and shops and improving the public realm. At the Water Gardens landscaping and planting were completely overhauled in keeping with the original plan and architecture. The iron railings (which were removed during the Second World War) were replaced at Hyde Park Square. Over one-tenth of the Estate is now "green" space created and managed by the Commissioners. We completed six new lettings to unique and independent traders including Dorothy Circus Gallery at Connaught Street and Dellaposa Gallery at Bathurst Street, as well as three renewals with existing tenants.

A series of events took place throughout the year to mark the 150-year anniversary of the Commissioners' ownership of the Estate including a community celebration event at Connaught Village, guided tours and history talks.

The year concluded with the temporary installation of 'Sacre Blur' at 25 Porchester Place positioned to be enjoyed by everyone passing by. It is a stained glass greenhouse made from recycled glass, created by Tony Heywood and Alison Condie who are also the Estate gardeners.

Commercial property
We maintained our focus on asset management across the commercial portfolio including four rent reviews initiated, one lease renewal completed and a further four renewals and ten licences in negotiation. Several deeds of variation were completed, most notably at Cheshire Oaks Designer Outlet, Ellesmere Port.

We assessed redevelopment potential at a number of assets including Goose Green Trading Estate, London SE22; 15 Galleywall Road, London SE16; and Catford Island Retail Park, London SE6. We also undertook a periodic review of our freehold and 10% interest at the Metrocentre, Gateshead, which remains our largest directly held commercial property. In light of ongoing difficult retailing conditions this important asset will continue to be closely monitored.

Indirect property
The indirect portfolio was the largest single generator of proceeds from the real assets portfolios with sales of £41.8m, and it also delivered a good return of 13.9% during 2018. Part of the capital raised was reallocated with a new commitment of £30m to a Real Estate Fund.

In the UK we saw the completion and opening of a senior living retirement home at Reigate, where the first residents were welcomed. Within the US, our development with a manager in Detroit made good progress on the delivery of affordable housing, community retail and a new medical centre for local people, and also delivered a strong return in the year.

Timberland and forestry
The Commissioners' forestry estate covers 103,000 acres in the UK, the US and Australia. In 2018, the timberland portfolio delivered a strong return of over 12.7%.

Our UK forest properties had a record year in terms of the cash generated from harvesting as we accelerated the harvesting plans and brought forward additional supply to satisfy demand from UK sawmills. Within Wales, we helped facilitate the long-term development and growth of the mountain biking centre operated by One Planet Adventure through its sale of the visitor centre to the business within Llandegla Forest. This will enable it to access grant funding and other capital to improve trails and the leisure offering for the community.

Renegotiation of an option agreement was completed on our Brownhills forest in South Scotland where we hope to see the development of over 100MW of new wind power being delivered without subsidy. We also signed two solar options in Virginia, US which could potentially be worth up to US $25m (approx. £20m) in the coming years.

During the year, we acquired an additional 13,000 acres of timberland property in Georgia and Alabama for US $21.8m (approx. £17.2m), which will be incorporated into our sustainable management and certification regime.

Infrastructure
We continued to expand our infrastructure portfolio with a new commitment of US $40m (approx. £31m) to a manager which provides loans to energy businesses. One of their objectives is to provide finance to support renewable and energy efficiency businesses. Our wastewater investment targeting anaerobic digestion, water efficiency and renewable biogas investment in the US continued to secure construction projects and is now beginning to deliver cash flow as well as reduce harmful greenhouse gases by producing green biogas from waste.

Hyde Park Estate, London

The Hyde Park Estate in central London marked its 150-year anniversary with a number of special events organised for the local community:

- A talk by author and historian Rachel Kolsky tracing the fascinating history of the estate from its rural beginnings.
- Two walks focusing on the women who have lived and worked in the area and on how it has become a cultural enclave.
- A summer themed party where the area and its people dressed to represent key decades in the estate's development and evolution.
- A historical photography project supported by the *London Evening Standard.*

Metrocentre, Gateshead

The Church Commissioners financed the Metrocentre's construction in the 1980s, still own the freehold and retain a 10% stake in this integral part of the regional economy, where 8,000 people work.

For the last 25 years the chaplain, the Revd Canon Lyn Jamieson, has been on hand to support staff and shoppers. "It's really important that there's a visible Christian presence in the Metrocentre", says Lyn. Whether people want to talk about something personal or are dealing with employment uncertainty – many have found Lyn to be invaluable. She and her volunteer team mark occasions such as Remembrance Sunday in the centre's chapel and malls, hold a monthly service in the chapel and have supported local charities, including a food bank.

Responsible Investment

Taking account of environmental, social and governance issues ('ESG') 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 ethical exclusions; incorporation of environmental, social and governance issues; action on climate change risks and opportunities; engagement and voting; and impact monitoring and impact investments.

The Commissioners were rated A+ for Responsible Investment ('RI') Strategy & Governance by PRI in our annual assessment in 2018 and gained A+ ratings for Manager Selection, Appointment & Monitoring for all asset classes. We were rated A for engagement and voting, and our management of our directly held property assets. This was the Commissioners' best-ever PRI assessment.

The Commissioners were again recognised in RI awards. Our Head of Responsible Investment, Edward Mason, won the inaugural International Corporate Governance Network ('ICGN') Global Stewardship Champion Award for his engagement on climate change at ExxonMobil.

The Commissioners consider modern slavery to be an issue of international importance and urgency. Despite not being required by law to publish a Slavery and Human Trafficking Statement, a voluntary statement can be found in the Commissioners' section of the Church of England website.

Ethical exclusions

The Church Commissioners maintain a comprehensive range of ethical investment exclusions. We exclude from our direct investments companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, 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 policies also allow for investment restrictions on a case-by-case basis, usually as a last resort if we are not satisfied with our engagement experience with a company.

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

Environmental, Social and Governance ('ESG') issues

As PRI signatories, the Commissioners are committed to incorporating 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 of standards, or are good or outstanding RI practitioners. 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.

Climate risk and opportunities

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 2°C.

The Commissioners are also supporters of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures ('TCFD'). We advocate corporate disclosure in line with the TCFD recommendations and are guided by the TCFD recommendations in our own reporting. Fuller TCFD-consistent disclosure on climate change is available on our website.

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 all six meetings in 2018. These issues included climate change engagement and voting, our asset managers' approaches to climate change captured in our RI assessments, and the July 2018 General Synod debate on climate change and investment.

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

Climate change strategy

Climate risks the Commissioners face include:

- Transition risk – the risk that our asset allocation, asset managers or individual investment assets prove to be poorly positioned for the investment risks and opportunities associated with the transition to a low-carbon economy; and
- Physical risk – the risk that our assets are impacted by the physical risks associated with climate change, such as flooding and fire, particularly our property, rural and forest assets.

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 2°C. The biggest risk to the Commissioners in the long-term – beyond 2050 – is that the global average temperature rise is not restricted to below 2°C, causing economic, environmental and social damage that it will not be possible to avoid via asset allocation or investment selection.

Assessment of our portfolio in 2015 by investment consultants Mercer found that the Commissioners' strategy of portfolio diversification was supportive, through to 2050, of resilience to a range of climate scenarios, including a 2°C scenario.

Risk management, metrics and targets

The key risk management tools we deploy are:

- active engagement with public policy makers, companies and our asset managers;
- divestment from high-carbon assets;
- investment in low-carbon assets; and
- monitoring portfolio companies' management of climate change, strategic alignment with the Paris Agreement and carbon footprint.

Disclosure on the climate-related metrics we track, and our targets, is incorporated into the reporting that follows.

The Commissioners' Climate Action 100+ leads

ExxonMobil

The Commissioners are CA100+ leads for ExxonMobil alongside New York State Common Retirement Fund. In May 2018, we attended Exxon's AGM in Dallas and commenced CA100+ engagement, including via an in-person meeting in the US in November. In December we co-filed a shareholder proposal with New York State Common Retirement Fund, backed by a coalition of other investors, asking the company to set long-term emissions reduction targets aligned with the goals of the Paris Agreement, covering both the company's operational and product emissions.

In 2018 Exxon took some important steps forward on climate change that had been requested by the Commissioners, including publishing its fullest-ever climate risk report (in line with the shareholder proposal we succeeded in getting passed in 2017) and joining the Oil and Gas Climate Initiative ('OGCI'), a group of global oil and gas companies founded by CEOs committed to the ambitions set by the Paris Agreement.

Glencore

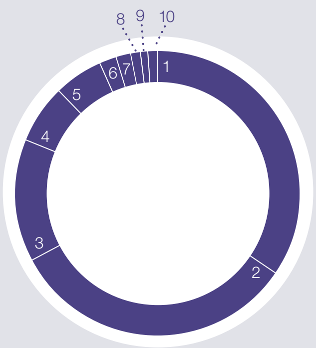
The Commissioners are CA100+ leads for Glencore. In May 2018, we attended Glencore's AGM in Zug, Switzerland, and asked three questions related to emissions targets, remuneration policy and carbon pricing. We met Board and executive team members on multiple occasions during 2018, with discussion focusing on our request that the company should disclose its commitment to strategic alignment with the goals of the Paris Agreement.

In 2018, at the Commissioners' request, Glencore agreed to evaluate the climate lobbying of the trade associations of which it is a member and to publish this analysis before its 2019 AGM.

Engagement, voting and screening

In 2018 the Commissioners' in-house engagement team engaged directly with 78 companies through 107 engagement interactions.

The Commissioners' engagement interactions by theme in 2018



1	Climate change	**37**
2	Governance	**35**
3	Alcohol	**15**
4	Corporate tax	**7**
5	Gender diversity	**6**
6	Labour issues	**2**
7	Bribery and corruption	**2**
8	Biodiversity	**1**
9	Adult entertainment	**1**
10	Health and safety	**1**

The majority of engagements were part of our climate change, corporate governance and responsible alcohol programmes. We also remained key participants in the PRI's collaborative engagement programme on corporate tax, as well as the 30% Club Investor Group's efforts to support board gender diversity.

Climate change engagement
The Church of England National Investing Bodies ('NIBs'), including the Commissioners, made important commitments in 2018 on their strategic approach to climate change engagement.

In July, in a major debate on climate change and investment, General Synod welcomed the NIBs' establishment of the Transition Pathway Initiative ('TPI'). The NIBs reaffirmed their commitment to engage urgently and robustly with companies rated poorly by the TPI and, beginning in 2020, to start to disinvest from the ones that are not taking seriously their responsibilities to assist with the transition to a low-carbon economy.

In a new commitment, the NIBs indicated that by 2023 they would disinvest from fossil fuel companies that they have assessed, drawing on TPI data, as not prepared to align with the goal of the Paris Agreement to restrict the global average temperature rise to well below 2ºC.

The Synod motion incorporating these commitments was passed overwhelmingly, with 347 votes in favour and four against.

Transition Pathway Initiative
The TPI is a global initiative, co-founded by the Church of England NIBs in 2017, to assess companies' preparedness for the transition to a low-carbon economy. It ended 2018 supported by investors with $12tn of assets.

In July 2018, the TPI organised its first 'State of Transition' Summit at the London Stock Exchange attended by global investors and senior company representatives.

Before the Summit got underway, the Archbishop of Canterbury opened the stock market accompanied by the Bishop of Manchester, who acts as Chair of the Commissioners' Board of Governors, and First Church Estates Commissioner Loretta Minghella, who chairs the Commissioners' Assets Committee.

Climate Action 100+
Climate Action 100+ ('CA100+') is an investor initiative seeking to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, consistent with the goal of the Paris Agreement to restrict warming to well below 2ºC.

The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.

CA100+ is supported by 323 investors with more than $32tn of assets. The Commissioners were founding supporters. The TPI was made one of the CA100+ official data partners in 2018 and its assessments will be used to benchmark companies. The Commissioners lead engagement with two companies.

Voting
In 2018 the Commissioners voted on 17,066 resolutions presented at 1,146 company meetings across 55 different markets. We voted against (or withheld votes) on 15.6% of resolutions presented.

The issue on which the Commissioners most commonly voted against management remained executive remuneration. In the UK, we did not support 60% of remuneration reports and 53.7% of remuneration policies. This included a new provision whereby we abstained on the approval of remuneration reports and policies of 72 UK companies due to their failure to disclose their CEO/employee pay ratio.

In 2018 we also started voting against the re-election of Chairs of companies rated level 0 or 1 for quality of management of climate change by the TPI. We voted against the re-election of the Chairs of Tenaris (a steel company) and EOG Resources (an oil and gas company).

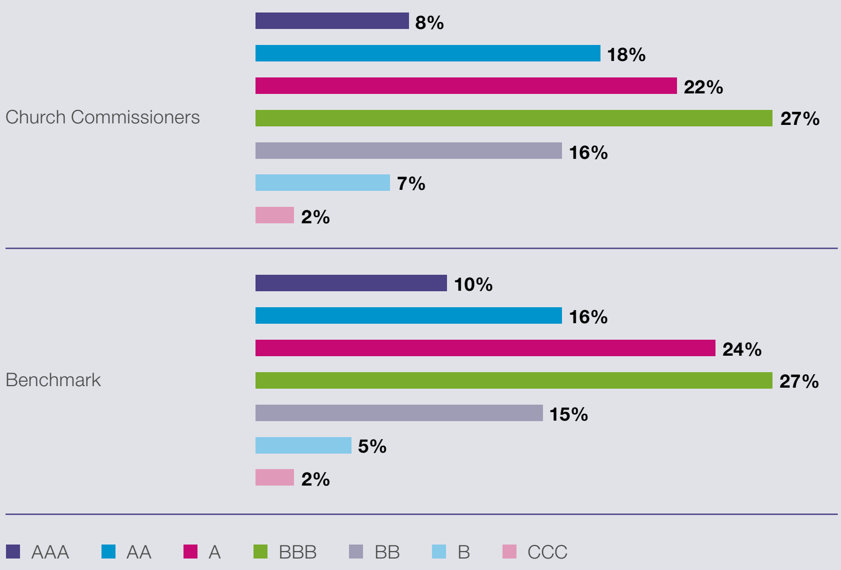
Impact monitoring

We are seeking progressively to improve our understanding of the environmental and social impact that our investment portfolio has on the world.

Environmental, social and governance issues
Reviewing as much as possible of our public equities portfolio against MSCI ESG Research data, we have assessed how companies in our portfolio are scored on ESG issues compared to companies in our blended UK/global listed equities benchmark. The dispersion of scores in our portfolio is broadly similar to that in our benchmark.

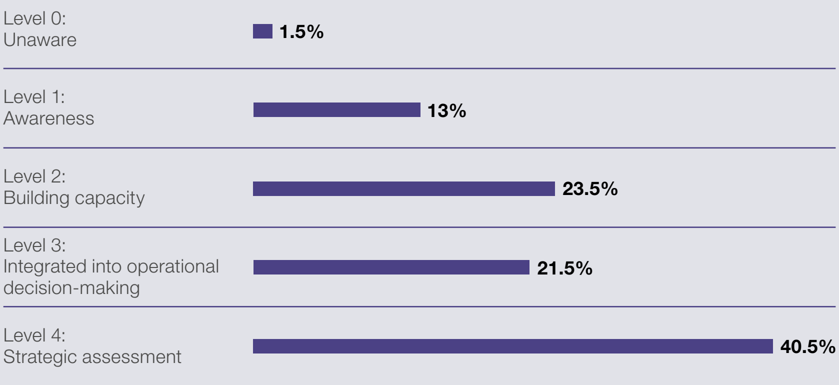
Climate change: management quality
We have assessed the management quality on climate change of as much as possible of our public equities portfolio against that of all companies assessed by the TPI. The management quality of our portfolio companies is significantly better than that of the TPI universe as a whole.

Exposure to companies by ESG score



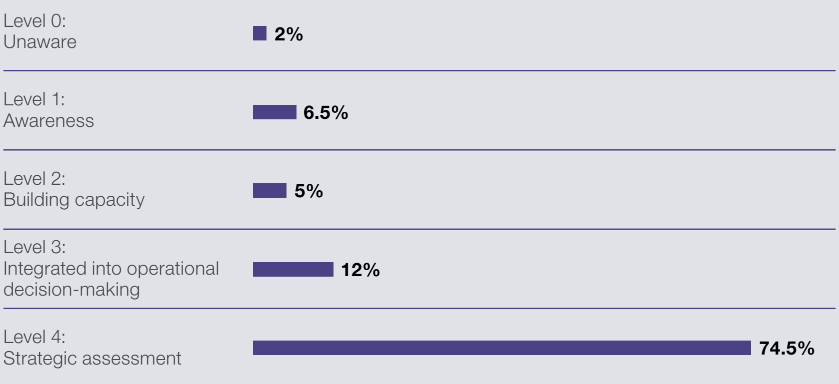
Source: MSCI Sustainable Impact Metrics

TPI universe by market capitalisation



Source: Transition Pathway Initiative

Church Commissioners' portfolio



Source: Transition Pathway Initiative

Carbon footprint

In order to monitor progress towards our goal of reduced portfolio-related greenhouse gas emissions, we use data from Trucost to monitor the carbon footprint of as much as possible of our public equities portfolio. We compare our portfolio emissions with those of our blended UK/global listed equities benchmark.

This data indicated that at the end of 2018 the carbon footprint of our portfolio was 344 tonnes of 'carbon dioxide equivalent' ('tCO_2e') per £1m of corporate revenue compared to 275 tCO_2e for our benchmark.

Listed equities carbon footprint 2014-18 data – tonnes CO_2 equivalent per £1m revenue

Date	Benchmark	Church Commissioners
Dec-14	249	194
Dec-15	217	163
Dec-16	235	193
Dec-17	274	313
Dec-18	275	344

Source: Trucost

Engagement, voting and screening continued

Revenue from positive impact themes

Environmental Impact Solutions For a $1m investment in the portfolio or a hypothetical investment of $1m allocated to replicate the index:	Climate change			Natural capital	
	Alternative energy	Energy efficiency	Green building	Sustainable water	Pollution prevention
Church Commissioners: $25,450 per year in clean tech products and services	**$3,199** per year of revenues from alternative energy technologies	**$16,643** per year of revenues from energy efficiency technologies	**$1,788** per year of revenues from green building	**$788** per year of revenues from sustainable water technologies	**$3,032** per year of revenues from pollution prevention technologies
MSCI ACWI Index: $15,186 per year in clean tech products and services	**$3,292** per year of revenues from alternative energy technologies	**$8,278** per year of revenues from energy efficiency technologies	**$1,189** per year of revenues from green building	**$821** per year of revenues from sustainable water technologies	**$1,607** per year of revenues from pollution prevention technologies

Social Impact Solutions For a $1m investment in the portfolio or a hypothetical investment of $1m allocated to replicate the index:	Basic needs				Empowerment	
	Nutrition	Affordable real estate	Major disease treatment	Sanitation	SME finance	Education
Church Commissioners: $8,265 per year in social impact products and services	**$1,231** per year of revenues from nutritious food	**$308** per year of revenues from affordable real estate	**$1,046** per year of revenues from top 20 diseases treatment	**$2,515** per year of revenues from sanitary products	**$1,487** per year of revenues from SME lending	**$1,678** per year of revenues from education services
MSCI ACWI Index: $14,605 per year in social impact products and services	**$4,695** per year of revenues from nutritious food	**$308** per year of revenues from affordable real estate	**$4,686** per year of revenues from top 20 diseases treatment	**$2,940** per year of revenues from sanitary products	**$1,753** per year of revenues from SME lending	**$224** per year of revenues from education services

Source: MSCI Sustainable Impact Metrics

Holdings in three electric utilities companies account for just under one-third of our portfolio's total emissions and more than account for the excess carbon footprint compared to the benchmark.

As noted above, starting in 2020, we will 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, taking into account TPI assessments, including in the electric utilities sector.

Positive environmental and social impact

We have begun to analyse the amount of revenue that our public equities portfolio derives from positive impact themes. We compare this with our blended UK/global listed equities benchmark. This data indicates that our portfolio has higher than benchmark exposure to environmental impact solutions and lower than benchmark exposure to social impact solutions. We will explore this further in the coming year.

Low-carbon investments

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 2018, £344.6m of the Commissioners' investment portfolio (approximately 4.25%) qualified as low-carbon investments:

- Sustainably certified forestry portfolio – £294.8m
- Environmental markets fund – £34.7m
- Waste stream opportunities fund – £15.1m holding

The long-term average carbon stock of the Commissioners' UK forests is over 2 million tonnes of carbon dioxide equivalent sequestered from the atmosphere.

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 2018 we had operational wind farms with 33MW of capacity on our UK forest estate and 1MW on our UK rural estate. This is enough capacity to provide electricity for over 20,000 homes.

In addition, we have operational solar farms with 9MW of capacity on our UK rural estate. We see further attractive opportunities for onshore wind on our UK forest and rural estate.

The manager of the Commissioners' largest listed equity mandate, valued at £426.3m at the end of 2018, requires that all investments must meet sustainability criteria. This represents a further 5.25% 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.

We strengthened our commitment to impact investment in 2018 by appointing an impact investment analyst tasked with searching for impact investments that meet our investment risk/return criteria. It remains our policy not to set a specific impact investment target or allocation.

The Commissioners have so far committed £40m to impact investments via two funds. Both funds are making good progress in deploying investors' capital.

The first of these impact investments is a £30m commitment to a waste stream opportunities fund, which develops anaerobic digestion and other waste treatment facilities. The primary source of revenues for this fund is the sale of renewable energy from the facilities it develops.

Our second impact investment is a £10m commitment to an impact private equity fund raised by a manager who is headquartered in, and primarily invests into, the North West of England. One of the fund's major focuses is companies which provide training and technology designed to build skills and increase employee wellbeing.

The Church Commissioners at company AGMs

The Church Commissioners believe it is our responsibility as shareholders to vote at company AGMs in a way which is consistent with our values as an ethical and responsible investor.

Persimmon Plc

Remuneration Report

The highest profile UK remuneration vote of the year was at housebuilder Persimmon plc, when almost two-thirds of shareholders refused to back the company's executive remuneration proposals following a £75m remuneration award to Chief Executive Jeff Fairburn. The scheme that led to the award had been approved by 85% of Persimmon shareholders in 2012 (the Commissioners voted against the establishment of the scheme).

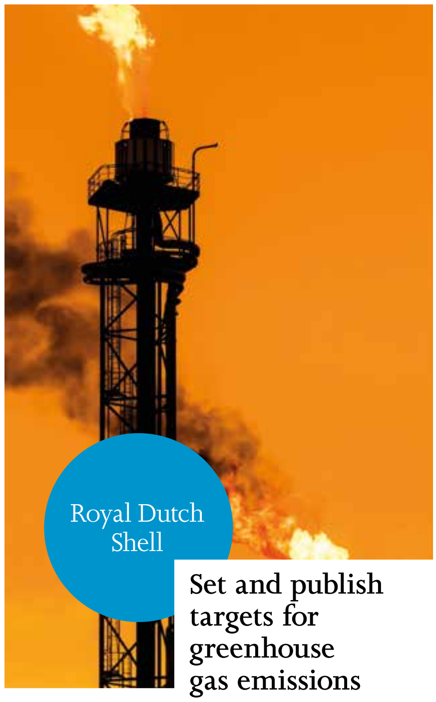
Vote: AGAINST

ExxonMobil

Re-elect members of Board Affairs Committee

ExxonMobil maintains a policy to deny almost all shareholders access to Non-Executive Directors for engagement. We voted against the re-election of all Directors sitting on Exxon's Board Affairs Committee to hold them accountable for this policy which we strongly oppose.

Vote: AGAINST



Royal Dutch Shell

Set and publish targets for greenhouse gas emissions

A shareholder resolution was filed by NGO Follow This and called on Royal Dutch Shell to publish emissions reduction targets aligned with the Paris Agreement goals, including for emissions linked to the use of Shell's products. The Commissioners had supported this resolution in 2017 and did so again in 2018.

Shell had, however, already taken a significant step towards aligning its business with the Paris Agreement at the end of 2017, announcing an ambition to halve its net carbon emissions by 2050.

In December 2018, Shell went further and published a joint statement with investors participating in CA100+ (including the Church of England Pensions Board) committing to operationalise its long-term ambition through rolling short-term emissions reduction targets linked to executive remuneration.

Vote: FOR

A fuller account of the Commissioners' engagement and voting is available on our website in our Engagement, Screening and Voting Report for 2018.

Trustees and accountability

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

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

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

The Commissioners have a number of subsidiaries for investment purposes and the principal subsidiaries are set out in note 2(b) of the financial statements. A number of joint ventures are also held as part of their investment portfolio. The Commissioners, together with the Archbishops' Council and the Church of England Pensions Board, are equal partners in Church of England Central Services, a joint venture providing cost-effective shared financial, legal and other services.

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 both guidance documents when reviewing the Commissioners' aims and objectives and in planning future activities.

We are confident the financial resources provided to parishes, bishops and cathedrals help to promote the Church's whole mission (pastoral, evangelistic, social and ecumenical) more effectively, at a national level, in the dioceses and in individual parishes. In doing so, the Church 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 the Church's offering;
- promoting Christian values, and service by members of the Church in and to their communities, to individuals and society as a whole.

This report outlines examples of this public benefit in action.

Trustees and the Board of Governors

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

Thirteen Board members are elected either by General Synod or the cathedral deans, and other members are appointed either by the Crown or the Archbishops for professional expertise of various kinds (e.g. actuarial, legal, investment). Board members are organised into four committees: the Assets Committee, Audit and Risk Committee, Bishoprics and Cathedrals Committee and the new Mission, Pastoral and Church Property Committee which was formed on a transitional basis from the merging of the former Church Buildings (Uses and Disposals) Committee and the former Mission and Pastoral Committee. All except the Assets Committee also contain other, non-Commissioner members and all are supported by an executive led by the Secretary (Chief Executive), Andrew Brown.

In the spring, Andrew Mackie stepped down as Third Church Estates Commissioner. We are thankful for the energy, skill, commitment and good humour he brought to the role. We are thankful too that the Archbishop of Canterbury nominated Dr Eve Poole to succeed him, taking up her position on Easter Sunday 2018.

All new Commissioners receive an information welcome pack to support them in their trustee role. Information on governance in the charity sector is made available and all Commissioners and non-Commissioner committee members are offered a half-day induction programme after election or appointment. At these, they hear about Commissioners' work from senior staff and have the opportunity to ask questions. Further training is subsequently offered as needs arise.

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

Trustees and accountability continued

Towards the end of the year, Church Commissioner elections by the General Synod and the Deans took place, following which we said farewell to five Commissioners who were either not re-elected or did not seek re-election: the Bishop of Chichester (the Rt Revd Martin Warner), the Dean of Exeter (the Very Revd Jonathan Greener), the Revd Canon Bob Baker, April Alexander and Gavin Oldham. They were succeeded by the Bishop of Bristol (the Rt Revd Vivienne Faull), the Dean of Ely (the Very Revd Mark Bonney), the Revd Anne Stevens, Jay Greene and Canon Betty Renshaw MBE. In addition, our QC Commissioner, William Featherby QC, reached the end of his term of office and was replaced by Morag Ellis QC with effect from 1 January 2019. We express our sincere gratitude to all the outgoing members for their huge commitment over the years to the work of the Church, and we extend a warm welcome to the newly appointed or elected members, all of whom bring great skill and experience.

There were also some changes in the non-Commissioner committee memberships with Hilary Wild replacing Stephen East on the Audit and Risk Committee and the Very Revd Tim Barker replacing the Revd Rosalyn Murphy on the Bishoprics and Cathedrals Committee, from which the Rt Revd Anne Hollinghurst also resigned but has not yet been replaced. As noted elsewhere, the former Church Buildings (Uses and Disposals) and Mission and Pastoral Committees were merged into the new Mission, Pastoral and Church Property Committee with the existing memberships carrying forward on an initial transitional basis.

Nonetheless, we said farewell to two members whose terms expired at the year end: the Revd Canon Stephen Evans was replaced on the new Committee by the Revd Canon Clare MacLaren, and to the Revd Canon Peter Cavanagh, whose position is currently vacant. Again, as we welcome Clare, we also thank Stephen and Peter for the great contribution they have made.

Second Church Estates Commissioner

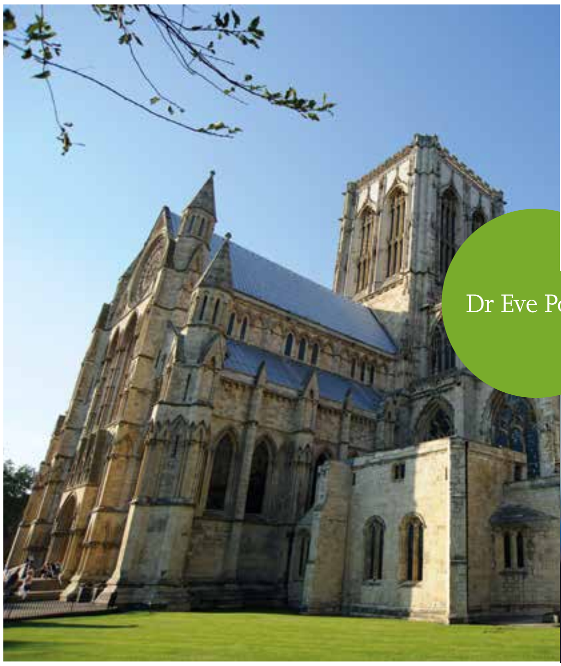
The Second Church Estates Commissioner, the Rt Hon Dame Caroline Spelman maintains the statutory accountability of the Church Commissioners to Parliament through the regular answering of questions in the House of Commons.

During 2018 a total of 159 questions from MPs were answered and seven Church Measures were taken through Parliament. Questions continue to range widely across the work of the Church in the UK and overseas. The most frequently asked were on: the persecution of Christians overseas, Church Commissioners' land and property, investments, thefts from churches and the community use of churches.

The Second Commissioner has met with visiting overseas bishops and archbishops from Nigeria, Zimbabwe, Europe and the new Province of Chile to discuss their work and mission. She has engaged with Government Ministers in Departments for Education, Environment, International Development, Culture, the Home Office and Foreign Office on a variety of subjects relating to the concerns of the Church of England and other faiths. This year Dame Caroline also led a visit to Jerusalem and the West Bank with five MPs and the Speaker's Chaplain. There they visited projects operated by St George's Cathedral in Jerusalem and met with representatives of the Jewish and Palestinian communities.

Dame Caroline has continued hosting Parliamentary receptions to draw attention to the work of the Church of England and Commissioners. This year the receptions have focused on the Church's work with children, rural schools, and in tackling modern slavery, and we celebrated the centenary of women's suffrage with a reception marking the contribution of women to the Church and public life.

Full details of the questions answered by Dame Caroline in 2018 can be found on the Church of England in Parliament website: www.churchinparliament.org



Dr Eve Poole

New Third Church Estates Commissioner

Dr Eve Poole became the Third Church Estates Commissioner on Easter Sunday in 2018. She has a BA in Theology from Durham University, an MBA from Edinburgh University, and a PhD in Theology and Capitalism from Cambridge University. For 15 years she taught leadership at Ashridge Business School, having previously worked for Deloitte Consulting, where she specialised in change management for the financial services sector.

Eve chairs the Commissioners' newly combined Mission, Pastoral and Church Property Committee, and the Bishoprics and Cathedrals Committee, and she is a member of the Board of Governors. Her remit includes the hearing of appeals on pastoral reorganisation and the future of closed churches; the funding of bishops and cathedrals; and the implementation of the recent Cathedrals Working Group Report, which seeks to improve the governance of England's cathedrals. Eve's first job after university was working for the Commissioners, so she is enjoying the career symmetry of her return. She divides her time between London and Edinburgh and has twin girls.

"Eve is enjoying the career symmetry of her return to the Church."

Visit to Israel

A personal reflection by Dame Caroline

There is one theme which reoccurs regularly during my question time in the House of Commons. This is the future of the Christian community in Israel and the Palestinian Territories. Having never visited the region previously, colleagues from the Conservative and Labour Parties and I, along with the Speaker's Chaplain, set out over the November 2018 recess to see what life is like for the Christian community in Jerusalem and the West Bank.

The visit was organised as a collaboration between the Church of England's Parliamentary Unit, Mission and Public Affairs Team and Embrace the Middle East, in partnership with St George's Cathedral in Jerusalem.

The residual Christian population now only numbers 1% of the region's whole population, but even at that level it still has the potential to help both sides reach reconciliation. Its hospitals and schools offer Christians and Muslims the chance to get to know each other and build the bonds of peace.

This was an eye-opening experience and my colleagues and I intend to use what we have learnt to shape our contributions in the House of Commons.

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**	**7**	**4**	**8**
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	3					
Loretta Minghella, OBE, First Estates Commissioner	4	6				
Dame Caroline Spelman MP, Second Estates Commissioner	3	2				
Andrew Mackie, Third Estates Commissioner (until 31 March)	1			1	1	2
Dr Eve Poole, Third Estates Commissioner (from 1 April)	2			5	3	6
Bishop of Aston, Anne Hollinghurst (until 10 Dec)				4		
Bishop of Birmingham, David Urquhart	2	6				
Bishop of Chichester, Martin Warner	1			5		
Bishop of Leicester, Martyn Snow					1	
Bishop of Manchester, David Walker	4					
Bishop of Newcastle, Christine Hardman	3				1	
Dean of Gloucester, Stephen Lake	4			7		
Dean of Exeter, Jonathan Greener	3			6	4	
Ven Penny Driver					3	
Revd Mary Bide				7		
Revd Stephen Evans					3	
Revd Rosalyn Murphy				1		
Mrs Rosemary Butler				7		
Revd Christopher Smith	4	5				
Revd Simon Talbott						2
Revd Stephen Trott	3					6

* 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 Canon Bob Baker	4					8
Lord Best (from 3 April)	3					5
Revd Canon Peter Cavanagh						5
Canon Peter Bruinvels	4				4	
Canon Susan Pope					4	
Canon Elizabeth Renshaw				6		
Ian Ailles		1	3			
April Alexander	4	1	2			7
Poppy Allonby	4	5				
Suzanne Avery	4	3				
Jeremy Clack	3	1	2			
Margaret Davies						6
Stephen East		1	3			
William Featherby QC	4					
Gavin Oldham	4	6				
Graham Oldroyd	4	6				
Duncan Owen	2	3				
Alan Smith (Board from 8 April; Audit and Risk from 20 Sept)	2		2		2	
John Steel						8
Jonathan Templeman		1	3			
Jacob Vince	3			6		
Garth Watkins					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 ('NCIs') to serve the wider Church and ensure effective use of the Church's money.

Our people
2018 saw continued growth across the NCIs with a 1.6% increase in the overall figure of 520 staff, of which 89 (17%) were employed by the Church Commissioners. At the end of 2018 senior managers (bands 0–2) accounted for 131 (25%) of the total workforce of the NCIs, up from 123 (24%) in 2017.

37% of these senior positions were held by women, a slight decrease from 2017 (39%). In 2018, 50% of senior managers recruited were female compared with 45% in 2017. The percentage of people who classed themselves as having a disability was 4.9%. Since 2013 the average age of staff has dropped from 46 to 44 years old.

The percentage of people who classed themselves as black or minority ethnic ('BAME') comprised 23.8% of new starters across the NCIs in 2018 and 12.5% of new starters within the Church Commissioners contributing to overall BAME representation of 15.2% (NCIs) and 9.5% (Church Commissioners).

A common purpose
The Commissioners, in partnership with the other NCIs, work to a common purpose statement which places an emphasis on collaboration – both within the NCIs and with colleagues in dioceses and cathedrals: "We in the National Church Institutions support the mission and ministries of the Church of England. We work together with those who serve in parishes, dioceses, cathedrals, schools and other ministries, and with our partners at a national and international level."

Recent examples of this in action include data protection policies, templates and guidance shared with the wider Church ahead of the May 2018 deadline to comply with the new General Data Protection Regulation, and Pathways – the Church of England's recruitment platform which promotes vacancies for clergy, employed and volunteer positions.

Results from the latest NCI staff survey held at the end of 2017 show that the strong sense of a shared purpose amongst staff continues to deepen, with 78% of people stating that they understand how their role supports our stated purpose, 22% above the UK not-for-profit benchmark. Throughout 2018 initiatives were launched in response to staff feedback in the annual survey.

Health and wellbeing was a main area of focus during 2018. A new Employee Assistance Programme was launched in May – a 24/7 confidential online and telephone service to help staff deal with personal and professional problems. This service also enables staff to access up to six sessions of face-to-face counselling. By October more than 20 staff had received accredited mental health first aid training. This enabled the NCIs to establish an internal network of colleagues who are a point of contact for those experiencing issues which may impact on their mental health or lead to emotional distress. A new online tool for recording accidents and health and safety training went live in November.

Our management framework was supplemented by the rollout of bite-sized training sessions covering practical issues from how to handle difficult conversations to making the most of performance reviews. A new project management framework and toolkit was launched in October. These were supported by a range of training courses attended by more than 150 staff in November and December, helping to build capacity, capability and consistency in this important area.

Improvements to digital communication channels and face-to-face events, including the introduction of weekly 'from the floor' question and answer sessions with the Chief Executive of the Church Commissioners and the Secretary General of Archbishops' Council at Church House, have led to increased levels of engagement with internal communications across the NCIs.

Gender pay
Our second annual gender pay report covered 491 staff being paid under our common pay policy and the majority of staff employed by the Church Commissioners, of whom 31 staff are covered by a separate performance-related policy. We also restated and republished our gender pay data from the previous year (2017).

The 2018 NCI data shows a drop of 4% in the median pay gap to 24% compared with the restated 2017 figure, whilst our mean pay gap remained the same at 21%. For the Church Commissioners' 31 asset management staff the median pay gap was flat at 0%, whilst the mean pay gap was 9% in favour of women.

In 2017 original published figures had calculated the gender pay gap as the percentage of a female's average salary whereas regulations define the measurement against a male's average salary. This had previously resulted in the 2017 gender pay difference being overstated. The reported mean gap in 2017 was 21% (previously stated it was 27%) and the median gap was 28% (previously stated it was 41%).

The 2018 results are encouraging as we continue to review pay structures, addressing any imbalances and barriers to females and opportunities for advancement within the NCIs. We are committed to improving this further as we focus on reducing the difference in pay between men and women in more highly paid roles and improving the ratio of men to women in the most senior and most junior roles.

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.

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 paying in line with the Living Wage and, for those roles based in London, the London Living Wage, for all staff including apprenticeships, interns and those on training schemes.

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. 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 as those on the NCI bands.

Asset management 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% per annum over a sustained period of five years.

The level of pay and the value of LTIPs are 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 ('EIAG').

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 2018, nine asset management staff for the Commissioners were paid LTIP payments totalling £1.08m based on the long-term performance of the fund.

The highest-paid member of staff received an LTIP payment of £256,000. The Secretary to the Church Commissioners does not participate in the LTIP scheme. During 2018 the total remuneration (salary and LTIP) for the highest-paid member of staff was 23.2 times the total remuneration received by the lowest-paid member of staff and 11.3 times the median total 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%, depending on age and employee contributions.

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 Strategic and Operational 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 Risk Management and Internal Audit 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
Failure to achieve investment returns (as per actuarial calculation) required to meet pensions obligations and distribution levels to grow and support the wider church.	– 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. This includes focus on external factors such as the global economy, Brexit implications, etc. – Actuarial advice and guidance on distribution capacity. – Forward planning process to identify spending plans and potential issues due to investment performance.
Failure to control costs, liabilities and performance and manage stakeholder expectations impact the ability to provide sustainable support and assistance to the dioceses.	– Review, approval and governance arrangements to control costs. – Ongoing communication with key stakeholders such as the Archbishops' Council, dioceses and cathedrals, etc. to assist in the early identification of emerging costs. – Discretion over the allocation of funds to allow the protection of distributions.
Lack of effective planning of operations, capacity challenges and/or ability to manage projects result in inefficient and ineffective working practices and a failure to achieve objectives to budget/time.	– Budgetary control of Church Commissioners' ('CC') department costs. – Resourcing effective project management for the Lambeth Palace Library project. – Project Review Board established providing senior management with oversight of the most high-profile projects in the NCIs.
Strategic Development Funding is not achieving the outcomes desired/expected and there are ineffective review/monitoring controls in place. Ineffectiveness of other areas of expenditure (Bishops' and Cathedrals' funding).	– Strategic Investment Board and Strategy Development Unit provide oversight of grant allocation and ongoing monitoring of how funds are used. – Annual review of the Strategic Investment Board activity reported to the joint Church Commissioners/Archbishops' Council meeting. – Communication and information sharing on how grants have been used, which provides a better understood process.
Reputational risks to the Church Commissioners impact achievement of strategic objectives.	– Proactive and frequent engagement with key church stakeholders on CC investment strategy and priorities. – Dedicated Financial Communications team to proactively manage responses to media regarding CC investment strategy. – Ethical Engagement Strategy to ensure application of our ethical investments policies. – Local housing development schemes, proactive consultation and engagement with local community and church as part of the planning process.
Business continuity, IT resilience, cyber security, health and safety challenges etc. impact delivery of strategic objectives.	– Policies, training and monitoring processes to assist compliance with legal and regulatory requirements. – Improvements to technology infrastructure and security have been undertaken and further developments are planned.

Long-term financial strategy

Reserves policy

It is the Church Commissioners' policy to invest its endowment to provide long-term financing to pay the pre-1998 clergy pension obligations 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 an inflationary factor, 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 75, including their qualifications for providing such advice.

The total endowment fund of the Commissioners as at 31 December 2018 stood at £6.4bn, net of the provision for the pre-1998 clergy pension liability of £1.5bn 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 2018 was £3.8bn (2017: £3.7bn), 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, which expires in 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. In 2018 the Commissioners retendered the actuarial appointment and reappointed Hymans Robertson LLP.

During the year, the Commissioners worked with their actuaries to conduct a thorough review of the framework for their distribution policy and assumptions to be used for the full three-yearly actuarial review as at the end of 2018. This resulted in two significant changes: firstly, the Commissioners agreed to move to an inflation measure of CPIH for distributions for purposes other than pensions. Secondly, they introduced the concept of multi-year additional funding which could be made only if the actuaries advised the Commissioners' assets exceeded the sum that needed to be reserved to meet their pensions obligations and planned core in-perpetuity distributions for grant support for dioceses, bishops and cathedrals.

Following the conclusion of the triennial actuarial review and the work of the Triennium Funding Working Group, the Commissioners are working with the Archbishops' Council and House of Bishops to determine spending plans for 2020-22.

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 its subsidiaries' 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.

Signed on behalf of the Board by:

Loretta Minghella

Loretta Minghella
First Church Estates Commissioner
7 May 2019

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 2018 which comprise the consolidated and Commissioners' statements of financial activities, the consolidated and Commissioners' balance sheets, the consolidated cash flow statement, and notes to the financial statements, 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 2018 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 Financial Reporting Council's ('FRC') 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.

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 Annual Report, 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.

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.

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.

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 May 2019

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 2018

	Notes	2018 Other funds £m	2018 Endowment £m	2018 Total £m	2017 Other funds £m	2017 Endowment £m	2017 Total £m
Income from:							
Donations and legacies		2.4	–	2.4	2.0	–	2.0
Investments	2	–	183.8	183.8	–	164.0	164.0
Other income		2.0	–	2.0	1.3	–	1.3
Transfer to income	17	160.2	(160.2)	–	145.1	(145.1)	–
Total income		164.6	23.6	188.2	148.4	18.9	167.3
Expenditure on:							
Raising funds	3	(0.3)	(62.7)	(63.0)	(0.2)	(59.6)	(59.8)
Charitable activities							
Mission activities	4	(68.8)	–	(68.8)	(56.6)	–	(56.6)
Diocese and ministry support	4	(36.4)	–	(36.4)	(37.3)	–	(37.3)
Bishops' ministry and cathedral costs	4	(54.3)	–	(54.3)	(43.8)	–	(43.8)
National payroll for clergy	4	(0.5)	–	(0.5)	(0.9)	–	(0.9)
Administering the legal framework	4	(4.4)	–	(4.4)	(5.2)	–	(5.2)
Clergy pension obligation	4, 15	(1.3)	91.0	89.7	(1.1)	(81.1)	(82.2)
Total charitable expenditure		(165.7)	91.0	(74.7)	(144.9)	(81.1)	(226.0)
Total expenditure		(166.0)	28.3	(137.7)	(145.1)	(140.7)	(285.8)
Total net income/(expenditure) before investment gains		(1.4)	51.9	50.5	3.3	(121.8)	(118.5)
Gains on investment assets	2(a)	–	22.3	22.3	–	411.2	411.2
(Losses)/gains on derivatives		–	(46.6)	(46.6)	–	14.3	14.3
Gains/(losses) on foreign currency		–	18.8	18.8	–	(25.6)	(25.6)
Total net income/(expenditure) before taxation		(1.4)	46.4	45.0	3.3	278.1	281.4
Current taxation	10	–	(0.2)	(0.2)	–	(0.3)	(0.3)
Deferred taxation	10	–	(0.9)	(0.9)	–	11.1	11.1
Total net income/(expenditure) after taxation		(1.4)	45.3	43.9	3.3	288.9	292.2
Other recognised gains and losses							
Actuarial gains/(losses) on defined benefit pension schemes (staff pre-2000)	16(b)	–	18.3	18.3	–	(4.7)	(4.7)
Total other recognised gains and losses		–	18.3	18.3	–	(4.7)	(4.7)
Net movement in funds		(1.4)	63.6	62.2	3.3	284.2	287.5
Reconciliation of funds:							
Total funds brought forward		3.3	6,383.6	6,386.9	–	6,099.4	6,099.4
Total funds carried forward		1.9	6,447.2	6,449.1	3.3	6,383.6	6,386.9

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 2018

	Notes	2018 Other funds £m	2018 Endowment £m	2018 Total £m	2017 Other funds £m	2017 Endowment £m	2017 Total £m
Income from:							
Donations and legacies		2.4	18.9	21.3	2.0	7.3	9.3
Investments	2	–	163.8	163.8	–	157.2	157.2
Other income		1.7	–	1.7	0.9	–	0.9
Transfer to income	17	160.2	(160.2)	–	145.1	(145.1)	–
Total income		164.3	22.5	186.8	148.0	19.4	167.4
Expenditure on:							
Raising funds	3	–	(61.5)	(61.5)	–	(61.3)	(61.3)
Charitable activities							
Mission activities	4	(68.8)	–	(68.8)	(56.6)	–	(56.6)
Diocese and ministry support	4	(36.4)	–	(36.4)	(37.3)	–	(37.3)
Bishops' ministry and cathedral costs	4	(54.3)	–	(54.3)	(43.6)	–	(43.6)
National payroll for clergy	4	(0.5)	–	(0.5)	(0.9)	–	(0.9)
Administering the legal framework	4	(4.4)	–	(4.4)	(5.2)	–	(5.2)
Clergy pension obligation	4, 15	(1.3)	91.0	89.7	(1.1)	(81.1)	(82.2)
Total charitable expenditure		(165.7)	91.0	(74.7)	(144.7)	(81.1)	(225.8)
Total expenditure		(165.7)	29.5	(136.2)	(144.7)	(142.4)	(287.1)
Total net income/(expenditure) before investment gains		(1.4)	52.0	50.6	3.3	(123.0)	(119.7)
Gains on investment assets	2(a)	–	25.2	25.2	–	423.9	423.9
(Losses)/gains on derivative financial instruments		–	(46.6)	(46.6)	–	14.3	14.3
Gains/(losses) on foreign currency		–	15.1	15.1	–	(25.7)	(25.7)
Total net income/(expenditure) before taxation		(1.4)	45.7	44.3	3.3	289.5	292.8
Current taxation	10	–	–	–	–	(0.3)	(0.3)
Deferred taxation	10	–	(0.4)	(0.4)	–	(0.3)	(0.3)
Total net income/(expenditure) after taxation		(1.4)	45.3	43.9	3.3	288.9	292.2
Other recognised gains and losses							
Actuarial gains/(losses) on defined benefit pension schemes (staff pre-2000)	16(b)	–	18.3	18.3	–	(4.7)	(4.7)
Total other recognised gains and losses		–	18.3	18.3	–	(4.7)	(4.7)
Net movement in funds		(1.4)	63.6	62.2	3.3	284.2	287.5
Reconciliation of funds:							
Total funds brought forward		3.3	6,383.6	6,386.9	–	6,099.4	6,099.4
Total funds carried forward		1.9	6,447.2	6,449.1	3.3	6,383.6	6,386.9

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 2018

	Notes	Consolidated 2018 £m	Consolidated 2017 £m	Commissioners 2018 £m	Commissioners 2017 £m
Fixed assets					
Tangible assets	11	**100.4**	93.7	**99.6**	92.7
Heritage assets	12	**3.5**	3.5	**3.5**	3.5
Investments	2	**7,712.9**	7,653.5	**7,224.5**	7,237.3
Total fixed assets		**7,816.8**	7,750.7	**7,327.6**	7,333.5
Current assets					
Debtors	13	**53.6**	41.1	**568.2**	474.4
Current asset investments		**149.8**	250.1	**149.8**	250.1
Cash at bank and in hand		**305.5**	370.5	**301.8**	366.5
Total current assets		**508.9**	661.7	**1,019.8**	1,091.0
Liabilities					
Creditors: amounts falling due within one year	14	**(133.2)**	(77.9)	**(154.9)**	(90.0)
Net current assets		**375.7**	583.8	**864.9**	1,001.0
Total assets less current liabilities		**8,192.5**	8,334.5	**8,192.5**	8,334.5
Creditors: amounts falling due after one year	14	**(71.3)**	(37.3)	**(71.3)**	(37.3)
Provisions					
Deferred tax liability	10	**(0.7)**	(0.3)	**(0.7)**	(0.3)
Clergy pre-1998 pension obligation:					
Expected to fall due within one year		**(121.2)**	(121.2)	**(121.2)**	(121.2)
Expected to fall due after one year		**(1,421.3)**	(1,633.5)	**(1,421.3)**	(1,633.5)
Total clergy pre-1998 pension obligation	15	**(1,542.5)**	(1,754.7)	**(1,542.5)**	(1,754.7)
Net assets excluding pension scheme liabilities		**6,578.0**	6,542.2	**6,578.0**	6,542.2
Defined benefit pension scheme liabilities	16	**(128.9)**	(155.3)	**(128.9)**	(155.3)
Total net assets		**6,449.1**	6,386.9	**6,449.1**	6,386.9
Funds of the charity					
Endowment funds		**6,576.1**	6,538.9	**6,576.1**	6,538.9
Pension reserves	16	**(128.9)**	(155.3)	**(128.9)**	(155.3)
Unrestricted funds:					
Designated funds		**1.4**	2.9	**1.4**	2.9
General funds		**–**	–	**–**	–
Restricted funds		**0.5**	0.4	**0.5**	0.4
Total charity funds	17	**6,449.1**	6,386.9	**6,449.1**	6,386.9

By order of the Board:

Loretta Minghella

Loretta Minghella
First Church Estates Commissioner
7 May 2019

Consolidated cash flow statement For the year ended 31 December 2018

Statement of cash flows

	Notes	2018 £m	2017 £m
Cash flows from operating activities		(39.2)	43.8
Charitable expenditure paid from endowment capital	15	(121.2)	(121.2)
Net cash provided by operating activities		(160.4)	(77.4)
Cash flows from investing activities			
Income from investments		183.6	161.6
Expenditure on raising funds paid from endowment capital	3	(62.7)	(59.6)
Tangible assets: additions	11	(7.2)	(1.8)
Tangible assets: sale proceeds		–	1.3
Investments: additions	2	(1,860.1)	(1,753.8)
Investments: sale proceeds	2	1,823.0	1,685.1
Net cash provided by investing activities		76.6	32.8
Change in cash and cash equivalents in the reporting period		(83.8)	(44.6)
Cash at the start of the reporting period		370.5	440.7
Change in cash and cash equivalents in the reporting period		(83.8)	(44.6)
Change in cash due to exchange rate movements		18.8	(25.6)
Cash at the end of the reporting period		305.5	370.5

Reconciliation of net income to net cash inflow from operating activities

	Notes	2018 £m	2017 £m
Net income for the year		43.9	292.2
Adjustments for:			
Depreciation of tangible assets	11	–	0.1
Loss/(gain) on disposal of tangible assets		0.3	(0.2)
Expenditure on raising funds paid from endowment capital	3	62.7	59.6
Expenditure on charitable activities paid from endowment capital	6	(91.0)	81.1
(Income) from investments	2	(183.8)	(164.0)
(Gains) on investments	2	(22.3)	(411.2)
(Gains)/losses on foreign currency		(18.8)	25.6
Movement in debtors, excluding accrued investment income	13	(12.1)	73.5
Movement in current asset investments		100.3	64.5
Movement in creditors	14	89.3	37.6
Movement in deferred tax provision	10	0.4	(10.8)
Pension reserve adjustment to net income	16	(8.1)	(4.2)
Net cash provided by/(used in) operating activities		(39.2)	43.8

Notes to the financial statements
For the year ended 31 December 2018

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 has 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 pension 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 notes 1(j), 1(k), 1(l) and 1(m).

(d) Going concern

After considering the Commissioners' role in funding the Church's ministry (described on pages 10-21 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 financial statements.

(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. Intra-Group transactions are eliminated on consolidation. Further details about the Commissioners' significant subsidiaries are given in note 2(b).

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 20. This jointly controlled entity is included in the Commissioners' consolidated financial statements using the equity method. The Commissioners' share of profits or losses from ChECS is included in the SOFA and its share of net assets is included in the balance sheet.

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

(f) Income
All income is recognised when the Commissioners are legally entitled to the income, it is probable the income will be received, and the amount can be quantified with reasonable accuracy.

Donations and legacies
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.

Investment income
Income from securities 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.

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

(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.

Direct costs and grants are allocated directly to activities and are described in more detail in notes 5 and 6. 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 7. The long-term debtor and creditor balances are not discounted to present value. This is because any adjustment would be immaterial based on the expected timing of long-term grant receipts and payments.

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.

The Church Commissioners Superannuation Scheme is accounted for as a defined benefit scheme. The liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent term and currency to the liabilities. Interest costs are charged to expenditure, with actuarial movements shown in other gains and losses.

The other defined benefit schemes of which the Commissioners are an employer or a 'responsible body' are considered to be multi-employer schemes, but the Commissioners are unable to identify their share of assets and liabilities of the schemes. Consequently, the schemes 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, the present value of these agreed payments is recognised as a liability at each balance sheet date. Amounts paid during the year are charged against this liability.

Notes to the financial statements continued
For the year ended 31 December 2018

1. Accounting policies continued

(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.

Green energy generation assets are initially recognised at cost and are revalued at each balance sheet date.

Operational see house properties are recognised at their market value at 1 January 2014, being the date of transition to FRS 102. This was deemed to be their cost under the transitional provisions of FRS 102.

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.

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.

(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. 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 historic 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 1 January 2014, 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 historic books and records with no obvious market value and no comparable sale records to use as the basis for valuation. As a result, no value is reported for these assets in the charity's balance sheet.

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

Historic contents of former see houses

Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost. On transition to FRS 102, the Commissioners re-based the deemed cost of these assets to their carrying value at 1 January 2014, 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: non-financial instrument investments

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.

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').

The valuers of the properties were:

Rural and strategic land: Savills (UK) Limited
Commercial: Cushman & Wakefield LLP
Residential: Jones Lang LaSalle Limited
Minerals: Wardell Armstrong LLP

Timberland (including biological assets)

Timberland includes land, its standing timber and other assets. Standing timber is a biological asset.

Timberland is valued externally at least every three years at market value in line with International Valuation Standards, 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.

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

Subsidiary undertakings

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

The subsidiaries are recognised at their net asset values in the Commissioners' balance sheet. This is considered to represent the fair value of the subsidiary, with changes in fair value being recognised in profit or loss.

(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.

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.

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.

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.

Listed and unlisted securities are a form of basic financial instrument and are initially measured at fair value. Such assets are subsequently held at fair value at each balance sheet date, with changes in fair value 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 equity investments are valued by reference to latest dealing prices, estimated net asset values or final net asset values at year end.

Listed and unlisted securities comprise listed public equities, private equity investments in unlisted companies, multi-asset funds, fixed income bonds, emerging market debt and private credit.

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.

Notes to the financial statements continued
For the year ended 31 December 2018

1. Accounting policies continued

Non-basic financial instruments

All non-basic financial instruments are measured at fair value. Any changes to fair value are recognised in the SOFA.

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.

Value linked loans are valued annually at portfolio level taking into account indexed values of the properties, estimated future house prices growth and income flows and the anticipated dates of repayment. All value linked loans were valued by Cushman & Wakefield LLP.

Indirect property

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

Indirect property is annually valued at the Commissioners' share of the underlying net assets. Underlying assets are valued on the same bases as those held directly, that is in line with International Valuation Standards, on a rolling three-year programme or more frequently. Property funds are valued independently by valuers appointed by the partnerships.

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.

Indirect timberland is valued annually and independently by valuers appointed by the partnerships at the Commissioners' share of the underlying net assets.

Infrastructure

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

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

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 market value of listed investments includes stock on loan of £165.6m (2017: £63.6m).

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. Forward contracts are also used by some fund managers to manage the risk of not achieving overall performance benchmarks.

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. Contracts relating to derivatives are included at fair value in debtors or creditors, depending on their mark to market position.

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.

(n) 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.

(o) 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.

(p) 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. 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(b). 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(c) and note 20. 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 ('CAPF'); and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 4, 8 and 16.

Notes to the financial statements continued
For the year ended 31 December 2018

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

	At 1 January 2018 £m	Additions £m	Sale proceeds £m	Change in market value £m	At 31 December 2018 £m	2018 investment income £m	2017 investment income £m
Securities portfolio:							
Listed securities*	3,405.3	1,399.5	(1,569.5)	(245.6)	**2,989.7**	**92.3**	80.2
Unlisted securities	1,958.3	363.3	(127.2)	192.1	**2,386.5**	**17.5**	17.5
Total securities	5,363.6	1,762.8	(1,696.7)	(53.5)	**5,376.2**	**109.8**	97.7
Properties:							
Direct property	1,710.3	37.5	(64.0)	33.4	**1,717.2**	**48.1**	42.8
Indirect property	150.3	5.8	(41.7)	17.3	**131.7**	**0.8**	1.8
Total properties	1,860.6	43.3	(105.7)	50.7	**1,848.9**	**48.9**	44.6
Value linked loans	103.6	0.1	(7.5)	(0.2)	**96.0**	**3.3**	3.4
Timberland:							
Land	66.7	9.6	(0.2)	7.8	**83.9**	**–**	–
Standing timber**	173.4	11.5	(1.5)	5.9	**189.3**	**17.0**	16.1
Indirect timberland	59.5	–	(1.8)	7.0	**64.7**	**3.0**	1.5
Total timberland	299.6	21.1	(3.5)	20.7	**337.9**	**20.0**	17.6
Infrastructure	26.1	32.8	(9.6)	4.6	**53.9**	**1.8**	0.7
Total	7,653.5	1,860.1	(1,823.0)	22.3	**7,712.9**	**183.8**	164.0

* Investment income includes £1.4m (2017: £0.4m) of income relating to interest on cash and interest on current asset investments, and £0.5m (2017: £2.2m) stock lending income.
** Change in market value of standing timber comprises revaluation gains of £20.9m (2017: losses of £43.5m) and a reduction of £15.0m (2017: £10.4m) due to harvesting of standing timber. Standing timber represents the biological assets held by the Commissioners.

Commissioners

	At 1 January 2018 £m	Additions £m	Sale proceeds £m	Change in market value £m	At 31 December 2018 £m
Securities portfolio:					
Listed securities	3,405.3	1,399.5	(1,569.5)	(245.6)	**2,989.7**
Unlisted securities	1,637.3	311.8	(100.8)	179.6	**2,027.9**
Total securities	5,042.6	1,711.3	(1,670.3)	(66.0)	**5,017.6**
Properties:					
Direct property	1,584.4	24.1	(61.7)	25.9	**1,572.7**
Indirect property	128.0	5.8	(41.3)	6.4	**98.9**
Total properties	1,712.4	29.9	(103.0)	32.3	**1,671.6**
Value linked loans	103.6	0.1	(7.5)	(0.2)	**96.0**
Timberland:					
Land	33.9	–	–	6.2	**40.1**
Standing timber*	93.9	2.3	(0.9)	12.4	**107.7**
Total timberland	127.8	2.3	(0.9)	18.6	**147.8**
Subsidiaries	250.9	0.1	–	40.5	**291.5**
Total	7,237.3	1,743.7	(1,781.7)	25.2	**7,224.5**

* Change in market value comprises revaluation gains of £23.8m (2017: £10.9m) and a reduction of £11.4m (2017: £7.9m) due to harvesting of standing timber. Standing timber represents the biological assets held by the Commissioners.

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

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

Unlisted securities includes £0.2m (2017: £0.2m) invested in shares in the Churches Mutual Credit Union Limited, which is a mixed motive investment.

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 Trustees' Annual Report.

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 64.8% (2017: 54.9%) of the investment portfolio. However, a currency overlay programme, utilising forward foreign exchange contracts, is used to hedge back into sterling 52.3% (2017: 25.0%) of these non-sterling assets. The net loss from operating the currency overlay programme was £46.6m (2017: loss of £11.2m), after deducting fees of £1.8m (2017: £1.3m).

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

(b) 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).

* These are unlimited companies.

The Ashford Great Park Partnership, held through intermediary 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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Revenue	**45.6**	8.9	**5.9**	4.7	**14.2**	7.3	**8.1**	1.7	**10.9**	3.1
Expenditure*	**(13.6)**	(14.1)	**(5.9)**	(2.8)	**(14.2)**	(7.3)	**(0.1)**	(0.1)	**(1.8)**	(0.2)
Profit/(loss)	**32.0**	(5.2)	**–**	1.9	**–**	–	**8.0**	1.6	**9.1**	2.9
Assets	**478.2**	406.6	**56.3**	40.8	**20.5**	11.8	**31.2**	23.2	**32.8**	22.0
Liabilities	**(353.7)**	(314.1)	**(21.9)**	(6.4)	**(14.4)**	(5.7)	**(0.1)**	(0.1)	**(11.2)**	(9.5)
Net funds	**124.5**	92.5	**34.4**	34.4	**6.1**	6.1	**31.1**	23.1	**21.6**	12.5

* 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 joint ventures; however, the Commissioners hold them as part of their investment portfolio and so they are held at fair value through profit or loss in the financial statements.

(c) 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, which 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 Commissioners' share of net assets of ChECS was £nil. As at 31 December 2018, other than the amounts disclosed in debtors, £104,000 was owed by the Commissioners to ChECS (2017: £64,000).

The Commissioners have no associated undertakings.

Notes to the financial statements continued
For the year ended 31 December 2018

2. Investments continued

(d) Future commitments

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.

	Consolidated 2018 £m	Consolidated 2017 £m	Commissioners 2018 £m	Commissioners 2017 £m
Securities portfolio	538.2	369.2	384.9	248.1
Indirect property	58.1	32.6	56.0	30.6
Timberland	25.5	64.5	–	–
Infrastructure	43.3	40.5	–	–
Total capital commitments	665.1	506.8	440.9	278.7

3. Expenditure on raising funds

	2018 Direct costs £m	2018 Internal management costs £m	2018 Support costs (note 7) £m	2018 Total £m	2017 Direct costs £m	2017 Internal management costs £m	2017 Support costs (note 7) £m	2017 Total £m
Securities	32.5	4.1	3.1	39.7	34.7	3.2	3.5	41.4
Properties	12.3	2.4	0.9	15.6	14.4	1.9	1.1	17.4
Indirect property	–	0.1	–	0.1	0.1	0.2	0.1	0.4
Value linked loans	–	0.1	–	0.1	–	0.1	0.1	0.2
Timberland	5.4	0.4	0.1	5.9	(0.3)	0.3	0.2	0.2
Infrastructure	1.3	–	–	1.3	–	–	–	–
Total investment management costs	51.5	7.1	4.1	62.7	48.9	5.7	5.0	59.6
Costs of managing events at Lambeth Palace	0.3	–	–	0.3	0.2	–	–	0.2
Total cost of raising funds	51.8	7.1	4.1	63.0	49.1	5.7	5.0	59.8

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 7 where the method of allocating these costs is described.

Costs of managing events at Lambeth Palace comprise expenditure incurred by Palace Public Occasions Limited, a subsidiary of the Commissioners, which provides conferences and other events at Lambeth Palace.

4. Expenditure on charitable activities

	Grant funding (note 5) £m	Direct funding (note 6) £m	Support costs (note 7) £m	2018 Total £m	Grant funding (note 5) £m	Direct funding (note 6) £m	Support costs (note 7) £m	2017 total £m
Mission activities	68.0	–	0.8	68.8	55.5	0.4	0.7	56.6
Diocese and ministry support	35.9	0.2	0.3	36.4	36.8	0.1	0.4	37.3
Bishops' ministry and cathedral costs	31.4	22.1	0.8	54.3	24.6	17.0	2.2	43.8
National payroll for clergy	–	0.2	0.3	0.5	–	0.6	0.3	0.9
Administering the legal framework and other grants	1.8	1.8	0.8	4.4	1.6	1.7	1.9	5.2
Total charitable expenditure excluding clergy pension obligation	137.1	24.3	3.0	164.4	118.5	19.8	5.5	143.8
Clergy pension obligation	–	(90.0)	0.3	(89.7)	–	81.8	0.4	82.2
Total costs of charitable activities	137.1	(65.7)	3.3	74.7	118.5	101.6	5.9	226.0

Mission activities
Mission activities comprise grants to the Archbishops' Council for strategic development initiatives.

Diocese and ministry support
Diocese and ministry support includes grants to the Archbishops' Council to assist with its 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 2018 (with associated administration costs). The cash paid under the pre-1998 scheme was £121.2m (2017: £121.2m). 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.

Notes to the financial statements continued
For the year ended 31 December 2018

5. Grant making

All grants are made to institutions.

	2018 £m	2017 £m
Mission activities		
Grant to the Archbishops' Council for Strategic Development Funding	64.9	46.6
Grant to the Archbishops' Council for restructuring	2.6	8.6
Other grants	0.5	0.3
Total grants to support mission activities	68.0	55.5
Diocese and ministry support		
Grant to the Archbishops' Council for Lowest Income Communities Funding	24.8	24.0
Grant to the Archbishops' Council for transition funding	10.9	12.1
Other grants	0.2	0.7
Total grants for diocese and ministry support	35.9	36.8
Bishops' ministry and cathedral costs		
114 (2017: 114) grants to bishops in 42 (2017: 42) dioceses	20.3	19.6
Return of unspent grants from bishops	(0.2)	(4.3)
11 (2017: 2) grants to 11 (2017: 2) cathedrals – Cathedral Sustainability Fund	1.5	0.1
86 (2017: 86) grants to 42 (2017: 42) cathedrals – other grants	9.8	9.2
Total grants to pay for bishops' ministry and cathedral costs	31.4	24.6
Administering the legal framework and other grants		
Statutory grant to Churches Conservation Trust	1.7	1.5
Other grants	0.1	0.1
Total grants for administering the legal framework	1.8	1.6
Total grant funding	137.1	118.5

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

Grant making creditors can be analysed as follows:

	Notes	Consolidated and Commissioners 2018 £m	2017 £m
As at 1 January		61.4	13.6
Changes in liability due to:			
New grant commitments in the year		137.3	122.8
Return of unspent grants		(0.2)	(4.3)
Grant payments in the year		(84.4)	(70.7)
As at 31 December		114.1	61.4
Due within one year	14	42.8	24.1
Due after one year	14	71.3	37.3
Total grant creditors		114.1	61.4

6. Direct funding

	2018 £m	2017 £m
Mission activities		
National research and development costs	–	0.4
Total mission activities	–	0.4
Diocese and ministry support		
Payments direct to parish clergy	0.2	0.1
Total diocesan and ministry support	0.2	0.1
Bishops' ministry and cathedral costs		
Bishops and archbishops' housing and office premises	6.4	3.1
Lambeth Palace Library running costs	1.0	1.0
Lambeth Palace Library project	–	1.3
Archbishops' stipends, office and working costs and other national costs	13.6	10.5
Archbishops' advisors	0.5	0.4
Direct costs of administering bishops' ministry and cathedral activities	0.6	0.7
Total bishops' ministry and cathedral costs	22.1	17.0
National payroll for clergy		
Direct costs of administering the national payroll for clergy	0.2	0.6
Total national payroll for clergy costs	0.2	0.6
Clergy pension obligation		
Payments made to clergy for pre-1998 pension obligation	121.2	121.2
Actuarial adjustment to payments made for clergy pre-1998 pension obligation	(212.2)	(40.1)
Total expenditure under clergy pre-1998 pension obligation (note 15)	(91.0)	81.1
Other clergy pension expenditure	1.0	0.7
Total clergy pension obligation	(90.0)	81.8
Administering the legal framework		
Chancel repair liability	0.5	0.5
Direct costs of administering the legal framework	1.3	1.2
Total costs of administering the legal framework	1.8	1.7
Total direct costs	(65.7)	101.6

7. Support costs

	Raising funds (note 3) £m	Charitable activities (note 4) £m	2018 total £m	Raising funds (note 3) £m	Charitable activities (note 4) £m	2017 total £m
Shared services	2.6	3.4	6.0	2.6	3.4	6.0
Governance costs	0.6	0.7	1.3	0.4	0.7	1.1
Total support costs before staff pension costs	3.2	4.1	7.3	3.0	4.1	7.1
Staff pension costs (note 16):						
Interest on staff pension scheme liabilities	1.9	1.6	3.5	2.0	1.7	3.7
Other costs	(1.0)	(2.4)	(3.4)	–	0.1	0.1
Total support costs	4.1	3.3	7.4	5.0	5.9	10.9

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.

7. Support costs continued

Allocation of costs

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

Support costs are allocated to either charitable activities or raising funds based on the most appropriate apportionment method. Costs are also allocated to specific charitable activities or investment types using the same method. Apportionment methods used are estimated time spent on each activity, headcount, or expenditure incurred.

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

	2018 £000	2017 £000
Audit of Church Commissioners:		
Current year	156	150
Prior year	–	36
Audit of subsidiary undertakings	57	58
Audit-related assurance services	–	–
Total audit fees	**213**	244

8. Staff numbers and remuneration

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 which operate on an entity's behalf should be disclosed in the financial statements. 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 £4,174,000 (2017: £4,068,000).

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2018 number	2017 number	2018 number	2017 number	2018 number	2017 number
Average number employed	38	34	32	32	161	153
	£m	£m	£m	£m	£m	£m
Salaries	4.5	3.7	1.6	1.6	7.0	6.5
National Insurance costs	0.6	0.5	0.2	0.2	0.8	0.7
Pension contributions	0.4	0.4	0.3	0.3	1.0	0.9
Total costs of staff	**5.5**	4.6	**2.1**	2.1	**8.8**	8.1

Salaries include £135,000 (2017: £nil) paid by way of termination costs to two (2017: zero) people.

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.

Asset management and national Church functions

The cost of the planning and management of the Commissioners' assets is included in internal management costs (note 3) and the cost of the administration of national Church functions is included in the direct costs of those activities (note 5). Secretariat costs are included in support costs (note 7).

Staff loans

In addition to the amounts shown above, the Commissioners provide loans under the staff house mortgage scheme. These loans are included in loans (note 13) at £0.1m (2017: £0.1m). The scheme, which was closed to new business in 2004, has four (2017: four) loans outstanding to four (2017: four) 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	
	2018 number	2017 number	**2018 number**	2017 number	**2018 number**	2017 number
£60,001 to £70,000	**5**	5	**3**	1	**12**	9
£70,001 to £80,000	**2**	1	**2**	3	**5**	4
£80,001 to £90,000	**5**	4	**1**	1	**5**	5
£90,001 to £100,000	**–**	–	**–**	–	**3**	3
£110,001 to £120,000	**2**	1	**–**	–	**–**	–
£120,001 to £130,000	**–**	1*	**–**	–	**–**	2
£130,001 to £140,000	**–**	–	**–**	–	**2**	–
£140,001 to £150,000	**–**	–	**–**	–	**1**	–
£160,001 to £170,000	**–**	1*	**–**	1**	**–**	–
£170,001 to £180,000	**–**	1	**1****	–	**–**	–
£180,001 to £190,000	**–**	1*	**–**	–	**–**	–
£190,001 to £200,000	**1***	1*	**–**	–	**–**	–
£200,001 to £210,000	**1***	2*	**–**	–	**–**	–
£210,001 to £220,000	**3***	–	**–**	–	**–**	–
£230,001 to £240,000	**–**	1*	**–**	–	**–**	–
£250,001 to £260,000	**1***	–	**–**	–	**–**	–
£260,001 to £270,000	**2***	–	**–**	–	**–**	–
£320,001 to £330,000	**–**	1*	**–**	–	**–**	–
£340,001 to £350,000	**1***	–	**–**	–	**–**	–
£510,001 to £520,000	**–**	1*	**–**	–	**–**	–
£530,001 to £540,000	**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. Of those managed directly by the Commissioners, 22 (2017: 18) accrue benefits under a defined contribution scheme for which contributions for the year were £283,000 (2017: £225,000). The remaining nine (2017: nine) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, 22 (2017: 15) accrue benefits under a defined contribution scheme for which contributions for the year were £217,000 (2017: £164,000). The remaining six (2017: eight) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Director of Investments who earned £280,000 (2017: £264,000) and a LTIP of £256,000 (2017: £251,000) based on the long-term performance of the fund. Eight (2017: eight) other members of staff received LTIPs in the year totalling £785,000 (2017: £735,000). 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 comprise six individuals, three of whom are employed directly by the Commissioners and three by ChECS. Their aggregate remuneration, including LTIPs, National Insurance and pension contributions, is £1,274,000 (2017: £1,552,000).

Notes to the financial statements continued
For the year ended 31 December 2018

9. Trustees' emoluments and expenses

The First and Third Church Estates Commissioners are paid a salary in accordance with the Ecclesiastical Commissioners Act 1850, as amended by the Ecclesiastical Commissioners (Powers) Measure 1938. Other trustees have no entitlement to a salary or pension in their capacity as trustees. The Third Church Estates Commissioner was paid no salary in 2017, but received a salary from April 2018.

	2018 £000	2017 £000
First Church Estates Commissioner		
Salary	75	47
National Insurance costs	9	6
Pension	10	2
Third Church Estates Commissioner		
Salary	34	–
National Insurance costs	4	–
Pension	4	–
Total Church Estates Commissioners' costs	**136**	55

Pensions paid to former First and Third Church Estates Commissioners of £25,000 (2017: £24,000) were charged to the staff pension provision.

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 16 (2017: 17) trustees claimed expenses or had their expenses met by the charity totalling £20,000 (2017: £17,000) in respect of travel and subsistence. The Commissioners meet the expenses of committee members in carrying out their duties. During the year, 11 (2017: 13) committee members claimed expenses or had their expenses met by the charity, totalling £4,000 (2017: £5,000) in respect of their travel and subsistence.

10. Taxation

	US withholding tax £m	Australian corporate income tax £m	Australian withholding tax £m	2018 £m	2017 £m
Consolidated					
Current tax	0.2	–	–	0.2	0.3
Deferred tax	–	0.5	0.4	0.9	(11.1)
Total taxation charge	0.2	0.5	0.4	**1.1**	(10.8)
Commissioners					
Current tax	–	–	–	–	0.3
Deferred tax	–	–	0.4	0.4	0.3
Total taxation charge	–	–	0.4	**0.4**	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. 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.

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 £0.4m was accrued in respect of withholding tax on accrued interest between the Commissioners and its Australian subsidiary (2017: £0.3m), resulting in a total deferred tax liability of £0.7m (2017: £0.3m). £0.5m of a deferred tax asset was expensed in respect of timberland investment revaluations (2017: £11.4m was written back). Australian corporate income tax (currently 30%) is expected to be paid in the future when these timberland investments are harvested or sold. Additionally, £0.2m has been paid in relation to US withholding tax in the year (2017: £nil).

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	0.8	0.9	1.9	2.1	92.0	**97.7**
Additions	7.2	–	–	–	–	**7.2**
Revaluation decreases	–	(0.2)	–	–	–	**(0.2)**
Disposals	–	–	–	–	(0.3)	**(0.3)**
Balance at 31 December	8.0	0.7	1.9	2.1	91.7	**104.4**
Accumulated depreciation						
Balance at 1 January	–	–	(1.9)	(2.1)	–	**(4.0)**
Charge for the year	–	–	–	–	–	**–**
Balance at 31 December	–	–	(1.9)	(2.1)	–	**(4.0)**
Net book value						
Balance at 1 January	0.8	0.9	–	–	92.0	**93.7**
Balance at 31 December	8.0	0.7	–	–	91.7	**100.4**

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	0.8	1.9	2.1	91.9	**96.7**
Additions	7.2	–	–	–	**7.2**
Disposals	–	–	–	(0.3)	**(0.3)**
Balance at 31 December	8.0	1.9	2.1	91.6	**103.6**
Accumulated depreciation					
Balance at 1 January	–	(1.9)	(2.1)	–	**(4.0)**
Charge for the year	–	–	–	–	**–**
Balance at 31 December	–	(1.9)	(2.1)	–	**(4.0)**
Net book value					
Balance at 1 January	0.8	–	–	91.9	**92.7**
Balance at 31 December	8.0	–	–	91.6	**99.6**

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.

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

All tangible fixed assets are located in the UK.

Notes to the financial statements continued
For the year ended 31 December 2018

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	–	0.3	1.1	2.1	**3.5**
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 Ecclesiastical 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 historic 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 historic 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 2018 and the full professional valuation obtained as at 31 December 2007.

Historic contents of former see houses
Included within heritage assets are the historic 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 historic and artistic value.

The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2018 and the full professional valuation obtained as at 31 December 2007.

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £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 2018 £m	Consolidated 2017 £m	Commissioners 2018 £m	Commissioners 2017 £m
Trade debtors	**13.5**	9.7	**11.8**	7.0
Subsidiary undertakings	**–**	–	**510.1**	434.4
Joint venture (ChECS)	**0.6**	0.5	**0.6**	0.5
Dioceses (clergy stipends and diocesan debtors accounts)	**2.3**	0.4	**2.3**	0.4
Loans	**3.0**	3.8	**3.0**	3.8
Other debtors	**1.9**	1.2	**1.6**	0.7
Deferred tax asset	**–**	0.5	**–**	–
Prepayments	**1.5**	1.6	**1.3**	1.3
Accrued income	**17.6**	15.4	**24.3**	18.3
Derivative open contracts	**13.2**	8.0	**13.2**	8.0
Total debtors	**53.6**	41.1	**568.2**	474.4

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.

14. Creditors

Falling due within one year

	Consolidated 2018 £m	Consolidated 2017 £m	Commissioners 2018 £m	Commissioners 2017 £m
Trade creditors	**8.9**	7.3	**8.4**	7.1
Subsidiary undertakings	**–**	–	**29.2**	24.8
Dioceses and other Church bodies	**5.9**	4.2	**5.9**	4.2
Other creditors	**3.4**	3.7	**2.1**	3.2
Taxation and National Insurance contributions	**4.9**	5.9	**4.8**	4.5
Accruals and deferred income	**35.3**	31.0	**29.7**	20.4
Grants payable	**42.8**	24.1	**42.8**	24.1
Derivative open contracts	**32.0**	1.7	**32.0**	1.7
Total creditors	**133.2**	77.9	**154.9**	90.0

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

Falling due after one year

	Consolidated 2018 £m	Consolidated 2017 £m	Commissioners 2018 £m	Commissioners 2017 £m
Grants payable	**71.3**	37.3	**71.3**	37.3
Total creditors	**71.3**	37.3	**71.3**	37.3

Notes to the financial statements continued
For the year ended 31 December 2018

15. Provisions
Provision for clergy pre-1998 pension obligation

	Notes	Consolidated and Commissioners 2018 £m	2017 £m
As at 1 January		**1,754.7**	1,794.8
Release of provision for:			
Pensions to clergy for service prior to 1998		**(84.0)**	(83.9)
Lump sum payments on retirement for service prior to 1998		**(6.8)**	(7.3)
Pensions to clergy widows and children for service prior to 1998		**(29.2)**	(28.8)
Benefits under the Deaconesses and Lay Workers (Pensions)		**(0.2)**	(0.2)
Transfers out of scheme		**(1.0)**	(1.0)
		(121.2)	(121.2)
Changes in provision for:			
Interest on provision		**74.3**	50.8
Changes in assumptions and due to experience		**(165.3)**	30.3
	6	**(91.0)**	81.1
As at 31 December		**1,542.5**	1,754.7

History
Prior to 1998, the Commissioners were responsible for paying the pension 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 pension 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 which they are not the 'responsible body' to service until 31 December 1997 only.

Details of the Commissioners' financial responsibilities in respect of their role as '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 2018.

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.

The principal assumptions were:

	2018 %	2017 %	2016 %	2015 %	2014 %
Prospective annual rate of return on investments	**4.2**	4.4	4.3	5.0	5.0
Rate of future stipend and increases in the starting pension	**3.2**	3.1	3.2	2.3	2.3
Rate of post-retirement pension increases	**3.2**	3.1	3.2	2.3	2.3
Retail Price Inflation	**3.2**	3.1	3.2	2.3	2.3

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 its assessments of the pensions obligation, Hymans Robertson LLP has used bespoke Club Vita mortality tables. The life expectancy for beneficiaries currently aged 65 is 22.8 years (2015 valuation: 24.6 years) for men and 26.4 years (2015 valuation: 26.9 years) for women. In respect of future improvements in mortality rates the projection model from the 2017 Continuous Mortality Investigation has been used.

16. Pensions

	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**	**2018 £m**	Post-1997 service (note 16(a)) £m	Pre-2000 service (note 16(b)) £m	Post-1999 service (note 16(c)) £m	2017 £m
Pension reserves at 1 January	**6.6**	**136.2**	**12.5**	**155.3**	7.8	133.3	13.7	154.8
Benefits/contributions paid	**(0.8)**	**(5.6)**	**(1.7)**	**(8.1)**	(1.0)	(5.3)	(1.5)	(7.8)
Interest on liability	**0.1**	**3.3**	**0.2**	**3.6**	0.1	3.5	0.2	3.8
Remeasurement of liability	**(0.2)**	**–**	**(3.4)**	**(3.6)**	(0.3)	–	0.1	(0.2)
	(0.9)	**(2.3)**	**(4.9)**	**(8.1)**	(1.2)	(1.8)	(1.2)	(4.2)
Actuarial (gains)/losses	**–**	**(18.3)**	**–**	**(18.3)**	–	4.7	–	4.7
Pension reserves at 31 December	**5.7**	**115.6**	**7.6**	**128.9**	6.6	136.2	12.5	155.3

The reduction in pensions reserves due to cash paid is £8.1m (2017: £7.8m) and the total amounts shown in expenditure is £nil (2017: £3.6m). Actuarial gains of £18.3m (2017: losses of £4.7m) have been recognised in other gains and losses.

(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 pension costs of bishops, archbishops, bishops' chaplains and cathedral clergy.

The scheme is considered to be a multi-employer scheme, 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.

The most recent valuation of the scheme was carried out by an independent qualified actuary using the projected unit method as at 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 has 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 full. The provision is estimated each year by Hymans Robertson LLP, independent qualified actuaries.

Notes to the financial statements continued
For the year ended 31 December 2018

16. Pensions continued

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:

	2018 %	2017 %	2016 %	2015 %	2014 %
Discount rate (annual rate of return on AA rated corporate bonds)	**2.75**	2.45	2.65	3.75	3.40
Rate of salary increases	**4.45**	4.40	4.45	4.25	4.25
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	**2.50**	2.40	2.45	2.25	2.25
for service since 1 April 1997 (RPI)	**3.45**	3.40	3.45	3.25	3.25

In its 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:

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Actuarial (gain)/loss	**(18.3)**	4.7	21.4	(11.1)	13.8

(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. 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. 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.

The most recent valuation of the fund was carried out by an independent qualified actuary using the projected unit method at as 31 December 2017. This revealed a deficit of £13.3m.

Following the valuation, the employers have collectively entered into an agreement with the CAPF to continue to pay contributions of 19.1% of pensionable salaries, increasing to 23.5% of pensionable salaries with effect from 1 May 2023. The employers have also agreed to make deficit payments of £2,667,723 per annum as at 1 January 2018, payable monthly until 30 April 2023, in respect of the shortfall in the defined benefit section (increasing each 1 January by 3.3% per annum). In addition, the employers have agreed to pay £390,000 per annum towards expenses. These contributions are made by each employer in proportion to pensionable salaries of those in the defined benefit section. For comparison, the deficit recovery plan in force at the previous accounting date (31 December 2017) was for the deficit payments of £2,667,723 per annum as at 1 January 2018 to be payable monthly until 30 June 2025 (increasing each 1 January by 3.3% per annum).

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

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

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		2,667.3	3,716.3	6,383.6	3.3	6,386.9
Add investment return for the year:						
Income return – gross income	2	–	183.8	183.8	4.4	188.2
Income return – cost of raising funds	3	–	(62.7)	(62.7)	(0.3)	(63.0)
Capital return and foreign exchange		–	(5.5)	(5.5)	–	(5.5)
Taxation payable	10	–	(1.1)	(1.1)	–	(1.1)
Total investment return during the year		–	114.5	114.5	4.1	118.6
Less						
Clergy pensions paid	15	(121.2)	–	(121.2)	–	(121.2)
Release of clergy pensions paid		–	121.2	121.2	–	121.2
Movement on clergy pensions provision	15	–	91.0	91.0	–	91.0
Gain on defined benefit pension schemes (staff pre-2000)	16	18.3	–	18.3	–	18.3
Charitable expenditure: non-pensions	4	–	–	–	(165.7)	(165.7)
Total other movements during the year		(102.9)	212.2	109.3	(165.7)	(56.4)
Add indexation on base value of endowment		72.0	(72.0)	–	–	–
Application of non-applied total return		–	(160.2)	(160.2)	160.2	–
At 31 December		2,636.4	3,810.8	6,447.2	1.9	6,449.1

Other funds comprise the following balances:

	At 1 January £m	Income £m	Expenditure £m	Transfers £m	At 31 December £m
Restricted funds					
Thy Kingdom Come	0.2	0.7	(0.7)	–	0.2
Reconciliation	0.1	0.4	(0.3)	–	0.2
Closed churches	–	1.1	(1.1)	–	–
Other restricted funds individually below £0.1m	0.1	0.2	(0.2)	–	0.1
Total restricted funds	0.4	2.4	(2.3)	–	0.5
Unrestricted funds (designated)					
Cathedral Sustainability Fund	2.9	–	(1.5)	–	1.4
Unrestricted funds (general)					
General fund	–	2.0	(162.2)	160.2	–
Total unrestricted funds	2.9	2.0	(163.7)	160.2	1.4
Total other funds	3.3	4.4	(166.0)	160.2	1.9

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.

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.

Notes to the financial statements continued For the year ended 31 December 2018

17. Funds continued

Closed churches

This fund represents the Commissioners' share of income received from the sale of closed churches. For further details, see note 4.

Cathedral Sustainability Fund

This fund is designated 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 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	2018 £m
Fixed assets	8.0	–	–	–	7,808.8	**7,816.8**
Current assets	124.8	2.8	0.5	–	380.8	**508.9**
Creditors: amounts falling due within one year	(62.1)	(0.8)	–	–	(70.3)	**(133.2)**
Creditors: amounts falling due after one year	(70.7)	(0.6)	–	–	–	**(71.3)**
Provisions	–	–	–	–	(1,543.2)	**(1,543.2)**
Defined benefit pension scheme liabilities	–	–	–	(128.9)	–	**(128.9)**
Total funds	–	1.4	0.5	(128.9)	6,576.1	**6,449.1**

18. Contingent liabilities

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

The Commissioners are joint employer, together with the other 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

The Commissioners have different types of leases in place for their 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 terms unless specifically requested
Internal repair and insurance	No break terms unless specifically requested
Geared rents	No break terms
UK forestry	
Not applicable	

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:

	2018 £m	2017 £m
Amounts due within one year	**4.4**	5.0
Amounts due after one year but not more than five years	**10.0**	13.2
Amounts due after five years	**137.1**	132.2
Total rents receivable under non-cancellable operating leases	**151.5**	150.4

20. Related party transactions

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, which 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.

As at 31 December 2018, other than the amounts disclosed in debtors in note 13, £104,000 was owed by the Commissioners to ChECS (2017: £64,000 owed by the Commissioners to ChECS). The Commissioners' share of net assets of ChECS was £nil. In addition, the Church Commissioners charged ChECS a total of £423,000 during 2018 (2017: £373,000) to rent a building for use in ChECS' charitable activities.

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 their 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 have recognised income relating to gift aid payments of £18.9m (2017: £7.3m) from their subsidiaries in the year.

During the year, three properties were sold from the Commissioners to CC Projects for a total of £24.2m.

As disclosed in notes 13 and 14, the Commissioners maintain inter-company accounts between themselves and their subsidiaries. The total debtors and creditors relating to subsidiary undertakings, excluding loan notes in Jarh Tree Co Pty Ltd, are debtors of £487.9m (2017: £411.3m) and creditors at £29.2m (2017: £24.8m). 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. The balances are unsecured with no fixed repayment date. This has resulted in the Commissioners receiving £6.6m (2017: £4.8m) and paying £0.4m (2017: £0.3m) interest in the year.

The Commissioners hold loan notes issued by their subsidiary Jahr Tree Co Pty in Australia totalling £22.2m (2017: £23.1m) at year end. The interest accrued on these loan notes in the year was £3.9m (2017: £2.8m). This transaction was made at open market value.

During the year, Palace Public Occasions Limited was charged £0.1m (2017: £0.1m) by the Commissioners for costs incurred by the Commissioners on behalf of the company. An additional £0.1m (2017: £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

	2018 £m	2017 £m
Residential service charges, sinking funds and tenants' deposits	**15.5**	12.7
Trust funds	**7.9**	8.0
Total funds held on behalf of others	**23.4**	20.7

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 38 funds, mainly restricted permanent endowment funds. Their income, £0.2m (2017: £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 (2017: £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

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 26 June 2019, 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 2017-19 and (iii) considers the allocation of money available in 2020-22.

At its meeting on 22 March 2019 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 2019 could be made firm and (ii) that the following sums could be made available for distribution in 2020-22 to support:

- Up to £383m for pensions.
- Up to £45m for fixed-term distributions.
- Up to £353m for core in-perpetuity distributions
- Up to £156m for multi-year additional distributions.

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 2018. The review involved 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 pension obligation and pension 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 previously agreed or agreed in principle which have a fixed term, for example, the distributions to enable the construction of a new Lambeth Palace Library.
3. Planned core in-perpetuity distributions, for example, the block grants to support bishops' and cathedrals' ministry, sub-divided into separate building blocks with differing rates of planned annual increases.
4. Having calculated the capital values of the above building blocks, we compare the total with the value of the assets held to assess whether the planned distributions are sustainable. If the level of assets exceeds the aggregate of the above building blocks, as was the case in our most recent full review, we also calculate the level of multi-year additional distributions that could be afforded in perpetuity on our central assumptions.

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 such margins are not required, as the assets are significantly larger than the pension obligation and pension liability, and no further margin is necessary. Moreover, if margins were to be included, this would restrict the level of other distributions, with the expectation that they are likely to be increased at some point 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 – and in particular the fund's capacity for distributions in addition to the core in-perpetuity and pensions distributions – 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 clergy pension is based) and inflation (which determines increases in pensions in payment) and the actual and prospective longevity of pensioners.

The main results of our calculations were that:

(i) as at 31 December 2018, £1,543m of the Commissioners' assets were required to meet their clergy pension obligations and a further £83m to meet the staff pension liabilities; and

(ii) the package of longevity-related, fixed-term and core in-perpetuity building blocks payments proposed for the 2020–22 triennium are deemed affordable on our best estimate assumptions and there is some remaining capacity for multi-year additional distributions. The affordability of this package of building blocks should be re-examined in detail at the next triennial assessment due as at 31 December 2021 and also on an approximate basis at the interim assessments at 31 December 2019 and 31 December 2020.

We prepared several illustrations and a sensitivity analysis of the fund's capacity for multi-year additional distributions recognising the Commissioners' aspiration to give their beneficiaries a full triennium's advance notice of any departure from their planned expenditure pattern. On the assumption that 70% of multi-year additional distributions would be earnings related and 30% would be price inflation related, the fund would be able to afford £50m of multi-year additional distributions in 2020.

Recognising the high level of volatility in this figure, we advise that the Commissioners should pay a significant proportion of the multi-year additional distributions in a form that will automatically cease, or can be stopped by the end of the 2023-25 triennium if necessary following the next full actuarial review in the event of unfavourable future experience.

Alec Day FIA
Peter Carver FIA CERA
For and on behalf of Hymans Robertson LLP
April 2019

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 & 28–30 Floral Street	ALPHABET INC
Arbol Tree	ANALOG DEVICES INC
Ashford Estate	ASTRAZENECA PLC
Canterbury Estate	BP PLC
Carlisle Estate	CHARLES SCHWAB CORP
Cherry Tree	COOPER COS INC
Chichester Estate	DEERE & CO
Ely Estate	DENTSPLY SIRONA INC
Halsall Estate	GLAXOSMITHKLINE PLC
Huntingdon Estate	HENRY SCHEIN INC
Hyde Park Estate	HSBC HOLDINGS PLC
Jarh Tree Timber	LLOYDS BANKING GROUP PLC
London Lancaster Hotel, Bayswater Road	NASPERS LTD
Metrocentre (10% interest)	ORACLE CORP
Millbank Estate	PRUDENTIAL PLC
Rochester Estate	ROYAL DUTCH SHELL PLC
Signature Senior III	SAMSUNG ELECTRONICS CO LTD
South Durham Estate	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
South Lincoln Estate	TESCO PLC
UK Timber	THERMO FISHER SCIENTIFIC INC

The top 10 property holdings represent 14% of the Commissioners' total investable assets.

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

Reference

The Church Commissioners and Board of Governors at April 2019

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 Bristol, Vivienne Faull
Bishop of Birmingham, David Urquhart
Bishop of Newcastle, Christine Hardman

HOUSE OF CLERGY
Revd Anne Stevens
Revd Christopher Smith
Revd Stephen Trott

HOUSE OF LAITY
Jay Greene
Canon Peter Bruinvels
Canon Elizabeth (Betty) Renshaw MBE
Jacob Vince

Elected by the deans
Dean of Ely, Mark Bonney
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
Morag Ellis 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
Poppy Allonby
Graham Oldroyd
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
Canon Peter Bruinvels
Poppy Allonby
Suzanne Avery
Graham Oldroyd
Duncan Owen
Mark Woolley
Andrew Brown **Committee Secretary**

Audit and Risk Committee
Acts in matters relating to the external auditors, the annual accounts and internal control systems
Jeremy Clack **Chair**
Ian Ailles
Jay Greene
Alan Smith
Jonathan Templeman
Hilary Wild
Aneil Jhumat **Committee Secretary**

Bishoprics and Cathedrals Committee
Acts for the Board in matters relating to episcopal and cathedral support
Eve Poole **Chair**
Bishop of Bristol, Vivienne Faull
Dean of Ely, Mark Bonney
Dean of Gloucester, Stephen Lake
Dean of Winchester, Catherine Ogle
Dean of Guernsey, Tim Barker
Revd Mary Bide
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Rosemary Butler – Representative of Bishops' spouses
Michael Minta **Committee Secretary**

Mission, Pastoral and Church Property Committee
Acts for the Board in matters relating to pastoral reorganisation, parsonages and diocesan glebe, and matters relating to the future of church buildings closed for regular public worship
Eve Poole **Chair**
Bishop of Leicester, Martyn Shaw
Bishop of Newcastle, Christine Hardman
Ven Penny Driver
Revd Canon Clare MacLaren
Revd Christopher Smith
Revd Anne Stevens
Revd Simon Talbott
Revd Stephen Trott
Lord Best OBE DL
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Morag Ellis QC
Jay Greene
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John Steel
Margaret Davies
Garth Watkins
Andrea Mulkeen **Committee Secretary**

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