

Supporting the work and mission of the Church of England

The Church Commissioners
Annual Report 2019



The Church
Commissioners
for England



The Church Commissioners Annual Report 2019

Supporting the work and mission of the Church of England

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THE CHURCH COMMISSIONERS FOR ENGLAND

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Contents

Overview

Foreword by the	
Archbishop of Canterbury	06
The Church Commissioners at a glance	07
The First Church Estates Commissioner	08
Secretary to the Church Commissioners	10
Strategic focus	12

Mission

Mission and ministry	14
Bishops and cathedrals	18
Parish reorganisation and church buildings	20

Investment

Fund strategy and performance	22
Real asset performance	26
Responsible Investment	28

Governance

Trustees and accountability	36
Attendance at Board and Committee meetings	40
People and organisation	42
Risk management statement	44
Long-term financial strategy	46

Financial Statements

Independent Auditor's Report	48
Consolidated statement of financial activities	50
Commissioners' statement of financial activities	51
Balance sheets	52
Consolidated cash flow statement	53
Notes to the financial statements	54

Reference

Professional advisors	79
Money available resolution	79
Independent Actuaries' Report	80
List of larger investments	81
The Church Commissioners and Board of Governors	82



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

We manage an £8.7bn investment fund in a responsible and ethical way. Each year we use the returns from our fund to facilitate the Church's growth, contribute to the common good and reimagine ministry by:

- Funding mission activities
- Supporting those dioceses with fewer resources, with their ministry costs
- Paying 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

“We continue to be
thankful for the work of
the Church Commissioners.”

Justin Welby
Archbishop of Canterbury



The Church Commissioners remain key partners in facilitating the Church's growth and contributing to the common good.

The vital contribution of the Church Commissioners towards supporting the mission and ministry of the Church across the country continued throughout 2019, with the Commissioners contributing approximately 15% of the Church's annual running costs.

In 2019, over and above their annual financial contribution, the Church Commissioners also announced their financial support for the delivery of the Church-wide goal of increasing ordinands by 50% and assisting dioceses to meet the costs of the consequent increase in curates – an energetic ambition which will help provide for the Church into the next generation.

Funding for this major announcement was recommended by the Triennium Funding Working Group which, through the generosity of the Commissioners, has provided for a three-year period of funding of up to £155m of additional investment.

The generous contribution will also drive our programme of Renewal and Reform,

including the programme of Strategic Development Funding for major growth programmes in dioceses and the expansion of the Church's programme to spread the Christian message in the digital sphere.

On the investment side of the balance sheet, taking account of environmental, social and governance issues has always been an intrinsic part of being a good investor. The Commissioners have a longheld and clear ambition to be at the forefront of responsible investment.

The Commissioners have been engaging with companies about climate change, advocating for action and better governance in this area for several years. Most recently their work has been enhanced through partnering with Climate Action 100+ ('CA100+'), an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

In just one of many examples, through Climate Action 100+, the Church

Commissioners, alongside New York State Common Retirement Fund, backed the resolution against ExxonMobil in 2019 calling for the appointment of an independent Chairman. This resulted in the highest ever support for the resolution. I have no doubt that in 2020 the Commissioners will continue to use all the shareholder tools at their disposal, and urge other investors to do the same, seeking urgent improvements in governance and strategy on climate change.

In 2019 we also give thanks for the work of dedicated individuals. This year we said a fond farewell to Dame Caroline Spelman who served as Second Church Estates Commissioner for four years. Throughout that period, she continually raised the profile of the Church and its role in a modern society, as well as answering questions in Parliament relating to the Church Commissioners' investments, promoting and encouraging a high level of transparency. Andrew Selous, MP for South West Bedfordshire, succeeded Caroline in January 2020 and we look forward to working with him.

We also thank Andrew Brown, Chief Executive to the Church Commissioners for his work and wish Gareth Mostyn, Andrew's successor, every best wish for the future. Under Andrew's stewardship the Church Commissioners have laid firm foundations on which much of the activity that is helping the Church to flourish is now being built.

As we move forward into 2020, we continue to be thankful for the work of the Commissioners and pray that with their support we will see continued growth and new areas of opportunity in proclaiming the good news of Jesus Christ in the world.

The global COVID-19 outbreak and associated measures have necessitated significant changes in how churches engage with their communities. I share in these communities' sorrow at the effects of this virus and my prayers are with all who are affected. Regrettably, the pandemic has resulted in postponement of most Church activities, including weddings and baptisms, with significant restrictions on others, such as funerals. However, I am delighted to see Church-wide innovation and creativity as we develop new ways of engaging with our communities – in particular, technology use to live stream Church services. The Church of England has given clear and detailed online advice and guidance, which is updated regularly, and we are actively considering how we can best support parishes and dioceses in this difficult time.

Justin Welby
Archbishop of Canterbury

The Church Commissioners at a glance

The Church Commissioners manage an £8.7bn investment fund. Our long term return target was inflation ('RPI') +5% per annum until 2018, CPIH**** +4% per annum thereafter.

8.5% per annum

Total return over 30 years

10%

Total return for 2019

£117.6m

Total charitable expenditure excluding clergy pensions obligation*



£120.1m

* Total cash paid on clergy pensions in 2019.

*** The lower expenditure on mission activities in 2019 reflects the approach taken to make more grants under SDF in the early years of the programme to build momentum and hence the decision to hold just one funding round in 2019. These are multi-year grants which are accounted for in full in the year in which the grant is agreed.

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

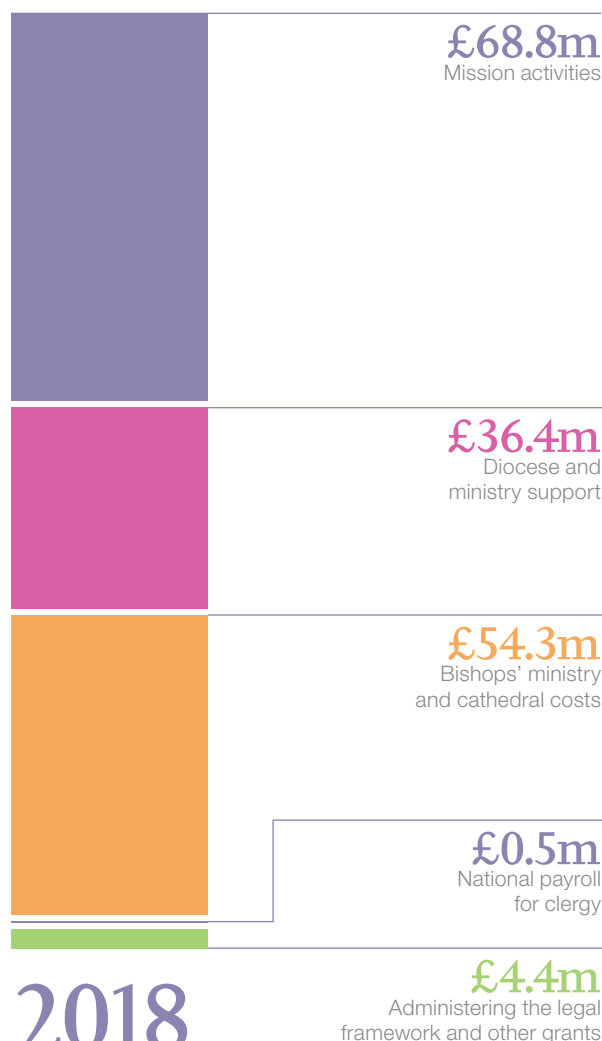
Total return over 30 years

1.8%

Total return for 2018

£164.4m

Total charitable expenditure excluding clergy pensions obligation**



** Total cash paid on clergy pensions in 2018 was £121.2m

**** CPIH is similar to the Consumer Prices Index (CPI) but attempts to add a measure of owner occupiers' housing costs.

Overview

Mission

Investment

Governance

Financial Statements

Reference

“With the support of the Commissioners, the Church of England is moving closer to delivering on the Church-wide goal of increasing ordinands by 50%.”

Loretta Minghella
First Church Estates Commissioner



A strong year for the Church Commissioners, in which we made good returns and important progress in our service of the Church.

We ended the year with the value of our investments at £8.7bn compared with £8.2bn at the start. After taking account of the clergy pension obligations, the balance sheet value increased from £6.4bn to £7bn.

Our longer-term numbers also remained strong, with our 5, 10 and 30-year performances all ahead of our target return.

Top of mind for the Board and the investment team remains our overriding obligation to manage our investments in perpetuity. The Commissioners collectively agreed to the changing of our returns target in 2019.

This decision reflects the more muted investment environment expected after more than a decade of rising asset prices. Commissioners believe the new returns target of CPIH+4% is both more realistic and consistent with the targets set by our peers. It is challenging, without encouraging undue risk-taking.

The Commissioners made decisions in 2019 that underscore our commitment to the Church's long-term flourishing and growth.

Approval was given to provide additional investment over the next three years to fund an increase in number of people coming forward to train for the priesthood and support cathedrals and disadvantaged

areas. With the Commissioners' support, the Church of England is moving closer to delivering on the Church-wide goal of increasing ordinands by 50%. Funding has also been made available to assist dioceses in meeting the costs of the consequent increase in curates.

The additional distribution, up to £155m, also includes a range of measures to enhance the financial sustainability of dioceses and cathedrals and provides seed capital for a social impact investment programme.

Managing the Church Commissioners' £8.7bn fund in an ethical and responsible way is fundamental to the way we work, and the Commissioners have sought to improve our understanding of the environmental and social impact that our investment portfolio has on the world.

In 2019 the Assets Committee agreed an Impact Investment Framework, which will not only help us to recognise where positive impact is being delivered from our investments, but also, we hope, to identify opportunities where impact can be increased. Our framework is rooted in the Anglican Communion's Five Marks of Mission and maps investment themes aligned with the UN's Sustainable Development Goals.

Responsible Investment ("RI") remains an area in which the Church Commissioners excel, challenging the companies we invest in and the rest of the market to do better. High-profile interventions at companies including BP and Glencore are proof of that vital work. At the AGM of ExxonMobil, the Church Commissioners gained significant support for a vote against the Board – recognition of our common aim to push companies to take more responsibility for their environmental impact.

In 2019 we continued to strengthen our engagement capability with an enlarged team and the appointment of an outsourced provider. Our continued recognition in investment and RI awards (including CIO, Institutional Investor, IPE and PRI Leaders' Group) were clear indications that the Commissioners efforts in these areas are noticed and tracked by our peers.

A word of thanks for the work of the Third Church Estates Commissioner, Eve Poole, who has made excellent progress in aligning governance of cathedrals towards charitable status, to be co-regulated by the Charity Commission and the Church Commissioners.

In gratitude, we say farewell to Dame Caroline Spelman, the outgoing Second Church Estates Commissioner. In four years in the role, Caroline was not only a source of wise and personal support but also a well-respected, informed and strong advocate of the Church and the Commissioners in Parliament.

Warmest thanks also to Graham Oldroyd, who stood down as a Commissioner at the end of the year and who, as Deputy Chair of the Assets Committee, was invaluable in the transition from our previous First Church Estates Commissioner, Andreas Whittam Smith.

Andrew Brown, Secretary and Chief Executive of the Church Commissioners, announced in June 2019 that he would be retiring in January 2020, having taken

up his post in 2003. In Andrew, we have been fortunate to have had someone who has resisted short-termism in favour of sustainability and readiness for longer-term opportunities.

I am delighted that Gareth Mostyn, Andrew's successor, will formally take over the role in February 2020, having previously been Chief Finance and Operations Officer for the National Church Institutions.

As we look towards 2020, we are mindful that we are investing not only for current generations but future generations. In all that we do, the Commissioners will continue to support the mission of the Church and the local communities it serves.

We have responded to recent developments on COVID-19 and social distancing by transitioning to a remote working model until it is appropriate to meet again at Church House. I am grateful to all staff for their response to this challenge and how they are ensuring the work of the Commissioners can continue through these unprecedented times. The Church Commissioners and Archbishops' Council

agreed a package of liquidity measures in late March to help parts of the Church of England whose income has fallen during the pandemic and associated shutdown. This is an interim step to help the Church to keep going whilst work continues on how medium-term support is best targeted.

Loretta Minghella
First Church Estates Commissioner

Overview

Mission

Investment

Governance

Financial Statements

Reference



Secretary to the Church Commissioners

“The Commissioners continued to play a full role in supporting and revitalising the Church.”

Andrew Brown

Secretary to the Church Commissioners

A letter from the CEO of the Church Commissioners, Andrew Brown. In January 2020, Andrew retired and handed over his responsibilities to Gareth Mostyn, on the left in this photograph.



Having been in post since 2003 and stepping down at the end of January 2020, I am thankful to be leaving the position at a time when the Church Commissioners post their eleventh successive year of positive returns.

The health of our financial returns enables us to continue supporting the Church's vital work in communities throughout England.

In 2019 the Church Commissioners contributed approximately 15% of the Church's annual running costs. Our returns were used to support the mission and ministry of the Church, including grants for mission activities, bishops and cathedrals.

In addition, approval was given to provide up to £155m of additional investment over the next three years to fund an increase in the number of people coming forward to train for the priesthood and support cathedrals and disadvantaged areas.

The Commissioners also announced measures to enhance the financial sustainability of dioceses and cathedrals and provide seed capital for a social impact investment programme.

Our long-term, actively managed and genuinely diversified investment approach allowed the Commissioners to continue to play a full role in supporting and revitalising the Church. The overall return for the Commissioners' portfolio was 10% for 2019. Beneficial factors behind this performance in 2019 included the strength of equity markets, particularly in the US, and robust performance from the timberland and strategic land portfolios.

Over the past year we have strengthened the investment team, led by our internationally recognised CIO, Tom Joy, with the recruitment of a Director of Investment Strategy, Head of Investment Risk and Performance, and a Team Head in Public Equities. This helps to build our team's capabilities and resilience.

As a fund managed in perpetuity, our objective is to maintain the real value of the fund through time. In 2019, at the decision of the Commissioners, the returns target was changed because of the more muted investment environment expected after more than a decade of rising asset prices. As flagged in 2018, the Commissioners were already giving serious thought to the sustainability of the then current target of RPI +5% which looked increasingly unrealistic in the short to medium term. Commissioners made the change to CPIH+4%, regarding it as a more realistic target and in line with those set by our peers.

The dedication of the Church Commissioners on climate change and governance issues has been noted as we and other asset owners work together to encourage companies to align their strategies with the Paris Climate Agreement goals.

The Commissioners were rated A+ for Responsible Investment ('RI') Strategy and Governance by the Principles for Responsible Investment ('PRI') in its annual assessment in 2019 and gained A+ ratings for Manager Selection, Appointment and Monitoring for all asset classes. We were rated A for engagement and voting, and for our management of our directly held property assets. The Commissioners were again recognised in RI awards, winning the IPE ESG award and being included in the PRI Leaders' Group 2019, which showcases signatories at the cutting-edge of Responsible Investment.

I would like to thank Dame Caroline Spelman for her service as Second Church Estates Commissioner. She announced her retirement as an MP at the general election. She has been a tireless and energetic advocate for all that the Commissioners do, exercising her role in Parliament with energy and passion.

I also warmly welcome my successor, Gareth Mostyn, who brings impressive leadership qualities to the role.

I am delighted to have played a part in helping the Church with the vital financial resources required for our 12,500 parishes. Looking back on my years of service, I am thankful for the dedication and expertise of the Church Commissioners, our staff and partners and their contribution to the common good of the Church and the many communities served.

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 to support the Church of England's ministry, particularly in areas of need and opportunity. Our key objectives together support the Church's goals of facilitating growth, contributing to the common good and reimagining ministry.

Church goals



**Facilitating
growth**



**Contributing
to the
common good**



**Reimagining
ministry**

Our objectives

To enable and share news of effective spending

Help develop the Church's effectiveness in use of the Church Commissioners' ('CCs') funding so money is intentionally used for mission and growth and outcomes evaluated.

To provide an administrative resource and skills base to the Church

Support different parts of the Church to enhance the use of resources to advance mission and growth.

To manage our investments responsibly

From a portfolio diversified to manage risk, consistent with ethical policies, achieve a real rate of return to allow CCs to meet pension obligations and maintain and grow over time our support to the wider Church, targeting CPIH+4%, aiming to be at the forefront of Responsible Investment globally.

To provide sustainable financial support to 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 at 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 Parliament and the Church.

2019 highlights

- Triennium Funding Working Group established to inform spending plans, a good example of Commissioners, Archbishops' Council and House of Bishops working together
- SDF strategy reviewed
- Criteria revised and increased focus on large urban and deprived areas and younger generations
- Continued to support implementation of Cathedral Working Group's recommendations
- Cathedral Support Group established
- Extensive consultation included successful theological consultation held with Deans at St George's House, Windsor. All contributed to Cathedrals Measure passing First Reading in July Synod. Now supporting Revision Stage
- Positive portfolio performance with 10% total return
- Strengthened investment team with recruitment of key strategic and risk management roles
- Strengthened engagement capability. New staff and outsourced service provider in place. Engagement success at a number of large multinationals
- Thorough actuarial review completed 2020–22 spending plans established and communicated effectively to stakeholders. Availability of more money for multi-year additional distributions successfully communicated to stakeholders
- Effective communication of new funding streams and to address matters of Church and society interest
- Implemented a number of recommendations to improve governance structure and process
- Social impact investment working group established
- Creation of Transformation and Innovation funding for dioceses
- Lambeth Palace Library on time and on budget: careful stewardship of CC funds
- Cathedral Sustainability Fund grants made to eight cathedrals, totalling £1.2m
- Relaunched Buildings Support Group with widened membership Joint initiatives with Archbishops' Council include work on life cycle of buildings
- Supported effective mission planning through updated deanery planning guidance and training sessions
- Ahead of schedule in growing private equity and venture capital exposure. Good relationships built with the very best US venture specialists
- Continued recognition in Investment and Responsible Investment awards
- 2017–19 triennium closed on budget (including additional time-limited distributions)
- See House service specification developed, updated Bishops' handbook issued and comprehensive review of See House projects undertaken
- Church House refurbishment plan changed with greater focus on agile working. Major staff consultation well received
- Technology infrastructure upgraded to improve IT resilience and business continuity plans
- Staff survey completed with significantly improved scores. Actions including inclusion and belonging programme

Priorities for 2020

- Help ensure the Commissioners' funding is intentionally used for mission and growth
- Support different parts of the Church to enhance their use of resources to advance mission and growth
- From a portfolio diversified to manage risk consistent with our ethical policies, achieve a real rate of return (target: CPIH+4%) to allow the Church Commissioners to meet their pension obligations and maintain and grow over time their support to the wider Church, at the forefront of Responsible Investment globally
- Manage and monitor costs and liabilities so Church Commissioners' support, especially for areas of need and opportunity, can be maintained and grown over time
- Attract, retain and motivate high-calibre staff. Promote and support staff engagement, performance, belonging and inclusion to maximise the effectiveness of the executive's delivery of the Commissioners' goals
- Maximise effectiveness of Board, Committees and executive, to ensure objectives are met, and with appropriate accountability to Parliament and the Church

The Church Commissioners make funds available to the Archbishops' Council to support projects providing mission and ministry across the country.

The Strategic Investment Board ('SIB') 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. 2019 marked the end of the first triennium under the 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.

The available funding is distributed through two funding programmes: Strategic Development Funding ('SDF'), and the formula-based Lowest Income Communities ('LInC') funding.

In 2017-19, with the Commissioners' and Council's agreement, the SIB gave early momentum to the SDF programme by awarding a significant proportion of the total funds expected to be available over the ten-year lifetime of the programme. Taking into account the awards made to date since 2017 of £139.8m, it is expected that around £128m will remain for distribution to dioceses in 2020-26, although this will depend on the outcome of future spending reviews.

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 support dioceses in developing mission and growth in lower-income communities. Dioceses report annually on their use of the funding. A summary of their responses to the survey on their use of the funding in 2018 was sent to the SIB, circulated amongst recipient dioceses and featured in the SIB's annual report to the Council.

Many dioceses use LInC funding to support parishes which, due to their deprivation, cannot meet their parish share,

therefore ensuring ministry provision in these areas. The SIB continues to encourage dioceses to ensure that their LInC funding is targeted towards supporting their most deprived communities.

In 2019, 25 dioceses received LInC funding totalling £25.4m. An additional £9.7m was paid to support dioceses that are receiving less funding than they did under the previous formula. A one-off sum of Restructuring Funding was also made available for these dioceses in 2017-19 to help them adjust to their new funding levels. All of the eligible dioceses have submitted plans for the use of their Restructuring Funding and these have been noted by the SIB and the funding released.

Strategic Development Funding

Established in 2014, and significantly expanded in 2017, Strategic Development Funding supports major change projects which fit with dioceses' strategic plans and make a significant difference to their mission and financial strength.

In 2019 £19.4m was awarded in SDF to 11 projects in 11 dioceses which will be drawn down over more than one year. SDF is awarded on the basis that the cash drawdown keeps within the limits of the monies allocated for this funding in the three-year spending period, reflecting the fact that the projects supported can run for up to six years.

Sharing learning and increasing accountability between and within dioceses continued to be a priority in 2019. The Peer Review programme aims to ensure mutual accountability and facilitate shared learning between dioceses while being of real value to each diocese. Every diocese participated in the first round of peer reviews which concluded in 2018 and by the end of 2019 29 dioceses had taken part in a second peer review. The programme continues to be well received by dioceses and further

meetings are planned through to spring 2020. There will then be a period of review and reflection before any further peer reviews take place.

2019 saw the development of a new evaluation and monitoring process for SDF projects which strengthens the focus on the successful delivery of the projects.

Projects awarded SDF in 2019

- **Birmingham:** People & Places Phase 2 will revitalise ministry across parishes in deprived areas through investing in children and families missionaries and through evangelism in the deprived community of Langley. £1.4m
- **Carlisle:** Reaching Deeper will focus particularly on mission in the deprived areas of Barrow, Carlisle, Maryport and Workington through developing new fresh expressions of church and growing existing congregations. £1.6m
- **Exeter:** Growing Mission in the city of Exeter will revitalise ministry for children, young people and adults, including the 32,000-strong student population in the city. The project's social engagement will include strengthening mission to Exeter prison and supporting the homeless. £1.3m
- **Leeds:** Revitalising Mission in Bradford Phase 2 is investing in growth in Keighley, Bowling, Idle, Great Horton and Clayton, with a strong focus on deprived areas and hard-to-reach groups. £1m
- **Leicester:** Enabling Black, Asian & Minority Ethnic Mission & Ministry: the project will develop mission to the diocese's substantial BAME heritage population, based on research undertaken in the first stage of the project, through developing Intercultural Worshipping Communities which will build on the opportunities for effective BAME mission and ministry. £1.5m
- **Lichfield:** Telford New Minster will revitalise mission and ministry in Telford by establishing a new Minster Church, new missional congregations and youth outreach in Telford. £1.7m



Intercultural Worshipping

Communities in the Diocese of Leicester

Leicester diocese is establishing six Intercultural Worshipping Communities where people of diverse heritage interact to deepen their understanding and experience of God and of each other.

They learn and grow together to build communities transformed and moulded from each other's experiences, aiming for 900 people of BAME heritage to be active worshippers exploring opportunities in lay or ordained ministry by 2024.

The Rt Revd Martyn Snow, Bishop of Leicester, said: "This is a priority for the whole diocese. From its inception in 1926, the diocese has witnessed a radical transformation to the context in which it is called to minister the gospel. Today we serve people from diverse geographic, cultural, religious and ethnic backgrounds."

The Rt Revd Guli Francis-Dehqani, Bishop of Loughborough, whose role includes encouraging Leicestershire Christians from BAME backgrounds in all areas of Church life, said: "We need to be positive, hopeful and willing to take risks. We must create a culture that enables people from different backgrounds to feel part of the Church at every level, including leadership."



"Today we serve people from diverse geographic, cultural, religious and ethnic backgrounds."

Rt Revd Martyn Snow
Bishop of Leicester



Leeds Diocese

Revitalising mission

A £490,000 fund is to be shared amongst churches in Keighley to revitalise the Church's mission to this area of Bradford in West Yorkshire.

Plans include outreach work in the town centre, a reinvigoration of work with children and families, and a focus on communities on local housing estates.

The money is part of £1.03m from the Strategic Development Fund that will be shared between Keighley and four other 'church-planting churches' in Bradford following a successful bid by the Diocese of Leeds.

Each church is expected to have an impact beyond their parish boundaries, sharing expertise and resources, and sending people as part of church 'planting and revitalisation' teams.

Bishop of Leeds, the Rt Revd Nick Baines, said the SDF investment will make real differences in a town that faces many challenges: "This funding will add capacity and help the churches in Keighley reach out and engage with all its communities for the common good."



"This funding will add capacity and help the churches in Keighley reach out and engage with all its communities for the common good."

Rt Revd Nick Baines
Bishop of Leeds

- **Norwich:** Focus Churches: The Norwich Diocesan Church Planting and Revitalisation Programme will strengthen mission, predominantly in key market towns in rural areas (and one urban estate) reaching out to young people and families, using a sports ministry developed at St Thomas's church, Norwich. The sports ministry will be based around secondary school catchment areas and ten focal churches. £1.9m
- **Portsmouth:** Resourcing Growth Phase Two is investing in areas where church attendance is well below average, where decline is steep and where urban/suburban populations are growing and changing, including in Gosport and Newport. £2.7m
- **Rochester:** Called to Grow is supporting growth in the deprived urban areas of Anerley, Erith and Slade Green, Gillingham and Strood. £1.4m
- **Southwark:** A Fruitful Future is developing mission, ministry and outreach in St Matthew's @ the Elephant, North Lambeth, Deptford Team, East Greenwich, St Mary's Summerstown, and Horley Team Ministry. £3.1m
- **Truro:** Transforming Mission Phase 2 is investing in ministry in St Austell, Camborne, Truro and Liskeard, reaching out to children and families, youth and students, and deprived areas. £1.7m

Strategic Development Funding for non-diocesan projects

In 2017–19, £6m of Strategic Development Funding was set aside for non-diocesan projects which support the overall strengthening of the Church's mission and growth:

- £3m for infrastructure development in the National Church Institutions to make strategic interventions to advance the Church's mission and growth; and
- £3m for major grants for projects to strengthen mission on themes where new approaches might be developed which would not easily stem from a

diocesan or multi-diocesan application.

- In 2019 a total of £1,075,892 of non-diocesan SDF was awarded through a mixture of SDF and Capacity awards.

Funding for infrastructure development in the NCIs was approved for two projects:

- £100,000 for a project for developing discipleship more intentionally in Messy Churches.
- £115,037 to the Estates Evangelism Task Group to enable it to progress its strategy to support and develop mission and ministry to estates.

Funding was approved for four projects undertaken by other non-diocesan organisations to strengthen mission:

- The Mothers' Union Metamorphoses project is a pilot programme deepening discipleship, developing lay leaders and growing the local church. £190,692
- HeartEdge, initiated by St-Martin-in-the-Fields, will grow and strengthen its ecumenical network of financially sustainable and growing churches, working with member churches to reimagine church through developing commerce, culture, compassion and congregational life. £275,413
- The Society of St Wilfrid and St Hilda have received funding for a Catholic Mission Co-ordinator to take forward the practical implementation of the Society's vision to form missionary disciples and enable a culture of growth in Society parishes. £140,100
- The Centre for Theology & Community's project, Harnessing the Potential of Community Organising for Church Growth will grow congregations and deepen discipleship in six East London parishes. £254,650

Capacity Funding

£861,703 of Capacity Funding was awarded in 2019 to seven dioceses to support them to develop their strategic capacity. Capacity Funding predominantly supports the employment of programme managers and other project staff to develop and deliver SDF projects. A total of

£4.8m of Capacity Funding was awarded in the 2017–19 triennium.

Future plans for SDF

In 2019 the Council and Commissioners agreed their spending plans for 2020–22, on the advice of the Triennium Funding Working Group. They confirmed that SDF will run as a ten-year programme (2017–26). Assuming that the current level of funding continues to increase in line with earnings up until 2026, it is estimated that the total amount of SDF available over the ten-year period will be £270m.

Taking into account the £139.8m already committed, the SIB has agreed that around £64m of this funding will be made available for award to dioceses in 2020–22 with approximately £64m being made available from 2023 onwards. There will be one opportunity each year to apply for funding in 2020–22.

This represents a lower level of funding compared to the awards made in 2017–19. The SIB has therefore considered how best to focus the funding in 2020–22. The goal to support dioceses' investment in the growth of the Church remains the same. However, the Board has agreed in targeting the funding towards the largest urban areas, the Board will consider programmes not targeted on these areas if they are focused in areas of particular deprivation or on younger generations and have reach and impact in keeping with the other priorities for SDF, i.e. they offer a compelling case to transform areas which are as under-resourced as the largest urban areas and will reach similar numbers of people as proposals relating to these areas.

The agreed focus for the funding in 2020–22 reflects the nature and scale of the key strategic challenges that face the Church, channelling the limited funding available towards people and areas in which the Church has long under-invested.

The largest urban areas contain:

- 62% of the population.
- 67% of 18-29 year olds.
- 84% of the most deprived areas.

On behalf of the Council, the SIB will oversee two new funding streams in 2020–22:

- £45m of Strategic Transformation Funding has been made available to support dioceses with financial difficulties to undertake major change programmes to provide a platform for the Church's sustainable growth.
- £6m of SDF (£2m a year) has been made available for Innovation Funding. This will support smaller-scale projects which will generate learning about 'good growth' through trialling new approaches or applying existing successful models in new contexts.

Dioceses and non-diocesan organisations (e.g. mission agencies) will be eligible to apply.

Other mission and ministry activities

The Church Commissioners administer the national clergy payroll for the Church of England, ensuring accurate and timely stipend payments to serving clergy. As at 31 December, the national clergy payroll paid approximately 7,600 clergy (2018: 7,600). The total cost of administering the national clergy payroll was £0.5m (2018: £0.5m).

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

their retirement. At the end of 2019, the Commissioners were funding, in full or in part, the pensions of 9,600 retired clergy (2018: 9,671) and 3,602 (2018: 3,622) surviving spouses. Pensions in payment increase every year in line with the Retail Price Index.

In 2019 the Commissioners' cash payments for clergy pensions were £120.1m (2018: £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 2019 this provision was £1,515.6m, a reduction of £26.9m against the previous year. The actuarial update has generated a charge to expenditure in 2019 of £93.2m (2018: a credit to expenditure of £91m).



The Church Commissioners meet the stipends, office and working costs of the archbishops and bishops to support their ministry.

Diocesan bishops can 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. The Palace needs repair, its infrastructure not having been updated since well before the Second World War. Work continued in 2019 in planning these works, with a Project Board providing oversight and the appointment of a master-planning architect to identify how Lambeth Palace will function as both the home and working office of the Archbishop of Canterbury and as a major central focal point for the worldwide Anglican Communion; works are expected to begin during the triennium, if approved.

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 2019, two new diocesan bishops took office and the opportunity was taken to undertake works at bishops' houses in Derby and Norwich, to complete works at London and with work to the Hereford house starting in late 2019 in order for the new Bishop to take up their new ministry and responsibilities in spring 2020.

The Bishops' and Cathedrals Committee supported a proposal to encourage more Bishops to have plug-in hybrid and fully electric cars as available and suitable; the Bishop of Dorchester took ownership of the first fully electric car in the fleet. The Committee also agreed to support a pilot project, for 2020, to review the sustainability of the See House portfolio.

The House of Bishops, in partnership with the Bishops' and Cathedrals team, agreed the implementation of a new See House Service Specification, which sets out what bishops, their families and staff can expect in terms of levels of service to maintain their properties.

Chancel repair liability

The Church Commissioners have inherited a whole or partial chancel repair liability in respect of approximately 800 parish churches, and from 1 January 2019 the Commissioners also took on the full administrative and financial responsibility for keeping approximately 200 Cathedral Chapter chancels in good order.

Consequently, the Bishops' and Cathedrals Committee became responsible for the oversight of the Commissioners' expenditure on all chancel repairs and related matters (a responsibility previously overseen by the Mission and Pastoral Committee). During 2019 the Commissioners funded chancel restoration projects to help approximately 100 parishes maintain the fabric of their churches. They also took on similar projects to help five cathedrals keep 20 of their chancels in good order.

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 2019, £6.4m provided under section 21 of the Measure supported the stipends and pension costs of the dean and two residentiary canons at all cathedrals except Oxford and the Isle of Man. Any part of the grant unused as a result of a vacancy can, at our discretion, be used to support the employment costs of other cathedral staff.

A further £3.7m 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 cathedral resources and helps facilitate their mission and ministry to their local communities.

The Church Commissioners continued to make grants from the Cathedral Sustainability Fund in 2019, 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.

In 2019, £1.2m was awarded to eight cathedrals, bringing the total to date from the fund of £2.7m to 19 cathedrals. More applications are in the pipeline to help cathedrals look towards a financially sustainable future.

The new Cathedrals Measure

Following the 2018 Cathedrals Working Group ('CWG') report, a draft new Cathedrals Measure was debated and passed to revision stage at the July General Synod. Working alongside the Cathedrals Support Group ('CSG') which is chaired by Eve Poole, Third Church Estates Commissioner, the Steering and Revision Committees met four times, in preparation for a further draft at the February 2020 Synod. Draft Guidance has also commenced to support this Measure and incorporation of the new Measure (if passed by Synod) to align cathedrals with their new charitable status, coregulated with the Church Commissioners. £10m has been earmarked in the 2020–22 triennium for additional support for cathedrals to help the transition.



Gloucester Cathedral CSF

Gloucester Cathedral was awarded a grant from the Cathedral Sustainability Fund of £150,000 to develop an 'Entry by donation' model to grow income from tourist visitors by increasing the average donation from 51 pence to £2 within two years.

The grant has helped fund a Visitor Service Manager and four Visitor Service Assistants over two years who welcome visitors on their arrival and ask for a recommended donation.

It is expected to grow visitor donations from £130,000 a year to over £500,000 in three years. Early results of this new model are very promising, with visitor donations more than tripling in the first nine months.



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 continue the planned funding of a new building which will protect and preserve the collections and make them more accessible than ever before. The total cost is £23.5m plus VAT and fees and at the end of 2019 remained on programme and on budget. The Archbishop of Canterbury topped out the new library building in May, and by the year end the bulk of the construction was almost complete and landscaping had begun. The scheduled handover of the building is mid-2020, which will be followed by moving in the collections ready for public opening in early 2021.

The contractor, Knight Harwood, has actively engaged with the local community, including a Lego and Duplo session at the Evelina Children's Hospital where patients were able to have a go at building their own versions of the new Lambeth Palace Library.

The engineers have advised that projected annual energy use of the whole of the new library building is 101 MWh and the projected rooftop solar panel generation is 47 MWh or 46.5% of the total annual energy use of the library.



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

The Commissioners have a legal and advisory role in the reorganisation of parishes and benefices, serving dioceses by providing accountability and oversight as well as bringing in expertise from across the Church of England. They also settle the future of closed church buildings, working closely with dioceses, through a regionally based specialist casework team, to secure suitable alternative uses. From the start of the year these functions have been overseen by the combined Mission, Pastoral and Church Property Committee ('MPCPC').

Reorganisation, clergy housing and glebe

Following local consultation, reorganisation proposals are formulated and validated by the Commissioners then published for consultation, with an opportunity to make representations to the Commissioners.

Schemes and orders were made during 2019 including 19 closing church buildings for regular public worship. Several new churches and places of worship were opened for worship during the year.

The MPCPC considered objections in 14 cases in 2019, 7 at public hearings. Eleven schemes were allowed to proceed, two were allowed to proceed following amendment and one was turned down.

Objectors can seek permission to appeal to the Judicial Committee of the Privy Council against the Commissioners' decision to allow a scheme to proceed. There were two such applications made on which a decision by the Judicial Committee was awaited. Eleven other representation cases were resolved outside the Committee (in eight, the representations were withdrawn following correspondence with Commissioners' staff or diocesan representatives and in the other three the draft scheme was amended and reissued).

The Commissioners also have a role in sales and other transactions relating to clergy housing and glebe land and consider objections to transactions in the same way as for parish reorganisation cases. Three representations about parsonage matters were considered by the MPCPC: in one case the status of a property was determined, one matter was allowed to proceed and determination of the third was deferred until 2020. Three glebe transactions were also approved.

Closed church buildings

Much of our closed churches casework takes place before or after the statutory scheme-making process but we made 26 schemes settling the future of closed church buildings or their sites: 18 provided for alternative use, three for preservation by the Churches Conservation Trust, three for demolition and one site disposal, while one was restored to parochial use. This included resolving the future of some problematic long-standing cases.

The table on page 21 shows how the future of 2,003 closed church buildings or their sites have been settled since 1969.

The MPCPC considered objections in three cases, all on the papers alone, deciding in each case that the scheme should proceed.

In June the Committee visited several church buildings in the Diocese of Leeds, including two in Leeds city centre recently awarded significant Strategic Development funding, learning about their missional priorities and the challenges of growing a Christian presence in strategic urban locations with a significant daytime population.

By contrast, in the rural north of the diocese, we met various incumbents in Wensley and Richmond deaneries responsible for several churches and facing the logistical challenge of maintaining a Christian presence in often remote rural communities. Each was very much immersed in local life and social outreach initiatives while being responsible for highly listed church buildings of particular significance in the landscape, heritage and culture of the Yorkshire Dales.

Contribution to the Church's mission

Just under £4.2m arising in net proceeds from the disposal of closed church buildings and sites was 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 £19.8m from proceeds to dioceses 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, over 350 outstanding closed church buildings for which no suitable alternative use was found. Under The Payment to the Churches Conservation Trust Order 2017 our annual grant was £1.43m.

Future uses of Church buildings since 1969

Alternative use	1969–2009	2010–14	2015–19
Adjuncts to adjoining estates	6	0	0
Arts, crafts, music or drama	27	3	3
Civic, cultural or community	126	16	12
Educational	33	2	7
Light industrial	6	1	2
Monument	133	12	13
Museums	15	0	0
Office or shopping	50	4	8
Other	5	0	0
Parochial or ecclesiastical	66	7	8
Private and school chapel	24	2	0
Residential	263	36	30
Sports	12	1	1
Storage	17	1	1
Worship by other Christian bodies	140	22	23
Alternative use sub-total	923	107	108
Demolition and site disposal			
Additions to churchyards	48	5	2
Housing Associations	81	4	0
Local Authorities	69	1	0
New places of worship	63	2	3
Not yet decided	6	2	3
Other community purposes	29	2	0
Other purchasers	167	6	7
Demolition sub-total	463	22	15
Preservation			
Churches Conservation Trust	339	8	9
Diocesan Board of Finance	5	0	0
Secretary of State	4	0	0
Preservation sub-total	348	8	9
Grand total	1734	137	132

Overview

Mission

Investment

Governance

Financial Statements

Reference

Wigan Deanery

Towards the end of 2019 the Church Commissioners approved a pastoral scheme to enable the deanery of Wigan to become a single team ministry benefice with seven new parish-hubs. This is a key stage in the SDF funded project aimed at improving the missional and financial strength of the church in Wigan. The innovative structural change brings a relational model of working based on a hubs and spokes idea. This is part of a connected, collaborative way to change church culture to focus on a vision of getting at least 10% of the deanery on a discipleship journey.

“Change is challenging but we remain focused on refreshing traditional worshipping communities while planting new ones.”

The Rt Revd Paul Bayes
Bishop of Liverpool



The Church Commissioners manage an investment fund of £8.7bn in an ethical and responsible way. The fund has delivered an average return of 8.5% per annum over the past 30 years.

Objectives

- To manage the fund to ensure sustainable distributions for our beneficiaries.
- To achieve a total return of CPIH+4% per annum measured over the long term.
- To meet performance benchmarks for individual asset classes.
- To manage risks appropriately.
- To act within our ethical guidelines and be at the forefront of Responsible Investment globally.

Fund strategy

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

Our investment objective is to generate a return of CPIH+4% (previously 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 our objective over 1, 5, 10, and 30 years. Over the last 30 years, the fund has achieved an average return of 8.5% every year: 0.5% ahead of our long-term return target.

From the start of 2019, the returns target was changed from RPI+5% p.a. to CPIH+4% p.a. at the decision of trustees because of the more muted investment environment they expect after more than a decade of rising asset prices. Trustees believe the new returns target is both more realistic and consistent with the targets set by our peers. It is challenging, without encouraging undue risk-taking.

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 2019 our charitable distributions were £117.6m.

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 Framework. Our ambition is to be at the forefront of responsible investment globally and this is discussed in more detail on pages 28–29. The chart on page 25 shows our asset weightings at the end of 2019.

New 2019 hires bring added depth to the team and include Mary-Pat Barron as a Team Head in the public equities team, James Barty as Director of Investment Strategy and Harpreet Gill as Head of Risk & Performance.

Fund performance

2019 turned out to be a good year for markets and in this environment the overall return for the Commissioners' portfolio was 10.0% for 2019; this compares favourably to our long-term return target. Our longer-term performance, which is significantly more important in terms of determining our distributions, also remains strong.

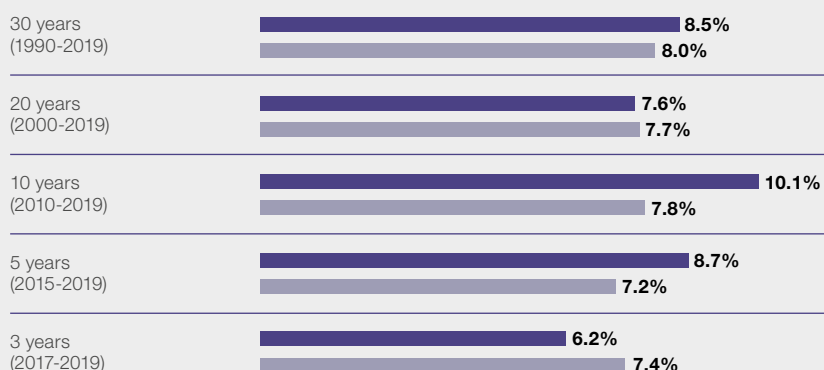
2019 was the third year in a row where the prevailing sentiment at the start of the year was proved wrong. At the end of 2018, market sentiment was pessimistic due to the unfolding trade war between the US and China, uncertainty over Italian debt levels and Brexit, and questions over whether falling oil prices and an inverted yield curve were signs of the next recession. Yet 2019 was a strong year for most risk assets except UK real estate.

The rally in equity markets in 2019 was driven by a rise in valuations not earnings growth. Despite the strong returns in 2019 in equity markets, it is only the US that has made material new highs. Other regions like the UK and Emerging Markets are either only just returning to the highs reached in September 2018 or still some way below them.

Finally, uncertainty for Sterling was also a feature of 2019. As a result of the unpredictability of the currency risk, we adjusted our approach towards hedging to include the use of FX options. This was introduced in the latter stages of the year and proved effective in protecting the fund from some of the effects of the currency volatility experienced in the last quarter.

In 2018 our genuine diversification helped us deliver a modest positive return in a very difficult market. In 2019 diversification did not help. To deliver the best returns, investors needed to be concentrated in public equities, within that in the US and in particular technology companies. This is reminiscent of the late 1990s internet-led bull market which ended abruptly in March 2000. The one area within 'risk assets' that did not perform well was UK real estate as the political deadlock and 'Brexit' cloud weighed on sentiment and, while the political impasse was removed with the decisive Conservative election victory in December, this was not in time for year-end valuations to be improved.

Long term total returns per annum (against the Church Commissioners' target return)



Note: Target return was RPI+5% p.a. to end 2018, CPIH+4% p.a. thereafter

A diversified portfolio is managed, spread across a range of asset classes, consistent with our ethical guidelines.

Fund strategy and performance continued

Responsible Investment

The Church Commissioners are committed to being at the forefront of Responsible Investment. In 2019 the UN-backed PRI included the Commissioners in its inaugural PRI Leaders' Group. The PRI Leaders' Group 2019 showcases signatories that both demonstrate a breadth of RI excellence and excel specifically in the 2019 theme: selection, appointment and monitoring of external managers. This theme is the cornerstone of our approach to Responsible Investment, given the great majority of our assets are externally managed. We are truly proud to have been included in the PRI Leaders' Group, which is roughly equivalent to 10% of all PRI asset owner signatories.

More detail about the Commissioners' approach to Responsible Investment can be found on page 28.

Equities

Public equities

Global equities bounced back very strongly from the weak 2018 performance, with our benchmark up 20.7% over the course of the year. The US continued to lead markets, with the MSCI USA up 26.5% in sterling terms, meaningfully ahead of Europe ex UK (20.8%), the UK (16.5%), Japan (16.7%), and Emerging Markets (14.2%).

The Commissioners' defensive positioning and underweight in North America and overweight in Emerging Markets was a headwind over the year in relative terms. This was, however, partially offset by our underweight to the UK. Overall, our equity portfolio returned 18.8% versus the composite benchmark of 20.7%.

Despite underperformance in 2019 over the longer term we have outperformed at a portfolio level and within both UK and global equities where our portfolios are ahead of the respective indices over 3, 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 10.8% in 2019. We agreed further commitments to the portfolio totalling £221.3m 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 dependent upon finding managers who meet our partnership criteria.

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 £31.3m to 4 managers across 14 funds during 2019. Our pipeline also looks strong which is testament to the in-house team building high-quality relationships in this area.

Absolute return

Our multi-asset portfolio, which represents around 10.2% is designed to generate returns which are largely independent of the external environment. It did what we hoped it would in 2018, that is to be up when the equity markets were down. The contrast is that in 2019 those funds have struggled to keep up with the strong run in public equities, although in absolute terms they are up 7.3%, still ahead of our CPIH+4% target.

Fixed income

Our fixed income portfolio invests in credit strategies both liquid and illiquid but is a small allocation within the fund at present. The liquid portfolio which includes investments in global high yield bonds, emerging market debt and structured credit delivered a positive return of 2.9% despite a very challenging environment.

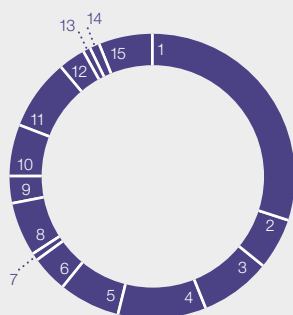
Our private credit portfolio allocates capital to interesting opportunities to further diversify and improve the return profile of the fund. During the year we committed £37.9m to one new fund.

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

Total returns % per annum	1 year 2019	3 years 2017–19	5 years 2015–19	10 years 2010–19	20 years 2000–2019	30 years 1990–2019
Commissioners' total return	10.0	6.2	8.7	10.1	7.6	8.5
Long term return target	5.4	7.4	7.2	7.8	7.7	8.0
Commissioners' main asset classes						
Global equities	20.8	11.3	13.7	12.6	7.0	8.9
UK equities	20.4	8.1	8.6	9.3	5.4	8.8
Private equity	23.8	18.7	18.4	13.0	n/a	n/a
Commercial property	(1.5)	2.3	5.6	11.4	9.5	9.4
Residential property	(0.7)	3.4	8.4	12.2	14.6	14.0
Rural let land	(0.5)	0.9	4.2	9.6	13.1	12.2
Strategic land	8.3	14.9	15.6	16.3	14.6	n/a
Indirect property	(5.0)	2.7	6.9	9.8	8.3	n/a
Timber	10.1	4.7	9.5	n/a	n/a	n/a
Value linked loans	7.0	4.5	8.5	10.6	9.3	7.6

The long term return target was RPI+5% p.a. until 2018, CPIH+4% p.a. thereafter.

Commissioners' asset allocation (as at 31 December 2019)



1	Global equities	30%
2	UK equities	6%
3	Defensive equities	8%
4	Multi-asset	10%
5	Private equity	7%
6	Timber	4%
7	Infrastructure	1%
8	Credit strategies	6%
9	Commercial property	3%
10	Residential property	6%
11	Farmland	8%
12	Strategic land	3%
13	Indirect property	1%
14	Value linked loans	1%
15	Cash/liquidity reserve	6%

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.

During 2019 we continued to actively manage our real asset investments to generate value and to manage our overall asset allocation. Selective sales, especially from our timberland property holdings and land for new housing in the UK, generated over £34.5m in capital receipts during the year. This took the total receipts, including rents during the last five years, to over £0.7bn. 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 long term and, in doing so, focus on understanding the worth of our real assets relative to the Commissioners' required rate of return. To this end, we regularly review our exposure to different sectors within the real assets' portfolio and adjust weightings accordingly. Whilst our residential holdings in the Hyde Park Estate, our rural estates and our commercial property holdings recorded falls in value, other parts of our portfolio performed more robustly, especially timberland, our strategic land holdings and the value linked loans. Overall, the real assets portfolios returned 1.9% in 2019; in line with benchmark returns and which reflected an uncertain investment landscape in the UK across the year.

Rural

Capital receipts in 2019 totalled £13.4m. In addition, £1.8m of assets were transferred to the strategic land portfolio for residential development. The total return for the rural portfolio in 2019 was -0.5%.

Sales and strategic purchases are part of the ongoing active management of the rural portfolio which has been a long-term performer for the Commissioners. The genuine diversity of the portfolio has enabled previously strong investment performance over a 10, 15 and 25-year cycle. The Commissioners continue to regard the rural portfolio as crucial to the underlying long-term performance of the fund. We continued to progress conversations in collaboration with some of our most progressive tenants to help

develop higher-value opportunities and to drive capital and rental performance.

Hyde Park Estate

In 2019, £18.8m was generated by the Estate in capital receipts through open market sales and leasehold reform transactions. £9.1m was reinvested in purchasing properties and completing refurbishments. The total return for the portfolio in 2019 was -0.7%.

We continued to make improvements to the public realm, including installation of gateway signage to Connaught Village at Hyde Park Square and furthering feasibility on a significant scheme in the heart of the Estate. The railings were restored in Hyde Park Square and works commenced to replace the railings in Gloucester Square. Across the residential properties we continued to maintain a low void rate both in letting and agreeing the renewal of tenancies. At Connaught Village we completed four new lettings to independent retailers. Throughout the year we held several public and community events including a panel discussion to mark International Women's Day, an event celebrating the dogs and dog owners of the Estate and, in September, an event to mark World Car Free Day.

Timberland

The Commissioners' timberland portfolio delivered a strong return of 10.1% during 2019.

Our UK forests had another strong year buoyed by continued strong demand from investors of high-quality forest properties. We completed the sale of Watermeetings Forest in South Scotland for £14.3m. We also generated a robust level of income from harvesting as we continued to seek to satisfy demand from UK sawmills.

In the US, we are working to increase the number of solar options in Virginia, US, with our current options potentially worth up to \$30m to the Commissioners in the coming

years. We also worked closely with developers in the UK to further a number of potential renewables schemes to increase our current 31MW of sustainable wind power generated on our forest properties.

All 104,484 acres of our directly owned commercial forest and timberland properties as well as our fund and joint venture interests in the UK and US are fully certified to high sustainable standards. During 2019 we planted over 2.5 million trees and additionally worked closely with our managers to improve our impact reporting. We have calculated the carbon sequestered by the timberland portfolio over the course of 2019 to total 500,000 metric tonnes of carbon dioxide, before harvest removals, the equivalent of the average annual carbon emissions of over 90,000 people in the UK.

Commercial

We have been active in the investment market, both buying and selling in 2019. We sold an office building in Leeds ahead of valuation into a market buoyed by recent high-profile lettings and heightened rental levels. We purchased Brislington Retail Park, Bristol for £21.5m, taking advantage of opportunities within this sector. Considerable work took place on moving forward the redevelopment of Catford Island Retail Park, including work to identify a preferred joint venture partner. The commercial portfolio delivered net income receipts of £9.9m and a total return of -1.5% in 2019.

Strategic Land

The strategic land portfolio had another strong year in 2019, delivering a return of 8.3% and receipts of £18.1m. Whilst housebuilding has slowed across England in 2019 and sale prices have flattened in many areas, the portfolio has been buoyed by successful active promotions through the development plan process. This activity has realised final local plan allocations for c.1,500 new homes and 1.3m sq ft of commercial floorspace and new draft allocations for c.2,250 new homes across seven sites. Fresh planning applications have been made for 100 new houses at Brockman's Lane, Ashford and 73 houses at Barnsley, South Yorkshire.

We have seen the completion of a number of key sales throughout the year; these have generated capital receipts of £18.1m and have included the sale of 150 houses at Greetwell, Lincoln, 50 houses at New Barn Lane, Bognor Regis, 120 houses at Sherburn Village, Durham and the agreement of a long lease for c.90,000 sq ft of employment floorspace at Exeter

Gateway, East Devon, as well as continued receipts at Peterborough, Ashford and North Hykeham. During the year, we also acquired land on the edge of Maidenhead, Berkshire which offers long-term development potential to reseed the portfolio in future years.

Indirect property

The indirect property portfolio was impacted by both a challenging UK retail market and currency losses on our US positions, resulting in an overall return of -5.0% for the year. Net receipts totalled £14.0m.

Within the US, our development in Detroit, Michigan neared completion with good progress on the delivery of affordable housing, community retail and a new medical centre for local people. Our Houston office investment also made good progress with the delivery of a new fitness centre and nursery care centre.

Infrastructure

We continued to expand our infrastructure portfolio with a new commitment of \$30m to the Orion Energy Credit Fund III, which provides loans to energy businesses. Part of Orion Energy's objective is to provide finance to support renewable and energy efficiency businesses. We also committed \$20m to a co-investment project that displaces diesel-powered electrical generation, thus reducing environmental damage. 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. Overall, the portfolio delivered a 1.8% return in 2019.

Value linked loans

In 2019 £7.5m in capital receipts was generated from the portfolio which delivered a total return of 7.0%. We have continued to work alongside colleagues at diocesan level to develop relationships with those who manage properties within the value linked loans portfolio. We have also implemented collection of interest payments via direct debit to improve operational efficiency.



Forestry

Warroch Hill, Perthshire

The photo shows a phase one planting scheme in the background and the foreground shows a new tree planting scheme being established in January 2020.

The Commissioners acquired a 1,069-acre marginal hill farm in the Ochil Hills, Perthshire in 2012. A range of environmental, wildlife and impact surveys were undertaken to establish any site sensitivities, including surveys for birds, rare vegetation and archaeological remains. Standard considerations which fed into the design of the planting scheme included landscape design, soils and watercourses, species choice, public access, as well as wide consultation with stakeholders. This scheme was one of the first to provide a specific diffuse pollution plan to mitigate against the potential for diffuse pollution into nearby Loch Leven.

The first phase of the sustainable scheme was planted in 2014, and phase two was completed in early



2020. In aggregate we have provided 819 acres of new woodland, of which 157 acres are mixed broadleaves and open ground. In total, over 750,000 new trees were planted.

The new forest is sustainably certified under FSC certification. As part of our new planting, we provide new safe private water supplies for the local community.



Strategic land

Finberry, Ashford Kent

In 2014 the development of 1,100 private and affordable houses to the south of Ashford began on land owned by the Church Commissioners. The Commissioners' development partner, Crest Nicholson, commenced construction of a new village, where plans include a new community surrounded by water meadows and countryside, with footpaths and cycle routes established within the wider landscape. Six years on, the village is now well established and the community is flourishing. A new nursery and primary school opened in 2017 and a local centre, including a food store, including a small foodstore and family restaurant, is planned to be built in 2021.



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

The Church Commissioners' approach to responsible investment ('RI') 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 PRI.

Our approach involves ethical exclusions; incorporation of ESG issues; action on climate change risks and opportunities; engagement and voting; impact monitoring and impact investments.

The Commissioners were rated A+ for RI Strategy & Governance by PRI in our annual assessment in 2019 and gained A+ ratings for Manager Selection, Appointment and Monitoring for all asset classes. We were rated A for engagement and voting, and for our management of our directly held property assets.

The Commissioners were again recognised in RI awards, winning the IPE ESG award and being included in the PRI Leaders' Group 2019, which showcases signatories at the cutting edge of Responsible Investment.

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, non-military firearms, pornography, tobacco, alcohol, gambling, high interest rate lending, extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds.

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.

Incorporation of environmental, social and governance 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 standards, are good RI practitioners, or outstanding. All managers must meet our minimum standards. Discussion of RI practice, and advocacy of good and outstanding practice, are an integral part of our monitoring of, and engagement with, our managers.

Climate risk and opportunities

We regard climate change as a vital issue for responsible investors. The Church Commissioners have pledged to transition our investment portfolio to net zero greenhouse gas emissions by 2050 as members of the UN-convened Net Zero Asset Owner Alliance.

The Commissioners are supporters of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures ('TCFD') and are guided by the Taskforce's recommendations in this reporting. Further 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 2019. These issues included climate risk management, climate-related engagement and voting, our asset managers' approaches to climate change captured in our RI assessments, tracking low carbon investments via impact monitoring and the principle of setting a net zero emissions goal.

Climate-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 net zero carbon economy.
- 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 goals of the Paris Agreement to restrict the global average temperature rise to well below 2°C and to pursue efforts to limit warming to 1.5°C. The biggest risk to the Commissioners in the long term – beyond 2050 – is that the global average temperature rise is not restricted 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 all climate scenarios, including a 2°C. We will rerun this analysis in 2020 using Mercer's latest climate scenario models.

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
- monitoring portfolio companies' management of climate change, strategic alignment with the Paris Agreement and carbon footprint

Management quality on climate change

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 Transition Pathway Initiative. The management quality of our portfolio companies is better than that of the TPI universe as a whole.

Carbon footprint

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 2019 the carbon footprint of our portfolio was 326 tonnes of 'carbon dioxide equivalent' per £1m of corporate revenue compared to 241 tCO₂e for our benchmark.

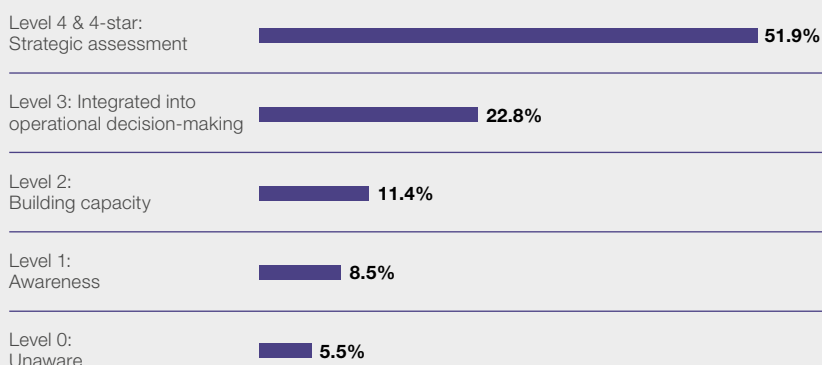
Listed equities carbon footprint 2015–19

Tonnes CO₂ equivalent per £1m revenue

Date	Benchmark	Church Commissioners
Dec-15	217	163
Dec-16	235	193
Dec-17	274	313
Dec-18	275	344
Dec-19	241	326

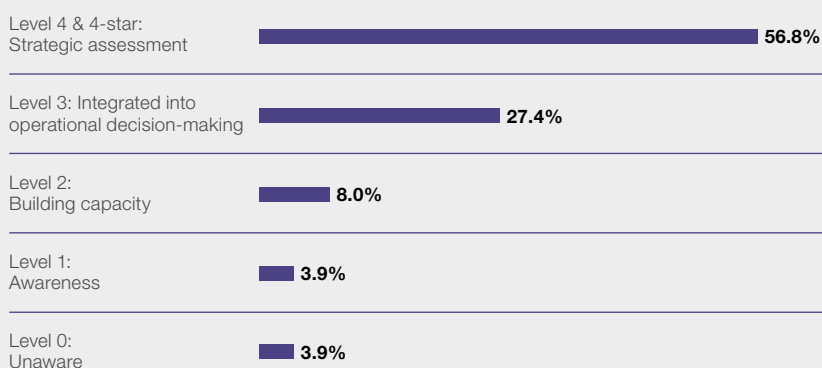
Source: Trucost

TPI universe by market capitalisation



Source: Transition Pathway Initiative

Church Commissioners' portfolio



Source: Transition Pathway Initiative

Our carbon footprint is above benchmark as a result of a small number of stock selection decisions by some of our fund managers. We will take two steps to address this in the course of 2020. First, we will institute further climate-related investment restrictions to capture companies that have significant greenhouse gas emissions but are not taking seriously their responsibilities to assist with the transition to a net zero emissions economy.

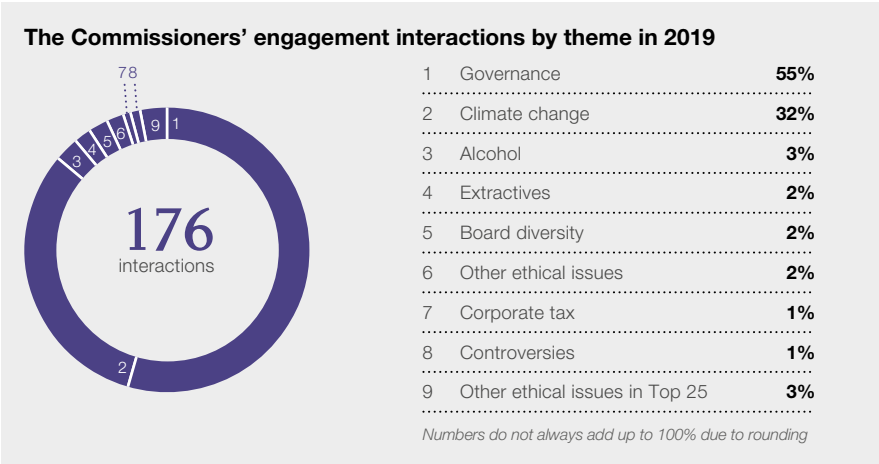
Second, we will set our first interim emissions reduction target as members of the Net Zero Asset Owner Alliance and will work with our public equities managers to achieve it. It is important to stress, however, that our primary goal is not decarbonisation of our portfolio, but decarbonisation of the real economy, which we actively seek to realise through engagement with policy makers and companies. Our vision is a net zero emissions global economy by 2050, in which any portfolio will have a net zero carbon footprint.

Engagement

In 2019, the Commissioners expanded our corporate engagement team with the creation of a further engagement role and the appointment of an external engagement provider, EOS at Federated Hermes ('EOS'). Hermes EOS's extensive engagement activities across a wide range of ESG issues now complement the work of the strengthened engagement team in support of the Commissioners' agenda to promote responsible and sustainable business practice.

In 2019, the Commissioners' in-house engagement team engaged directly with 106 companies through 176 interactions. We took a leading role in 84% of our engagements during the period; in the remainder we supported other investors in collaborative engagements.

EOS engaged with 137 of our holdings, through 574 interactions, starting from 15 August.



Transition Pathway Initiative

The TPI is a global initiative, co-founded by the Church of England National Investing Bodies in 2017, to assess companies' preparedness for the transition to a low carbon economy. It ended 2019 supported by investors with over \$18.5tn of assets.



Climate Action 100+

CA100+ is an investor initiative seeking to ensure that 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 2°C.

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 more than 370 investors with over \$41tn of assets. The Commissioners were founding supporters. TPI is one of the CA100+ official data partners and its assessments are used to benchmark companies. The Commissioners lead engagement with three companies.



The majority of engagements were part of our climate change and corporate governance programmes, which accounted for 87% of our interactions during the period. Climate change remains our top engagement priority and the area of the most in-depth dialogue. We remained 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 climate change engagement of the Church of England National Investing Bodies ('NIBs'), including the Commissioners, is guided by the commitments made by the NIBs in a July 2018 General Synod debate on climate change and investment.

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 2°C.

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

EOS engagement interactions by theme in 2019

Environment



1	Climate change	74%
2	Pollution and waste management	12%
3	Supply chain management	7%
4	Water	5%
5	Forestry and land use	2%

Numbers do not always add up to 100% due to rounding

The majority of engagements were part of EOS climate change (19%), executive remuneration (15%), and Board diversity skills and experience programmes (8%), which align with the Commissioners' core engagement programmes.

Additionally, EOS carried out significant engagement activity on issues outside of the scope of the Commissioners' own programmes, including business strategy (8%), human capital management (4%), conduct and culture (5%) and pollution and waste management (3%).

Governance



1	Executive remuneration	48%
2	Board diversity, skills and expertise	24%
3	Board independence	14%
4	Shareholder protection and rights	10%
5	Succession planning	3%

Numbers do not always add up to 100% due to rounding

Social and ethical



1	Human rights	28%
2	Conduct and culture	23%
3	Human capital management	20%
4	Diversity	15%
5	Labour rights	7%
6	Bribery and corruption	5%
7	Tax	1%

Numbers do not always add up to 100% due to rounding

Strategy, risk and communication



1	Business strategy	36%
2	Risk management	30%
3	Integrated reporting and other disclosure	23%
4	Audit and accounting	8%
5	Cyber security	4%

Numbers do not always add up to 100% due to rounding

The Commissioners' Climate Action 100+ leads

ExxonMobil

The Commissioners are CA100+ leads for ExxonMobil alongside New York State Common Retirement Fund. As a result of our profound dissatisfaction with the Company's governance and strategy on climate change, we called on shareholders at Exxon's 2019 AGM to vote in favour of a shareholder resolution calling for the appointment of an independent Chairman. We voted against the re-election of all Directors. The Commissioners attended the AGM in Dallas in person and took the floor twice.

The resolution calling for the appointment of an independent Chairman received 40.7% support, its highest ever level. In 2020 we will continue to use all the shareholder tools at our disposal, and to urge other investors to do the same, to seek urgent improvement in governance and strategy on climate change.



Bayer

Towards the end of 2019 the Commissioners became one of two lead investors for the CA100+ Bayer engagement. In 2020 we plan to establish more specific information about Bayer's new sustainability strategy, as well as reinforce the key requirements of CA100+.

Suzano

In 2019 the Commissioners assumed leadership of CA100+ engagement with the largest paper and pulp company in the world, Suzano, based in Brazil. Initial engagement was well received. The Company will release a new sustainability strategy in 2020.

Climate change engagement successes

Glencore

As CA100+ leads, the Commissioners conducted intensive engagement with Glencore at the beginning of 2019, which culminated in February with the Company announcing a new climate change position statement. In it, Glencore committed to cap its coal production capacity at its current levels and to align its future capital expenditure and investments with the goals of the Paris Agreement.

The Commissioners relinquished the CA100+ lead later in the year having ceased to be shareholders in Glencore.



BP

EOS co-led intensive CA100+ engagement with BP, leading to a shareholder resolution, which the Board backed, asking the Company annually to assure investors of the consistency of its capital expenditure with the goals of the Paris Agreement. The resolution passed with 99% support at the Company's AGM, which the Commissioners attended.

Using our vote



Prudential Plc

Re-election of Nomination Committee members

At the AGM, the percentage of female Directors on Prudential's Board was unacceptably low in comparison with other FTSE 100 companies. We voted against the re-election of Nomination Committee members and raised our concerns with the Chair of the Board.

We welcomed the appointment of two female Directors in September 2019. We will continue to engage with the Company as we expect FTSE 100 companies to have at least 33% of their Board represented by female Directors and these changes left the percentage at only 23%.

Vote: AGAINST



RELX Plc

Approve remuneration report

Over the years the Commissioners have not supported the approval of the remuneration report at the Company and remain concerned about the level of pay. The CEO's salary stands above its peers in terms of index, sector and revenue comparisons. Our dissent vote also reflected our concern about the lack of disclosure of pay differentials between the CEO and the rest of workforce.

Vote: AGAINST



Samsung Electronics

Elect Bahk Jae-wan as Outside Director

We withdrew support for the re-election of Bahk Jae-wan as Director because he was an independent Director when the Company was involved in acts of bribery and embezzlement.

We continue to monitor the Company's approach to anti-bribery and corruption with our fund managers.

Vote: AGAINST

Voting

In 2019 the Commissioners voted on 17,184 resolutions presented at 1,141 meetings across 50 different markets. We voted against (or withheld votes) on 16.1% of resolutions presented.

The issues on which the Commissioners most commonly voted against management recommendations remained executive pay, as well as Director appointment. Overall, during the period, we dissented on 65.6% of resolutions related to executive pay and 14.3% related to Director re-elections.

The Commissioners incorporate assessments of the Board's management of issues such as corporate tax and Board gender diversity into our voting on Directors. The Commissioners continued to vote against the re-election of the Chairs of companies rated level 0 or 1 for quality of management of climate change by TPI. In 2019 we voted against the re-election of the Chairs of seven companies globally for this reason.

A fuller account of the Commissioners' engagement and voting, and the engagement undertaken on our behalf by EOS, is available on our website in our engagement, screening and voting report for 2019.

Impact monitoring

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

In 2019 the Assets Committee agreed an Impact Investment Framework, which will not only help us to recognise where positive impact is being delivered from our investments, but also, we hope, to identify opportunities where impact can be increased. Our framework is rooted in the Anglican Communion's Five Marks of Mission, which we use to map impact investment themes aligned with the UN's Sustainable Development Goals. We developed this framework with input from other asset owners and key industry bodies such as the PRI, the Impact Management Project, and the Global Impact Investing Network.

The Commissioners have started analysing our entire portfolio against this framework and expect as a result to be able over time to increase our public reporting on positive impacts, consistent with the Marks of Mission, that result from our investments.

In this year's Annual Report we look at investments supporting the transition to a low carbon economy and contributing to the fifth Mark of Mission, to strive to safeguard the integrity of creation, and sustain and renew the life of the earth.

Impact focus

Renewable energy

The Commissioners have just under £50m invested in companies and projects focused on producing renewable energy. These include stakes in publicly listed companies focusing on renewable power generation, particularly solar, as well as several private investments earmarked for specific renewable power projects.

For example, the Commissioners have provided funds of c.£15m for the construction of two renewable natural gas plants in the US. The US has one of the worst energy-related carbon emissions per capita in the world, with less than 10% of its energy needs coming from renewable energy. The plants the Commissioners have provided capital for process agricultural and industrial food waste to produce biogas, which is then conditioned to make renewable natural gas. These plants became operational in 2019 and meet the energy needs for just under 23,000 Americans.

The Commissioners have provided funds of c.£2.2m for the construction of solar plants in Chile. In 2019 two of these plants became fully operational, providing energy for almost 110,000 people in the country. Another two plants have been agreed, with one currently under construction. Together, these will provide capacity of 320MW, enough to meet the energy requirements for an estimated 186,000 Chileans.

The Commissioners are also finding ways to support renewable energy beyond monetary investment. For example, all new tenants on our Hyde Park Estate are automatically signed up to green energy tariffs for their homes.

Sustainable forestry

Sustainable management of the world's forests is one of the best understood and most effective ways to mitigate climate change. The Commissioners' investment in sustainable forestry is just over £300m, and covers around 104,484 directly owned acres.

Within our forestry portfolio, over 98% of our holdings (by land area) is sustainably certified. All sustainably certified forests must be managed at a level so that the woodland can be permanently sustained, and must maintain or enhance high conservation values. In 2019, over 2.5m trees, across over 3,000 acres, were planted and are directly attributable to the Commissioners' investment. We are currently working with our forestry managers to better understand the environmental benefits that our forestry delivers – particularly carbon storage and sequestration, so that we can monitor this over time.

In addition to our forestry portfolio, our rural land holdings include just under 4,000 acres of woodland. There is a wide variation in the use and designation of this woodland, which includes Sites of Special Scientific Interest and conservation areas. One priority for the year ahead is to conduct a deeper review of the natural capital on our rural land holdings.

Energy efficiency

Improved energy efficiency cuts the greenhouse gas emissions associated with current energy infrastructure and technologies. The Commissioners' investment into energy efficiency is approximately £68m, which predominantly comprises investments in publicly listed companies, as well as some smaller investments in private companies delivering positive impact of this kind.

A large proportion of our investment is into companies providing more energy efficient lighting and building management systems. Energy efficient LED lighting, for example, can typically be up to 65% less carbon intensive than traditional lighting systems, not only reducing environmental harm but also providing savings for companies.

One particularly interesting investment is a \$750,000 commitment to provide energy efficient power solutions, currently under construction, to a company located in Puerto Rico. The island was devastated in 2017 by Hurricane Maria, which destroyed its power grid. The Commissioners' investment is both socially and environmentally beneficial, allowing for the more efficient use of power in Puerto Rico.

In aggregate, our analysis has so far identified £480m of investments supporting the transition to a low carbon economy, and directly contributing to the fifth Mark of Mission.



The Commissioners are
finding ways to support
renewable energy beyond
monetary investment.

Overview

Mission

Investment

Governance

Financial Statements

Reference

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 guidelines

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

The 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 the Commissioners hold offices of state and the other 27 constitute the Board of Governors.

Thirteen Board members are elected either by the General Synod or the cathedral deans and other members are appointed – either by the archbishops or the Crown – for various kinds of professional expertise. Board members are organised into four committees. These are the Assets Committee, the Audit and Risk Committee, the Bishoprics and Cathedrals Committee and the Mission, Pastoral and Church Property Committee. Except for the Assets Committee, they all also contain other, non-Commissioner members. All Committees are supported by an executive team led by Secretary and Chief Executive Gareth Mostyn. All new Commissioners receive a welcome pack containing information about governance in the charity sector and in the Church, and all are offered a half-day induction programme and other relevant training from time to time as the need arises.

There have been personnel changes since the publication of the 2018 Annual Report. Dame Caroline Spelman decided not to stand in December's general election and as such ceased to be Second Church Estates Commissioner. We also bade farewell to Graham Oldroyd, who stepped down after six years as a Commissioner and Assets Committee member. We are enormously indebted to Caroline and Graham for the talent, energy and commitment they brought to their roles and we wish them both all the very best for the future. We warmly welcome their successors, Andrew Selous MP and Helen Steers.



We are mindful that
we are investing not only
for current generations,
but for future generations too.

We also said farewell to non-Commissioner Committee members Jonathan Templeman (Audit and Risk), the Revd Mary Bide (Bishoprics and Cathedrals) and Margaret Davies and John Steel (both Mission, Pastoral and Church Property). We have welcomed Emma Upstone in 2020.

The end of January 2020 also saw the retirement of Andrew Brown as Secretary and Chief Executive of the Commissioners (and formerly their Chief Surveyor). In both roles Andrew has served the Church with great distinction and leaves the Commissioners' affairs in good order. We were delighted that his service was recognised with the award of an OBE in the Queen's New Year Honours list. We offer Andrew our enormous thanks and pray that he will enjoy a long, happy and fruitful retirement. Sad though we were to say farewell to Andrew, we were delighted to appoint the Commissioners' former Chief Finance and Operating Officer, Gareth Mostyn, as his successor. Gareth brings a wealth of experience to his new role and we are confident that he will maintain and build upon his predecessor's legacy.

Second Church Estates Commissioner

The Second Church Estates Commissioner maintains the statutory accountability of the Church Commissioners to Parliament, including through the answering of questions in the House of Commons. Andrew Selous MP was appointed to the role after the December 2019 general election, succeeding Dame Caroline Spelman who stood down from her seat in Parliament.

In 2019 Dame Caroline answered a total of 93 questions from MPs and guided two Church Measures through the House of Commons. Questions ranged widely across the work of the Church in the UK and overseas, the most frequently asked being on equalities legislation, marriage registration, church buildings, metal theft, the welfare of Christians overseas, and the land and property of the Church Commissioners.

The Second Church Estates Commissioner met with visiting bishops and archbishops from the Dioceses of Jerusalem, Canada and South Africa to discuss their work and mission. She also met with MPs to discuss the Church Commissioners' strategic land holdings in their constituencies and with an SNP MP to discuss the Church Commissioners' forestry holdings in Scotland. The year saw engagement with the UK Special Envoy for Freedom of Religion or Belief and Ministers in the Departments for Education; Housing; Digital, Culture, Media and Sport; the Home Office; and the Foreign and Commonwealth Office, on a variety of subjects relating to the concerns of churches and faith communities.

This year Dame Caroline hosted parliamentary receptions to highlight the work of churches in supporting vulnerable people and those in need in the UK and overseas. The most recent reception was supported by the Bishops of Gloucester and Newcastle, as part of Prisons Week to raise awareness of the needs of women released from prison.

Full details of Church Commissioner questions and answers can be found on the Church of England in Parliament website: <https://churchinparliament.org/tag/church-commissioners/>



Cathedrals Measure progress

Dr Eve Poole, Third Church Estates Commissioner

While 2020 is to be the national Year of Cathedrals, in 2019 it felt as though they were already our key focus.

Accompanying the rhythm of the Synodical process for the new Cathedrals Measure, this year the Commissioners have been hard at work listening to cathedrals and adjusting our support for them.

As well as dedicating a new £10m budget, we have now taken over their chancel repair liability, and included draft clauses in the Measure to facilitate more flexible financial support from us in future. We also hosted a consultation at St George's House, Windsor on the theology of cathedral governance, to provide a valuable framework for the Steering and Revision Committee process. We have worked closely with the Charity Commission and the Ecclesiastical Committee throughout, to pave the way for the future co-regulation of our cathedrals by both Church and State, to recognise the precious role they fulfil for the nation as a whole.

Dr Eve Poole

Third Church Estates Commissioner



Overview

Mission

Investment

Governance

Financial Statements

Reference



Supporting prisoners

Dame Caroline Spelman

The Second Church Estates Commissioner, Dame Caroline Spelman MP, hosted a reception for the Church Commissioners to highlight the work of churches in supporting prisoners, especially women leaving prison and those without a home to go to.

The event was run as part of Prisons Week and supported by the Bishops of Gloucester and Newcastle.

The Minister of State for Prisons, Lucy Frazer QC MP, attended and listened to the experiences of charities and prison chaplains in supporting and rehabilitating prisoners and homeless ex-offenders. Members of Parliament were shown the work of church networks in supporting people most in need across the country, and their efforts to encourage them away from reliance on criminal activity.



“Convening all the actors who want to see reform to prisons made a key statement in Parliament. The personal experiences of women prisoners made us all think about just how much needs to change.”

Dame Caroline Spelman

Second Church Estates Commissioner

Attendance at Board and Committee meetings

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	MPCP
Number of meetings	4	6	3	5	9
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	1				
Loretta Minghella, OBE, First Estates Commissioner	4	6			
Dame Caroline Spelman MP, Second Estates Commissioner	3				
Dr Eve Poole, Third Estates Commissioner	4			5	8
Bishop of Birmingham, David Urquhart	2	6			
Bishop of Bristol, Vivienne Faull	2			5	
<i>Bishop of Leicester, Martyn Snow</i>					5
Bishop of Manchester, David Walker	4				
Bishop of Newcastle, Christine Hardman	4				2
Dean of Gloucester, Stephen Lake	3			5	
Dean of Ely, Mark Bonney	4			5	
<i>Dean of Guernsey, Tim Barker</i>				4	
<i>Dean of Winchester, Catherine Ogle</i>				3	
<i>Ven Penny Driver</i>					7
<i>Revd Mary Bide</i>				2	
Revd Christopher Smith	3	5			4
<i>Revd Simon Talbott</i>					7
Revd Stephen Trott	3				3
Lord Best	3				2

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	MPCP
Canon Peter Bruinvels	3	4			6
Canon Elizabeth (Betty) Renshaw	4			3	
Poppy Allonby	3	6			
Suzanne Avery	3	5			
Jeremy Clack	2		3		
<i>Ian Ailles</i>			2		
<i>Margaret Davies</i>					6
Morag Ellis QC	4				5
Jay Greene	4		3		8
<i>Revd Canon Clare Maclaren</i>					6
Graham Oldroyd	3	6			
Duncan Owen	3	6			
<i>Susan Pope</i>					7
Alan Smith	3		1		
<i>John Steel</i>					7
Revd Anne Stevens	3				5
<i>Jonathan Templeman</i>			2		
Jacob Vince	3			4	
<i>Garth Watkins</i>					9
<i>Hilary Wild</i>			3		
Mark Woolley	2	6			

Those listed in italics are non-Commissioners.

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

At the end of 2019, a total of 100 staff were employed by the Church Commissioners, a 12% increase from 2018 (89 staff). The Commissioners make up 18% of the overall staff at the NCIs.

Senior managers (bands 0–2) accounted for 26% of the total workforce of the NCIs (145 staff), up from 25% (131 staff) in 2018. 38% of these senior positions were held by women, a slight increase from 2018 (37%). The percentage of people who classed themselves as having a disability was 5.3% within the Church Commissioners compared with an NCI average of 3.8%. Since 2013 the average age of staff has dropped from 46 to 44 years old across the NCIs and for Church Commissioners staff the current average age is 43.

The percentage of people who classed themselves as black or minority ethnic (BAME) within the Church Commissioners was 9.5% (2018: 9.5%) compared with overall BAME representation of 15.8% (2018: 15.2%) across the NCIs.

Engaging with a common purpose

The results from the latest survey of staff across the NCIs in July 2019 showed that the strong sense of a shared purpose and common values continues to deepen. Out of 474 responses, 94% stated that they understand how their role supports the Church of England. The number of people who saw colleagues living our people values – excellence, integrity and respect – on a regular basis rose by 23 percentage points. Overall, positive responses to statements have increased by 13 percentage points since the last survey in 2017 to an average of 67%.

The uplift in positive responses in the survey is mirrored in the rising levels of engagement with a broader programme of activity that is helping to create a more inclusive and celebratory culture within the NCIs. This in turn is supported by further improvements to existing internal communication channels – including all staff events (84% of staff rated a staff event with Archbishop Justin Welby 'very good' or 'excellent') – and the adoption of new ones, with video now a regular feature in internal campaigns.

Creating a sense of belonging

In October 2019 we launched our Belonging and Inclusion strategy and action plan after extensive consultation with people across the NCIs and analysis of workforce data and sentiment.

Our goal is that everyone in the NCIs feels that they belong, are valued for who they are and what they contribute. To achieve this, we are focusing our efforts in four areas: leading and signalling, generous behaviours, mentoring and learning, and celebrating and storytelling.

By the end of 2019 more than 30 people had signed up to the NCIs' first mentoring programme, with a second cohort planned for the summer of 2020. This developmental programme is open to everyone and is being promoted to groups that are under-represented at more senior levels. This is the first step towards addressing progression and retention, by signalling an explicit investment in development and supports building strong cross-NCI relationships at all levels.

Gender pay

Based on a snapshot date of 5 April 2019, our third annual gender pay report covered one common pay policy for 540 staff across the seven legal entities, and a separate performance-related policy for 35 staff in the investment team of the Church Commissioners.

The 2019 data shows that our mean pay gap remained static at 21% in favour of male colleagues and that our median pay gap widened by 5% to 29%. The treatment of some contractors in the report, the recruitment of more women than men to mid and lower band roles, and the high percentage of females on pay scales outside of London contributed to the widening of the median pay gap. These are explored further in our report which is available on our website.

Although female representation in the upper quartile increased by 2% from 2018 across the whole of the NCIs, we continue to see a large proportion of females in the lower and mid-lower quartiles compared to the UK average.

We are taking a long-term view on what we need to put in place to reduce our gender pay gap as part of our wider work on belonging and inclusion. We have devoted senior trustee time to a review of our remuneration policy to help address imbalances and barriers to opportunities for advancement for females within the NCIs.

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 an accredited Living Wage employer and ensure all staff, including apprentices, interns and those on training schemes, receive the appropriate living wage for their location.

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. 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 for senior staff incorporate an element of Long-Term Incentive Payment ('LTIP') which encourages consistent outperformance of the Commissioners' target investment return over a sustained period of five years.

The level of pay and the value of incentive awards 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'). A comprehensive review was carried out in 2019 to ensure the Church Commissioners can continue to attract, retain and motivate high-calibre investment professionals. Payments under this new scheme will be made from 2021 onwards.

Amounts payable under the LTIP scheme 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 2019, ten asset management staff for the Commissioners were paid LTIP payments totalling £958,600 based on the long term performance of the fund. Additional awards given to other members of the investment team based on their individual performance totalled £100,200.

The highest paid member of staff received an LTIP payment of £227,700. The Secretary to the Church Commissioners does not participate in the LTIP scheme. During 2019 the total remuneration (salary and LTIP) for the highest paid member of Commissioners' staff was 22 times the total remuneration received by the lowest paid member of Commissioners' staff and 10.9 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 contributions.

2019 Annual Report

Risk Management Statement

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 is ultimately responsible for risk and reviews its risk management arrangements at least annually. The Board is supported by the Audit & 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 Internal Audit and Risk Management Department. The management of key risks are subject to independent review and assurance through the internal audit process, which reports to the Audit & Risk Committee.

Major Risks

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

Principal Risk Area	Key Management Actions and Plans
Investment Return Failure to achieve investment returns required to meet pensions obligations and distribution levels to grow and support the wider church, for example as a result of macro-economic events such as Brexit and COVID-19.	<ul style="list-style-type: none"> — Effective and experienced asset committee oversight. — Disciplined valuation led investment strategy & process. — Genuinely diversified portfolio. — Proactive monitoring of market and currency exposures. — Liquidity management policy.
Ineffective operations Failure to control costs, liabilities and manage stakeholder expectations impacts the ability to provide sustainable support and assistance to the Dioceses and Cathedrals.	<ul style="list-style-type: none"> — Working closely with the Archbishops' Council, Dioceses and Cathedrals to understand their priorities and manage their expectations. — Assets committee governance of money available for distribution, including independent actuarial advice. — Triennium Funding Working Group established for determining spending priorities for the new Triennium. Recognition of potential need to flex some distributions. — Improved regular annual financial analysis on financial performance of cathedrals to better assess financial strength.
Ineffective operations Lack of effective planning of operations, capacity challenges and/or ability to manage projects results in inefficient and ineffective working practices and a failure to achieve objectives to budget/time.	<ul style="list-style-type: none"> — Budgetary control of costs with regular meetings to review and check expenditure against budget. — Rigorous project management for the Lambeth Palace Library project expenditure. — New Project Management Framework developed for the NCIs. — Project Review Board established providing Senior Management oversight of the most complex or high-risk projects in the NCIs. — Head of Project Management in place to oversee effective use of Framework.
Effective use of CC funding Strategic Development Funding is not achieving the outcomes desired/expected and there are ineffective review/monitoring controls in place. Effectiveness of other areas of expenditure (bishops' and cathedrals' funding). Strategic Ministry Funding - quality of ordinands is poor, or inadequate supervision of curates.	<ul style="list-style-type: none"> — Strategic Investment Board and Strategy & Development team give strong oversight of grant allocation and ongoing monitoring. — Annual review of SIB activity reported to joint Commissioners/Archbishops' Council meeting. — Communication and information on how grants have been used which provides a better understood process. — "Additional funding" of c.£50m. p.a. agreed in 2020-22 following the updated Actuarial methodology. Plan to use the annual update to enhance communication about the variability of the overall level of such distributions. — Governance arrangements in place for the new funding workstreams.

Principal Risk Area

Key Management Actions and Plans

Reputational risks

Reputational risks to the Church Commissioners impact achievement of strategic objectives.

Issues across other NCIs or the wider church impact on the Church Commissioners impacting achievement of strategic objectives.

Wider societal issues/concerns with reputational implications for Church of England/Church Commissioners.

- Proactive and frequent engagement with key church stakeholders on Commissioners' strategy and priorities.
- Financial comms team to proactively manage responses to media re investment strategy.
- Experienced and effective governance and scrutiny applied by the Assets Committee members.
- Improved regular annual financial analysis on financial performance of cathedrals to better assess which cathedrals are in a potentially challenging situation.
- Proactive engagement with local communities and churches regarding local housing schemes.
- Triennium plans include support for the Archbishops' Council to allocate resources into Impact Investments aligned to the common good.
- Monitoring societal attitudes and planning of appropriate response through NCI comms team.

Business Continuity

Business Continuity, IT resilience, Cyber Security, Health & Safety Challenges etc. impact delivery of strategic objectives.

Inability to deliver key services in the event of a major business continuity threat (e.g. COVID-19).

- H&S procedures for See Houses and Property Investments portfolio.
- Cyber Essentials Plus accreditation secured, moved critical infrastructure to remote location.
- Business Continuity Plan has been developed for the NCIs, including IT Disaster Recovery.
- Business Continuity capability tested with new emergency contact system and remote-working day.

People

Inability to recruit and/or retain high quality staff with the requisite skills.

Poor diversity amongst leadership and trustees detracts from quality of decision making.

- NCI Staff Survey completed in 2019 to identify areas in need of focus.
- Inclusion & Belonging strategy developed.
- Focus on staff well-being with Employee Assistance programme introduced and NCI Mental Health awareness day in 2019.
- Increased focus on health and well-being in light of COVID-19.
- New remuneration structures overseen by RemCo.

Health & Safety

Risk to staff, tenants or general public on Commissioners' owned land.

- See Houses
- See House team have been trained on the new H&S system and it will be rolled out to all See Houses. Quarterly reporting and review on any incidents.
- Investment assets
- Robust contractual arrangements in place with third party providers including compliance with H&S legal requirements and insurance cover.
- Quarterly reporting and monitoring of H&S action, reviews and issues via contact management with Agents.
- Regular site visits to help identify H & S issues.
- Reviewed fire risks at Hyde Park Estate following Grenfell Tower fire with ongoing reports to Assets Committee and Property Group.

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 80, including their qualifications for providing such advice.

The total endowment fund of the Commissioners as at 31 December 2019 stood at £7bn, 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 for 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 2019 was £4.4bn (2018: £3.8bn), 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.

2020–22 spending plans

The Church Commissioners and Archbishops' Council prepare joint three-year spending plans. A Triennium Funding Working Group, with members from the House of Bishops, Archbishops' Council and Church Commissioners, advised on how our funds should be most effectively distributed in 2020–22, informed by three priorities agreed by the House of Bishops:

- Investment in recruiting and training new ministers – helping dioceses deliver the Church-wide goal of increasing the number of ordinands by 50%;
- Supporting dioceses in making strategic investment in change programmes designed to produce 'good growth';
- The continuation of specific funding to help dioceses to support mission in lowest income communities.

Following work with the Commissioners' actuaries, Hymans Robertson LLP, our Assets Committee agreed to change the inflation basis for expenditure other than pensions from the Retail Price Index (RPI) to the CPIH inflation measure. As the long-term estimate of CPIH increases is below that for RPI, less of the Commissioners' assets are needed to cover their in-perpetuity commitments. This enabled a significant increase in the sum that could be made available for distribution in 2020–22. However, there is no new money: higher distributions are only possible now because they will grow at a slower rate than if RPI-related increases had been maintained.

We agreed the spending plans at our AGM in June. In 2020–22 we will continue to meet our pensions obligations and provide 'core' on-going funding for dioceses, bishops, and cathedrals.

Under the new category of 'additional' distributions, funding will be provided for finite expenditure to help address the Church's key challenges as they evolve over time. In 2020–22 around £155m is expected to be available with the priority of supporting ministry growth. Sums were allocated to:

- Meet training costs for the incremental increase in ordinands and support dioceses with the incremental costs of an increased number of curates resulting from this increase.
- Help develop cathedrals' financial sustainability.
- Support dioceses with financial difficulties wishing to undertake a major programme to provide a platform for the Church's sustainable growth.
- Provide a grant to the Archbishops' Council to seed a social impact investment programme.

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.



Loretta Minghella
First Church Estates Commissioner
14 May 2020

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 2019, 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 2019 and of the group's and the parent charity's incoming resources and application of resources, including the group's and the parent charity's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the trustees and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

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 twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the trustees' conclusions, we considered the risks associated with the group's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the Trustees' 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 47 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

Statutory Auditor, Chartered Accountants

London

14 May 2020

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 2019

	Notes	2019			2018		
		Other funds £m	Endowment £m	Total £m	Other funds £m	Endowment £m	Total £m
Income from:							
Donations and legacies		2.1	–	2.1	2.4	–	2.4
Investments	2	–	171.5	171.5	–	183.8	183.8
Other income		1.7	–	1.7	2.0	–	2.0
Transfer to income	17	113.9	(113.9)	–	160.2	(160.2)	–
Total income		117.7	57.6	175.3	164.6	23.6	188.2
Expenditure on:							
Raising funds	3	(0.5)	(76.7)	(77.2)	(0.3)	(62.7)	(63.0)
Charitable activities							
Mission activities	4	(23.2)	–	(23.2)	(68.8)	–	(68.8)
Diocese and ministry support	4	(36.3)	–	(36.3)	(36.4)	–	(36.4)
Bishops' ministry and cathedral costs	4	(52.9)	–	(52.9)	(54.3)	–	(54.3)
National payroll for clergy	4	(0.5)	–	(0.5)	(0.5)	–	(0.5)
Administering the legal framework	4	(4.7)	–	(4.7)	(4.4)	–	(4.4)
Clergy pension obligation	4, 15	(0.9)	(93.2)	(94.1)	(1.3)	91.0	89.7
Total charitable expenditure		(118.5)	(93.2)	(211.7)	(165.7)	91.0	(74.7)
Total expenditure		(119.0)	(169.9)	(288.9)	(166.0)	28.3	(137.7)
Total net (expenditure) income before investment gains		(1.3)	(112.3)	(113.6)	(1.4)	51.9	50.5
Gains on investment assets	2(a)	–	652.7	652.7	–	22.3	22.3
Gains/(losses) on derivatives		–	24.9	24.9	–	(46.6)	(46.6)
(Losses)/gains on foreign currency		–	(8.6)	(8.6)	–	18.8	18.8
Total net income (expenditure) before taxation		(1.3)	556.7	555.4	(1.4)	46.4	45.0
Current taxation	10	–	(0.3)	(0.3)	–	(0.2)	(0.2)
Deferred taxation	10	–	(0.3)	(0.3)	–	(0.9)	(0.9)
Total net income (expenditure) after taxation		(1.3)	556.1	554.8	(1.4)	45.3	43.9
Other recognised gains and losses							
Actuarial (losses)/gains on defined benefit pension schemes (staff pre 2000)	16(b)	–	(6.7)	(6.7)	–	18.3	18.3
Total other recognised gains and losses		–	(6.7)	(6.7)	–	18.3	18.3
Net movement in funds		(1.3)	549.4	548.1	(1.4)	63.6	62.2
Reconciliation of funds:							
Total funds brought forward		1.9	6,447.2	6,449.1	3.3	6,383.6	6,386.9
Total funds carried forward		0.6	6,996.6	6,997.2	1.9	6,447.2	6,449.1

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 are shown in note 17.

Commissioners' statement of financial activities

For the year ended 31 December 2019

	Notes	2019			2018		
		Other funds £m	Endowment £m	Total £m	Other funds £m	Endowment £m	Total £m
Income from:							
Donations and legacies		2.1	9.4	11.5	2.4	18.9	21.3
Investments		–	160.8	160.8	–	163.8	163.8
Other income		1.2	–	1.2	1.7	–	1.7
Transfer to income	17	113.9	(113.9)	–	160.2	(160.2)	–
Total income		117.2	56.3	173.5	164.3	22.5	186.8
Expenditure on:							
Raising funds		–	(70.9)	(70.9)	–	(61.5)	(61.5)
Charitable activities							
Mission activities		(23.2)	–	(23.2)	(68.8)	–	(68.8)
Diocese and ministry support		(36.3)	–	(36.3)	(36.4)	–	(36.4)
Bishops' ministry and cathedral costs		(52.9)	–	(52.9)	(54.3)	–	(54.3)
National payroll for clergy		(0.5)	–	(0.5)	(0.5)	–	(0.5)
Administering the legal framework		(4.7)	–	(4.7)	(4.4)	–	(4.4)
Clergy pension obligation	4, 15	(0.9)	(93.2)	(94.1)	(1.3)	91.0	89.7
Total charitable expenditure		(118.5)	(93.2)	(211.7)	(165.7)	91.0	(74.7)
Total expenditure		(118.5)	(164.1)	(282.6)	(165.7)	29.5	(136.2)
Total net income/(expenditure) before investment gains		(1.3)	(107.8)	(109.1)	(1.4)	52.0	50.6
Gains on investment assets	2(a)	–	650.0	650.0	–	25.2	25.2
Gains/(losses) on derivatives		–	24.9	24.9	–	(46.6)	(46.6)
Losses/(gains) on foreign currency		–	(10.5)	(10.5)	–	15.1	15.1
Total net income/(expenditure) before taxation		(1.3)	556.6	555.3	(1.4)	45.7	44.3
Current taxation		–	(0.2)	(0.2)	–	–	–
Deferred taxation		–	(0.3)	(0.3)	–	(0.4)	(0.4)
Total net income/(expenditure) after taxation		(1.3)	556.1	554.8	(1.4)	45.3	43.9
Other recognised gains and losses							
Actuarial (losses)/gains on defined benefit pension schemes (staff pre-2000)	16(b)	–	(6.7)	(6.7)	–	18.3	18.3
Total other recognised gains and losses		–	(6.7)	(6.7)	–	18.3	18.3
Net movement in funds		(1.3)	549.4	548.1	(1.4)	63.6	62.2
Reconciliation of funds:							
Total funds brought forward		1.9	6,447.2	6,449.1	3.3	6,383.6	6,386.9
Total funds carried forward		0.6	6,996.6	6,997.2	1.9	6,447.2	6,449.1

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

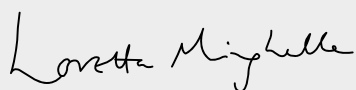
The breakdown of other funds are shown in note 17.

Balance sheets

As at 31 December 2019

	Notes	Consolidated		Commissioners	
		2019 £m	2018 £m	2019 £m	2018 £m
Fixed assets					
Tangible assets	11	118.1	100.4	117.3	99.6
Heritage assets	12	3.5	3.5	3.5	3.5
Investments	2	7,771.5	7,712.9	7,340.4	7,224.5
Total fixed assets		7,893.1	7,816.8	7,461.2	7,327.6
Current assets					
Debtors	13	204.0	53.6	650.2	568.2
Current asset investments		384.3	149.8	384.3	149.8
Cash at bank and in hand		351.9	305.5	348.3	301.8
Total current assets		940.2	508.9	1,382.8	1,019.8
Liabilities					
Creditors: amounts falling due within one year	14	(106.2)	(133.2)	(116.9)	(154.9)
Net current assets		834.0	375.7	1,265.9	864.9
Total assets less current liabilities		8,727.1	8,192.5	8,727.1	8,192.5
Creditors: amounts falling due after one year	14	(85.7)	(71.3)	(85.7)	(71.3)
Provisions					
Deferred tax liability	10	(1.0)	(0.7)	(1.0)	(0.7)
Clergy pre 1998 pension obligation:					
Expected to fall due within one year		(120.1)	(121.2)	(120.1)	(121.2)
Expected to fall due after one year		(1,395.5)	(1,421.3)	(1,395.5)	(1,421.3)
Total clergy pre 1998 pension obligation	15	(1,515.6)	(1,542.5)	(1,515.6)	(1,542.5)
Net assets excluding pension scheme liabilities		7,124.8	6,578.0	7,124.8	6,578.0
Defined benefit pension scheme liabilities	16	(127.6)	(128.9)	(127.6)	(128.9)
Total net assets		6,997.2	6,449.1	6,997.2	6,449.1
Funds of the charity					
Endowment funds		7,124.2	6,576.1	7,124.2	6,576.1
Pension reserves	16	(127.6)	(128.9)	(127.6)	(128.9)
Unrestricted funds:					
Designated funds		0.2	1.4	0.2	1.4
General funds		–	–	–	–
Restricted funds		0.4	0.5	0.4	0.5
Total charity funds	17	6,997.2	6,449.1	6,997.2	6,449.1

By order of the Board



Loretta Minghella
First Church Estates Commissioner
14 May 2020

Consolidated cash flow statement

For the year ended 31 December 2019

Cash flow statement

	Notes	2019 £m	2018 £m
Cash flows from operating activities		(502.4)	(39.2)
Charitable expenditure paid from endowment capital	15	(120.1)	(121.2)
Net cash (used in) operating activities		(622.5)	(160.4)
Cash flows from investing activities			
Income from investments		177.8	183.6
Expenditure on raising funds paid from endowment capital	3	(76.7)	(62.7)
Tangible assets: additions	11	(17.7)	(7.2)
Investments: additions	2	(1,944.8)	(1,860.1)
Investments: sale proceeds	2	2,538.9	1,823.0
Net cash provided by investing activities		677.5	76.6
Change in cash and cash equivalents in the year		55.0	(83.8)
Reconciliation of cash and cash equivalents and analysis of changes in net debt			
Cash at the start of the year		305.5	370.5
Change in cash and cash equivalents in the year		55.0	(83.8)
Change in cash due to exchange rate movements		(8.6)	18.8
Cash at the end of the year		351.9	305.5

The Commissioners has no debt and therefore the reconciliation of cash and cash equivalents also represents the analysis of changes in net debt.

Reconciliation of net income to net cash inflow from operating activities

	Notes	2019 £m	2018 £m
Net income for the year		554.8	43.9
Adjustments for:			
Loss on disposal of tangible assets		–	0.3
Expenditure on raising funds paid from endowment capital	3	76.7	62.7
Expenditure on charitable activities paid from endowment capital	6	93.2	(91.0)
(Income) from investments	2	(171.5)	(183.8)
(Gains) on investments	2	(652.7)	(22.3)
Losses/(gains) on foreign currency		8.6	(18.8)
Movement in debtors, excluding accrued investment income	13	(156.7)	(12.1)
Movement in current asset investments		(234.5)	100.3
Movement in creditors	14	(12.6)	89.3
Movement in deferred tax provision	10	0.3	0.4
Pension reserve adjustment to net income	16	(8.0)	(8.1)
Net cash (used in) operating activities		(502.4)	(39.2)

Notes to the financial statements

For the year ended 31 December 2019

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") 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 obligation – the estimations surrounding the pre 1998 Clergy pensions obligation. Further details are disclosed in note 15.
- Pension deficit liabilities – the estimations surrounding the recognition of the Commissioners' defined benefit pension deficit liabilities. Further details are disclosed in note 16.
- Carrying value of investment assets and tangible fixed assets – the judgements around appropriate valuation methods used for the assets of the Commissioners. Further details are disclosed in note 1(j), 1(k), 1(l) and 1(m).
- Value of creditors due after more than one year – judgement in respect of whether long-term creditor balances needs to be discounted to present value. There is an estimate concerning the appropriate discount rate to use. Further details are disclosed in note 1(g).

(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. The trustees have taken account of actuarial advice provided by Hymans Robertson LLP that models the effect of a significant reduction in investment values on future distributions, and have concluded that no changes to distributions are required at present.

(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.

(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

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

Pecuniary legacies are recognised as receivable once the Commissioners are notified of the gift, probate has been granted, and there are sufficient assets in the estate to pay the gift. Residuary legacies are recognised as receivable once the Commissioners are notified, probate has been granted, and sufficient information has been received to estimate the fair value of the legacy.

Investment income

Dividends are recognised when the Commissioners' right to receive payment is established, which is on the ex-dividend date of the underlying holdings. Gift aid payments from subsidiaries are recognised in the Commissioners only financial statements when the gift aid payment is payable under Deeds of Covenant. The income is accrued in the year in which the associated profits arise in the subsidiary company with the payment being made to the Commissioners in the following financial year.

All other investment income 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 discounted to present value, where material. The discount rate used is based on the expected future yield on the assets earmarked for making these grant 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 is unable to identify its 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 are recognised as a liability at each balance sheet date. Amounts paid during the year are charged against this liability.

(j) Fixed assets: tangible assets

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

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.

Notes to the financial statements continued

For the year ended 31 December 2019

1. Accounting policies continued

(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 historical nature of the building.

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

Historic contents of Lambeth Palace

Historic items are recognised at cost. On transition to FRS 102, the Commissioners deemed the cost of these assets to be 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 historical books and records with no obvious market value and no comparable sale records to use as the basis for valuation. As a result, no value is reported for these assets in the Charity's balance sheet.

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

Historic contents of former see houses

Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost. On transition to FRS 102, the Commissioners deemed the cost of these assets to be 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 locally 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 de-recognised 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.

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

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

Notes to the financial statements continued

For the year ended 31 December 2019

1. Accounting policies continued

(m) Financial instruments

Infrastructure

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

Infrastructure is valued annually 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 £161.4m (2018: £165.6m).

Derivatives

The Commissioners use forward foreign currency and options contracts as part of their investment portfolio risk management. The contracts reduce the impact of changes in foreign currency rates in relation to investments priced in certain currencies other than Sterling. In accordance with their investment policy, forward foreign currency, options and any other derivatives are not entered into for investment gain or trading purposes. Derivatives are also used by some external fund managers to manage the risk of not achieving overall performance benchmarks.

Derivatives are initially recognised at their fair value, which is equivalent to any transaction price paid. Derivative contracts outstanding at the balance sheet date are stated at fair value at the balance sheet date. If the fair value of the derivative is in a gain position, the contract is shown within debtors. If the fair value of the contract is in a loss position, it is shown within creditors. Realised and unrealised gains and losses arising from these contracts are charged to the endowment fund in the SOFA. Cash delivered as collateral for derivative contracts continues to be reflected as an asset within cash at bank and in hand. During the year ended 31 December 2019, no cash was delivered as collateral (2018: none).

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; and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 4, 8 and 16.

2. Investments

(a) Summary of movement on investments

Consolidated

	At 1 January 2019 £m	Additions £m	Sale proceeds £m	Change in market value £m	At 31 December 2019 £m	2019 investment income £m
Securities portfolio:						
Listed securities (*)	2,989.7	1,437.9	(1,997.5)	474.0	2,904.1	90.2
Unlisted securities	2,386.5	411.6	(438.5)	179.5	2,539.1	15.3
Total securities	5,376.2	1,849.5	(2,436.0)	653.5	5,443.2	105.5
Properties:						
Direct property	1,717.2	47.9	(63.1)	(19.2)	1,682.8	41.3
Indirect property	131.7	12.1	(14.0)	(7.3)	122.5	1.6
Total properties	1,848.9	60.0	(77.1)	(26.5)	1,805.3	42.9
Value linked loans	96.0	–	(7.9)	3.2	91.3	3.2
Timberland:						
Land	83.9	–	(2.0)	1.6	83.5	–
Standing timber (**)	189.3	3.8	(12.6)	25.0	205.5	15.2
Indirect timberland	64.7	–	–	(3.9)	60.8	2.7
Total timberland	337.9	3.8	(14.6)	22.7	349.8	17.9
Infrastructure	53.9	31.5	(3.3)	(0.2)	81.9	2.0
Total	7,712.9	1,944.8	(2,538.9)	652.7	7,771.5	171.5
	At 1 January 2018 £m	Additions £m	Sale proceeds £m	Change in market value £m	At 31 December 2018 £m	2018 investment income £m
Securities portfolio:						
Listed securities (*)	3,405.3	1,399.5	(1,569.5)	(245.6)	2,989.7	92.3
Unlisted securities	1,958.3	363.3	(127.2)	192.1	2,386.5	17.5
Total securities	5,363.6	1,762.8	(1,696.7)	(53.5)	5,376.2	109.8
Properties:						
Direct property	1,710.3	37.5	(64.0)	33.4	1,717.2	48.1
Indirect property	150.3	5.8	(41.7)	17.3	131.7	0.8
Total properties	1,860.6	43.3	(105.7)	50.7	1,848.9	48.9
Value linked loans	103.6	0.1	(7.5)	(0.2)	96.0	3.3
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
Indirect timberland	59.5	–	(1.8)	7.0	64.7	3.0
Total timberland	299.6	21.1	(3.5)	20.7	337.9	20.0
Infrastructure	26.1	32.8	(9.6)	4.6	53.9	1.8
Total	7,653.5	1,860.1	(1,823.0)	22.3	7,712.9	183.8

* Investment income includes £1.7m (2018: £1.4m) of income relating to interest on cash and interest on current asset investments, and £0.5m (2018: £0.5m) stock lending income.

** Change in market value of standing timber comprises revaluation gains of £37.1m (2018: gains of £20.9m) and a reduction of £12.1m (2018: £15.0m) due to harvesting of standing timber. Standing timber represents the biological assets held by the Commissioners.

Notes to the financial statements continued

For the year ended 31 December 2019

2. Investments continued

Commissioners

	At 1 January 2019 £m	Additions £m	Sale proceeds £m	Change in market value £m	At 31 December 2019 £m
Securities portfolio:					
Listed securities	2,989.7	1,437.9	(1,997.5)	474.0	2,904.1
Unlisted securities	2,027.9	342.4	(280.8)	175.0	2,264.5
Total securities	5,017.6	1,780.3	(2,278.3)	649.0	5,168.6
Properties:					
Direct property	1,572.7	34.9	(49.4)	(29.1)	1,529.1
Indirect property	98.9	12.1	(14.0)	(6.9)	90.1
Total properties	1,671.6	47.0	(63.4)	(36.0)	1,619.2
Value linked loans	96.0	–	(7.9)	3.2	91.3
Timberland:					
Land	40.1	–	(1.8)	4.5	42.8
Standing timber (*)	107.7	1.5	(12.2)	24.9	121.9
Total timberland	147.8	1.5	(14.0)	29.4	164.7
Subsidiaries	291.5	0.7	–	4.4	296.6
Total	7,224.5	1,829.5	(2,363.6)	650.0	7,340.4
	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 £34.7m (2018: £23.8m) and a reduction of £9.8m (2018: £11.4m) 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 investments 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 (2018: £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 on-going 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 56.7% (2018: 64.8%) of the investment portfolio. However a currency overlay programme is used to hedge back into sterling 44.8% (2018: 52.3%) of these non-sterling assets. The net profit from operating the currency overlay programme was £24.9m (2018: loss of £46.6m), after deducting fees of £3.6m (2018: £1.8m). 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. The Ashford Great Park Partnership, held through intermediary companies, has its principal offices at 29 Great Smith Street, London SW1P 3PS.

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), and Weston Tree Ltd (7859221).
US (Delaware)	Cherry Tree Timber LLC (W-115255), Arbol Tree (**) (5423402)
Australia	Jahr Tree Co Pty Ltd (600392667)

* Unlimited companies.

** On 6 December 2019, Lambeth Timber LLC (5599687) and Aietos Tree LLC (7124214) merged with Arbol Tree. As a result, all activities of these subsidiaries are now carried out by Arbol Tree.

Summary results for the material subsidiaries are shown below:

	CC Licensing		CC Projects		CC Trading Ltd		Cedarvale		Quivercourt	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Revenue	14.5	43.5	8.1	5.9	4.1	14.2	1.1	8.1	0.2	10.9
Expenditure*	(13.9)	(13.9)	(8.1)	(5.9)	(4.1)	(14.2)	–	(1.6)	(0.5)	(1.8)
Profit/(loss)	0.6	29.6	–	–	–	–	1.1	6.5	(0.3)	9.1
Assets	407.7	477.0	63.9	56.3	13.4	20.5	30.7	29.6	32.6	32.8
Liabilities	(283.7)	(353.6)	(29.5)	(21.9)	(7.3)	(14.4)	–	–	(11.3)	(11.2)
Net Funds	124.0	123.4	34.4	34.4	6.1	6.1	30.7	29.6	21.3	21.6

* Includes Gift Aid payments to the Commissioners.

The Commissioners also own 80% interests in Lone Rock Timber Investments MBD-Landco Limited Partnership and Lone Rock Timber Investments MBD-Logco Limited Partnership, both of which are registered in the US. These entities are 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, who are equal partners. The purpose of ChECS is to enhance the efficiency and effectiveness of the charitable national and diocesan institutions of the Church of England and of other charities with a church ethos, by facilitating the provision of cost-effective shared financial, legal and other services.

ChECS was registered with the Charity Commission on 31 December 2013 and started operating from 1 April 2014. Prior to this, the responsibility for the provision of shared services was split between the three main National Church Institutions ("NCIs"). The Commissioners' share of net assets of ChECS was £nil (2018: £nil). As at 31 December 2019, other than the amounts disclosed in debtors in note 13, £342,000 was owed by the Commissioners to ChECS (2018: £104,000).

The Commissioners have no associated undertakings.

(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		Commissioners	
	2019 £m	2018 £m	2019 £m	2018 £m
Securities portfolio	562.6	538.2	361.1	384.9
Indirect property	37.0	58.1	34.9	56.0
Timberland	23.2	25.5	–	–
Infrastructure	30.2	43.3	–	–
Total capital commitments	653.0	665.1	396.0	440.9

Notes to the financial statements continued

For the year ended 31 December 2019

3. Expenditure on raising funds

	Direct costs £m	Internal management costs £m	Support costs (note 7) £m	2019 Total £m	Direct costs £m	Internal management costs £m	Support costs (note 7) £m	2018 Total £m
Securities	37.6	5.0	3.8	46.4	32.5	4.1	3.1	39.7
Properties	14.9	2.5	1.2	18.6	12.3	2.4	0.9	15.6
Indirect property	0.3	0.1	–	0.4	–	0.1	–	0.1
Value linked loans	–	0.1	–	0.1	–	0.1	–	0.1
Timberland	10.0	0.4	0.2	10.6	5.4	0.4	0.1	5.9
Infrastructure	0.6	–	–	0.6	1.3	–	–	1.3
Total investment management costs	63.4	8.1	5.2	76.7	51.5	7.1	4.1	62.7
Costs of managing events at Lambeth Palace	0.5	–	–	0.5	0.3	–	–	0.3
Total cost of raising funds	63.9	8.1	5.2	77.2	51.8	7.1	4.1	63.0

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

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

Detail of support costs, including the methodology for allocating costs between activities, is shown in note 7 where the method of allocating these costs is described.

Costs of managing events at Lambeth Palace comprises 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 £m Note 5	Direct funding £m Note 6	Support costs £m Note 7	2019 Total £m	Grant funding £m Note 5	Direct funding £m Note 6	Support costs £m Note 7	2018 Total £m
Mission activities	22.0	–	1.2	23.2	68.0	–	0.8	68.8
Diocese and ministry support	36.0	0.1	0.2	36.3	35.9	0.2	0.3	36.4
Bishops' ministry and cathedral costs	29.0	21.2	2.7	52.9	31.4	22.1	0.8	54.3
National payroll for clergy	–	0.3	0.2	0.5	–	0.2	0.3	0.5
Administering the legal framework and other grants	1.4	1.8	1.5	4.7	1.8	1.8	0.8	4.4
Total charitable expenditure excluding clergy pensions obligation	88.4	23.4	5.8	117.6	137.1	24.3	3.0	164.4
Clergy pension obligation	–	94.1	–	94.1	–	(90.0)	0.3	(89.7)
Total costs of charitable activities	88.4	117.5	5.8	211.7	137.1	(65.7)	3.3	74.7

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 their support for low income dioceses in accordance with the National Institutions Measure 1998. Payments are also made directly to clergy and for national support purposes.

Bishops' ministry and cathedral costs

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

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

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

Clergy pension obligation

The Commissioners are obliged to meet the costs of clergy pensions for service up to 31 December 1997. This amount represents the movement in the provision for clergy pensions until 31 December 1997 in the year to 31 December 2019 (with associated administration costs). The cash paid under the pre 1998 scheme was £120.1m (2018: £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 2017, and granted to support its work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality.

During the year, the Commissioners paid the statutory grant to the Churches Conservation Trust of £1.3m. The Commissioners also applied income of £1.1m from its share of proceeds on the sale of closed churches to these grants. Therefore, net expenditure on the annual grant to the Churches Conservation Trust was £0.2m.

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

5. Grant making

All grants are made to institutions.

	2019 £m	2018 £m
Mission activities		
Grant to the Archbishops' Council for Strategic Development Funding	22.1	64.9
Grant to the Archbishops' Council for Restructuring	1.3	2.6
Other grants	0.3	0.5
Discounting adjustment (see note 14)	(1.7)	–
Total grants to support mission activities	22.0	68.0
Diocese and ministry support		
Grant to the Archbishops' Council for Lowest Income Communities Funding	25.6	24.8
Grant to the Archbishops' Council for Transition Funding	9.8	10.9
Other grants	0.6	0.2
Total grants for diocese and ministry support	36.0	35.9
Bishops' ministry and cathedral costs		
114 (2018: 114) grants to bishops in 42 (2018: 42) dioceses	19.0	20.3
Return of unspent grants from bishops	–	(0.2)
8 (2018: 11) grants to 8 (2018: 11) cathedrals –Cathedral Sustainability Fund	1.2	1.5
130 (2018: 86) grants to 42 (2018: 42) cathedrals –other grants	8.8	9.8
Total grants to pay for bishops' ministry and cathedral costs	29.0	31.4
Administering the legal framework and other grants		
Statutory grant to Churches Conservation Trust	1.3	1.7
Other grants	0.1	0.1
Total grants for administering the legal framework	1.4	1.8
Total grant funding	88.4	137.1

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

Long-term grant funding is, where material, discounted to reflect the net present value of future payments. The discount rate used varies based on the time until the grant award is due to be paid.

Notes to the financial statements continued

For the year ended 31 December 2019

5. Grant making continued

Grantmaking creditors can be analysed as follows:

	Note	Consolidated and Commissioners	
		2019 £m	2018 £m
As at 1 January		114.1	61.4
Changes in liability due to:			
New grant commitments in the year		88.4	137.3
Return of unspent grants		–	(0.2)
Grant payments in the year		(86.1)	(84.4)
Changes in discounting adjustment	14	(1.7)	–
As at 31 December		114.7	114.1
Due within one year	14	29.0	42.8
Due after one year	14	85.7	71.3
Total grant creditors		114.7	114.1

6. Direct funding

	2019 £m	2018 £m
Diocese and ministry support		
Payments direct to parish clergy	0.1	0.2
Total diocesan and ministry support	0.1	0.2
Bishops' ministry and cathedral costs		
Bishops and archbishops' housing and office premises	5.6	6.4
Lambeth Palace Library running costs	1.1	1.0
Archbishops' stipends, office and working costs and other national costs	13.2	13.6
Archbishops' advisors	0.5	0.5
Direct costs of administering bishops' ministry and cathedral activities	0.8	0.6
Total bishops' ministry and cathedral costs	21.2	22.1
National payroll for clergy		
Direct costs of administering the national payroll for clergy	0.3	0.2
Total national payroll for clergy costs	0.3	0.2
Clergy pensions obligation		
Payments made to clergy for pre 1998 pension obligation	120.1	121.2
Actuarial adjustment to payments made for clergy pre 1998 pension obligation	(26.9)	(212.2)
Total expenditure under clergy pre 1998 pension obligation (note 15)	93.2	(91.0)
Other clergy pensions expenditure	0.9	1.0
Total clergy pension obligation	94.1	(90.0)
Administering the legal framework		
Chancel repair liability	0.7	0.5
Direct costs of administering the legal framework	1.1	1.3
Total costs of administering the legal framework	1.8	1.8
Total direct costs	117.5	(65.7)

7. Support costs

	Raising funds £m Note 3	Charitable activities £m Note 4	2019 Total £m	Raising funds £m Note 3	Charitable activities £m	2018 Total £m
Shared services	2.4	2.9	5.3	2.4	3.1	5.5
Accommodation costs	0.5	0.8	1.3	0.2	0.3	0.5
Governance costs	0.7	0.8	1.5	0.6	0.7	1.3
Total support costs before staff pension costs	3.6	4.5	8.1	3.2	4.1	7.3
Staff pension costs (note 16):						
Interest on staff pension scheme liabilities	1.8	1.4	3.2	1.9	1.6	3.5
Other costs	(0.2)	(0.1)	(0.3)	(1.0)	(2.4)	(3.4)
Total support costs	5.2	5.8	11.0	4.1	3.3	7.4

Overheads are apportioned according to an activity based time split. Shared services include the Commissioners' share of the costs incurred by ChECS. Accommodation costs include rent and service charges payable on the office space used by the Commissioners. Prior to 1 January 2019, a rent waiver was granted to the Commissioners. Governance costs comprise staff and non-staff costs relating to the general running of the Commissioners including supporting the work of their Board and committees and audit costs paid to Grant Thornton UK LLP.

Allocation of costs

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

Support costs are 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:

	2019 £000	2018 £000
Audit of Church Commissioners:		
Current year	177	156
Audit of subsidiary undertakings	44	57
Total audit fees	221	213

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 costs of all ChECS staff are shown in aggregate in the tables below – the Commissioners' share of which was £4,666,000 (2018: £4,174,000).

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2019 Number	2018 Number	2019 Number	2018 Number	2019 Number	2018 Number
Average number employed	41	38	32	32	165	161
	£m	£m	£m	£m	£m	£m
Salaries	4.3	4.5	1.6	1.6	7.4	7.0
National Insurance costs	0.5	0.6	0.2	0.2	0.8	0.8
Pension contributions	0.4	0.4	0.3	0.3	0.9	1.0
Total cost of staff	5.2	5.5	2.1	2.1	9.1	8.8

Salaries includes £51,000 (2018: £135,000) paid by way of termination costs to one person (2018: two 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").

Notes to the financial statements continued

For the year ended 31 December 2019

8. Staff numbers and remuneration continued

Pension benefits earned on or after 1 January 2000 are provided by the Church Administrators Pension Fund ("CAPF"), administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee. From 1 April 2019, defined contribution pension arrangements for some staff transferred from the CAPF to a separate pension arrangement on the same terms.

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 (2018: £0.1m). The scheme, which was closed to new business in 2004, has two (2018: four) loans outstanding to two (2018: 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	
	2019 Number	2018 Number	2019 Number	2018 Number	2019 Number	2018 Number
£60,001 to £70,000	7	5	4	3	13	12
£70,001 to £80,000	1	2	1	2	5	5
£80,001 to £90,000	4	5	1	1	5	5
£90,001 to £100,000	2	–	1	–	4	3
£100,001 to £110,000	1*	–	–	–	1	–
£110,001 to £120,000	–	2	–	–	–	–
£120,001 to £130,000	1	–	–	–	1	–
£130,001 to £140,000	1	–	–	–	–	2
£140,001 to £150,000	–	–	–	–	–	1
£150,001 to £160,000	–	–	–	–	1	–
£170,001 to £180,000	–	–	1**	1**	–	–
£190,001 to £200,000	2*	1*	–	–	–	–
£200,001 to £210,000	1*	1*	–	–	–	–
£210,001 to £220,000	1*	3*	–	–	–	–
£230,001 to £240,000	1*	–	–	–	–	–
£240,001 to £250,000	2*	–	–	–	–	–
£250,001 to £260,000	1*	1*	–	–	–	–
£260,001 to £270,000	–	2*	–	–	–	–
£340,001 to £350,000	–	1*	–	–	–	–
£520,001 to £530,000	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.

Of those staff managed directly by the Commissioners, 25 (2018: 22) accrue benefits under a defined contribution scheme for which contributions for the year were £321,000 (2018: £283,000). The remaining 7 (2018: 9) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, 24 (2018: 22) accrue benefits under a defined contribution scheme for which contributions for the year were £256,000 (2018: £217,000). The remaining 6 (2018: 6) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Director of Investments who earned £295,000 (2018: £280,000) and a LTIP of £228,000 (2018: £256,000) based on the long term performance of the fund. 9 (2018: 8) other members of staff received LTIPs in the year totalling £735,000 (2018: £785,000). Further details of the Commissioners' remuneration policy are included in the Governance Section of the Board's report on page 42.

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 £1,287,000 (2018: £1,274,000).

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.

	2019 £000	2018 £000
First Church Estates Commissioner		
Salary	77	75
National Insurance costs	9	9
Pension	8	10
Third Church Estates Commissioner		
Salary	46	34
National Insurance costs	5	4
Pension	5	4
Total Church Estates Commissioners' costs	150	136

Pensions paid to former First and Third Church Estates Commissioners of £26,000 (2018: £25,000) were charged to the staff pension provision.

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 20 (2018: 16) trustees claimed expenses or had their expenses met by the Charity totalling £33,000 (2018: £20,000) in respect of travel and subsistence. The Commissioners meet the expenses of Committee members in carrying out their duties. During the year, 10 (2018: 11) Committee members claimed expenses or had their expenses met by the Charity totalling £6,000 (2018: £4,000) in respect of their travel and subsistence.

10. Taxation

	US Withholding Tax £m	Australian Corporate Income Tax £m	Australian Withholding Tax £m	2019 £m
Consolidated				
Current tax	0.3	–	–	0.3
Deferred tax	–	–	0.3	0.3
Total Taxation charge	0.3	–	0.3	0.6
Commissioners				
Current tax	0.2	–	–	0.2
Deferred tax	–	–	0.3	0.3
Total Taxation charge	0.2	–	0.3	0.5
	US Withholding Tax £m	Australian Corporate Income Tax £m	Australian Withholding Tax £m	2018 £m
Consolidated				
Current tax	0.2	–	–	0.2
Deferred tax	–	0.5	0.4	0.9
Total Taxation charge	0.2	0.5	0.4	1.1
Commissioners				
Current tax	–	–	–	–
Deferred tax	–	–	0.4	0.4
Total Taxation charge	–	–	0.4	0.4

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.

Notes to the financial statements continued

For the year ended 31 December 2019

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	8.0	0.7	1.9	2.1	91.7	104.4
Additions	17.7	–	–	–	–	17.7
Balance at 31 December	25.7	0.7	1.9	2.1	91.7	122.1
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	8.0	0.7	–	–	91.7	100.4
Balance at 31 December	25.7	0.7	–	–	91.7	118.1

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	8.0	1.9	2.1	91.6	103.6
Additions	17.7	–	–	–	17.7
Balance at 31 December	25.7	1.9	2.1	91.6	121.3
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	8.0	–	–	91.6	99.6
Balance at 31 December	25.7	–	–	91.6	117.3

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

All tangible fixed assets are located in the United Kingdom.

12. Heritage assets

Analysis of Heritage Assets

	Lambeth Palace £m	Contents of Lambeth Palace Library £m	Historic contents of Lambeth Palace £m	Historic contents of former see houses £m	Total £m
Balance at 1 January	–	0.3	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 Commissioners as a result of an Order in Council given in 1946 in accordance with the Episcopal Endowments and Stipends Measure 1943 and was transferred to the Commissioners at its original deemed cost. At the time of acquisition, the Commissioners' best estimate of the historic deemed cost was £1. Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Whilst the building continues to have operational use, being used as the Archbishop's London residence and including a team of staff employed to support him in his work, it continues to be maintained by the Commissioners as a result of its significant historical and cultural importance as an important exhibit to the public of the history of the work of the Archbishops of Canterbury and the Church of England. The grounds of Lambeth Palace are also home to the Lambeth Palace Library. The Commissioners are responsible for the on-going upkeep and maintenance of the building. Maintenance costs are charged to the SOFA in the period they are incurred.

Contents of Lambeth Palace Library

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

Historic contents of Lambeth Palace

Included within heritage assets are the historical contents of Lambeth Palace. These items are held primarily for their historical and artistic value. The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents of Lambeth Palace, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2019 and the full professional valuation obtained as at 31 December 2007.

Historic contents of former see houses

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

The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2019 and the full professional valuation obtained as at 31 December 2007.

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £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

Notes to the financial statements continued

For the year ended 31 December 2019

13. Debtors

	Consolidated		Commissioners	
	2019 £m	2018 £m	2019 £m	2018 £m
Trade debtors	8.9	13.5	5.4	11.8
Subsidiary undertakings	–	–	441.3	510.1
Joint venture (ChECS)	0.7	0.6	0.7	0.6
Dioceses (Clergy Stipends and Diocesan Debtors Accounts)	1.2	2.3	1.2	2.3
Loans	3.4	3.0	3.4	3.0
Other debtors	2.0	1.9	1.4	1.6
Prepayments	2.0	1.5	1.5	1.3
Accrued income	8.4	13.1	17.9	19.8
Outstanding trades receivable	67.5	4.5	67.5	4.5
Derivative open contracts	109.9	13.2	109.9	13.2
Total debtors	204.0	53.6	650.2	568.2

Loans are interest bearing and consist of mortgages and loans to Church bodies, cathedrals and staff, and car loans to clergy.

14. Creditors

Falling due within one year

	Consolidated		Commissioners	
	2019 £m	2018 £m	2019 £m	2018 £m
Trade creditors	8.9	8.9	8.5	8.4
Subsidiary undertakings	–	–	20.5	29.2
Dioceses and other Church bodies	4.7	5.9	4.7	5.9
Other creditors	2.0	3.4	1.7	2.1
Taxation and National Insurance contributions	5.5	4.9	5.3	4.8
Accruals and deferred income	37.1	26.6	28.2	21.0
Grants payable	29.0	42.8	29.0	42.8
Outstanding trades payable	1.7	8.7	1.7	8.7
Derivative open contracts	17.3	32.0	17.3	32.0
Total debtors	106.2	133.2	116.9	154.9

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

Falling due after one year

	Consolidated		Commissioners	
	2019 £m	2018 £m	2019 £m	2018 £m
Grants payable	87.4	71.3	87.4	71.3
Discounting adjustment	(1.7)	–	(1.7)	–
Total creditors	85.7	71.3	85.7	71.3

15. Provisions

Provision for clergy pre 1998 pension obligation

	Notes	Consolidated and Commissioners	
		2019 £m	2018 £m
As at 1 January		1,542.5	1,754.7
Release of provision for:			
Pensions to clergy for service prior to 1998		(83.9)	(84.0)
Lump sum payments on retirement for service prior to 1998		(5.8)	(6.8)
Pensions to clergy widows and children for service prior to 1998		(29.7)	(29.2)
Benefits under the Deaconesses and Lay Workers (Pensions) Measure 1980		(0.2)	(0.2)
Transfers out of scheme		(0.5)	(1.0)
		(120.1)	(121.2)
Changes in provision for:			
Interest on provision		58.5	74.3
Changes in assumptions and due to experience		34.7	(165.3)
	6	93.2	(91.0)
As at 31 December		1,515.6	1,542.5

History

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

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

	2019 %	2018 %	2017 %	2016 %	2015 %
Prospective annual rate of return on investments	3.9	4.2	4.4	4.3	5.0
Rate of increase of future stipend and increases in the starting pension	3.2	3.2	3.1	3.2	2.3
Rate of post retirement pension increases	3.2	3.2	3.1	3.2	2.3
Retail price inflation	3.2	3.2	3.1	3.2	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 their assessments of the pensions obligation, Hymans Robertson LLP have used bespoke Club Vita mortality tables. The life expectancy for beneficiaries 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.

Notes to the financial statements continued

For the year ended 31 December 2019

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	2019 £m	Post 1997 service Note 16(a) £m	Pre 2000 service Note 16(b) £m	Post 1999 service Note 16(c) £m	2018 £m
Pension reserves at 1 January	5.7	115.6	7.6	128.9	6.6	136.2	12.5	155.3
Benefits/contributions paid	(0.9)	(5.6)	(1.6)	(8.1)	(0.8)	(5.6)	(1.7)	(8.1)
Interest on liability	0.1	3.1	0.1	3.3	0.1	3.3	0.2	3.6
Re-measurement of liability	(2.9)	–	(0.3)	(3.2)	(0.2)	–	(3.4)	(3.6)
	(3.7)	(2.5)	(1.8)	(8.0)	(0.9)	(2.3)	(4.9)	(8.1)
Actuarial (gains)/losses	–	6.7	–	6.7	–	(18.3)	–	(18.3)
Pension reserves at 31 December	2.0	119.8	5.8	127.6	5.7	115.6	7.6	128.9

The reduction in pensions reserves due to cash paid is £8.1m (2018: £8.1m) and the total amount shown in expenditure is a credit of £0.1m (2018: £nil). Actuarial losses of £6.7m (2018: gains of £18.3m) have been recognised in other gains or 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 pensions 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 at as 31 December 2018. This revealed a deficit of £50 million, based on assets of £1,818 million and a funding target of £1,868 million.

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

	Until 31 December 2020 %	From 1 January 2021 %	From 1 January 2023 %
Normal contributions	26.5	31.3	31.3
Deficit contributions	11.9	7.1	–
Contributions towards administration expenses	1.2	1.2	1.2
Total contribution	39.6	39.6	32.5

Normal contributions relate to providing benefits in relation to ongoing pensionable service. Deficit contributions relate to recovery of the deficit until 31 December 2022. Administration expenses cover 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.

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 above.

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:

	2019 %	2018 %	2017 %	2016 %	2015 %
Discount rate (annual rate of return on AA rated corporate bonds)	1.95%	2.75	2.45	2.65	3.75
Rate of salary increases	3.70%	4.45	4.40	4.45	4.25
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	2.35%	2.50	2.40	2.45	2.25
for service since 1 April 1997 (RPI)	3.25%	3.45	3.40	3.45	3.25

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

History of experience gains and losses:

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Actuarial loss (gain)	6.7	(18.3)	4.7	21.4	(11.1)

(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, 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 £13.3 million.

Following the valuation, the employers have collectively entered into an agreement with 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 pa 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% pa). In addition, the employers have agreed to pay £390,000 pa 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 pa as at 1 January 2018 to be payable monthly until 30 June 2025 (increasing each 1 January by 3.3% pa).

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.

Notes to the financial statements continued

For the year ended 31 December 2019

17. Funds continued

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 2019		2,636.4	3,810.8	6,447.2	1.9	6,449.1
Add investment return for the year:						
Income return –gross income		–	171.5	171.5	3.8	175.3
Income return –cost of raising funds	3	–	(76.7)	(76.7)	(0.5)	(77.2)
Capital return and foreign exchange		–	669.0	669.0	–	669.0
Taxation payable	10	–	(0.6)	(0.6)	–	(0.6)
Total investment return during the year		–	763.2	763.2	3.3	766.5
Less						
Clergy pensions paid	15	(120.1)	–	(120.1)	–	(120.1)
Release of clergy pensions paid		–	120.1	120.1	–	120.1
Movement on clergy pensions provision	15	–	(93.2)	(93.2)	–	(93.2)
Loss on defined benefit pension schemes (staff pre 2000)	16	(6.7)	–	(6.7)	–	(6.7)
Charitable expenditure: non-pensions	4	–	–	–	(118.5)	(118.5)
Total other movements during the year		(126.8)	26.9	(99.9)	(118.5)	(218.4)
Add indexation on base value of endowment		58.0	(58.0)	–	–	–
Application of non-applied total return		–	(113.9)	(113.9)	113.9	–
At 31 December 2019		2,567.6	4,429.0	6,996.6	0.6	6,997.2

	Notes	Base value of endowment £m	Unapplied total return £m	Total endowment fund £m	Other funds £m	Total funds £m
At 1 January 2018		2,667.3	3,716.3	6,383.6	3.3	6,386.9
Add investment return for the year:						
Income return –gross income		–	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 2018		2,636.4	3,810.8	6,447.2	1.9	6,449.1

Other funds comprise the following balances:

	At 1 January 2019 £m	Income £m	Expenditure £m	Transfers £m	At 31 December 2019 £m
<i>Restricted funds</i>					
Thy Kingdom Come	0.2	0.6	(0.7)	–	0.1
Reconciliation	0.2	0.2	(0.3)	–	0.1
Closed churches	–	1.1	(1.1)	–	
Other restricted funds individually below £0.1m	0.1	0.2	(0.1)	–	0.2
Total restricted funds	0.5	2.1	(2.2)	–	0.4
<i>Unrestricted funds (designated)</i>					
Cathedral Sustainability Fund	1.4	–	(1.2)	–	0.2
<i>Unrestricted funds (general)</i>					
General fund	–	1.7	(115.6)	113.9	–
Total unrestricted funds	1.4	1.7	(116.8)	113.9	0.2
Total other funds	1.9	3.8	(119.0)	113.9	0.6

	At 1 January 2018 £m	Income £m	Expenditure £m	Transfers £m	At 31 December 2018 £m
<i>Restricted funds</i>					
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
<i>Unrestricted funds (designated)</i>					
Cathedral Sustainability Fund	2.9	–	(1.5)	–	1.4
<i>Unrestricted funds (general)</i>					
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 & IT costs, conferences and hospitality, UK & overseas travel, training and other resources in relation to the Archbishop's Reconciliation Ministry.

Closed churches

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

Notes to the financial statements continued

For the year ended 31 December 2019

17. Funds continued

Cathedral sustainability fund

The 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.

Net assets between funds

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

	General fund £m	Designated fund £m	Restricted £m	Pension reserve £m	Endowment fund £m	2019 £m
Fixed assets	25.7	–	–	–	7,867.4	7,893.1
Current assets	105.9	2.3	0.4	–	831.6	940.2
Creditors: amounts falling due within one year	(46.4)	(1.6)	–	–	(58.2)	(106.2)
Creditors: amounts falling due after one year	(85.2)	(0.5)	–	–	–	(85.7)
Provisions	–	–	–	–	(1,516.6)	(1,516.6)
Defined benefit pension scheme liabilities	–	–	–	(127.6)	–	(127.6)
Total funds	–	0.2	0.4	(127.6)	7,124.2	6,997.2

	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 its investment properties, including:

Tenancy	Break terms
Residential	
Assured Shorthold Tenancies (ASTs)	Minimum 6 months then two months' notice
Assured tenancies	One month's notice
Regulated tenancies	One month's notice
Ground Rents	No break terms
Licence Agreement	1 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 1 to 3 months' notice by either party
Commercial	
Full Repair and insurance	No break term unless specifically requested
Internal Repair and Insurance	No break term unless specifically requested
Geared Rents	No break terms
UK forestry	
Not applicable	

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:

	2019 £m	2018 £m
Amounts due within one year	6.8	4.4
Amounts due after one year but not more than five years	21.1	10.0
Amounts due after five years	141.0	137.1
Total rents receivable under non-cancellable operating leases	168.9	151.5

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, who are equal partners. The purpose of ChECS is to enhance the efficiency and effectiveness of the charitable national and diocesan institutions of the Church of England and of other charities with a church ethos, by facilitating the provision of cost-effective shared financial, legal and other services.

As at 31 December 2019, other than the amounts disclosed in debtors in note 13, £342,000 was owed by the Commissioners to ChECS (2018: £104,000). The Commissioners' share of net assets of ChECS was £nil (2018: £nil). In addition, the Church Commissioners charged ChECS a total of £473,000 during 2019 (2018: £423,000) 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 its wholly owned subsidiaries, and so any cash or other assets transferred to a subsidiary are included within the consolidated financial statements.

If taxable profits are generated by the subsidiaries, these are paid to the Commissioners as donations made under gift aid. The Commissioners have recognised income relating to gift aid payments of £9.4m (2018: £18.9m) from its subsidiaries in the year.

During the year, 1 (2018: 3) properties were sold from the Commissioners to CC Projects for a total of £11.4m (2018: £24.2m).

As disclosed in notes 13 and 14, the Commissioners maintain inter-company accounts between itself and its subsidiaries. The total debtors and creditors relating to subsidiary undertakings, excluding loan notes in Jahr Tree Co Pty Ltd, are debtors of £418.8m (2018: £487.9m) and creditors of £20.5m (2018: £29.2m). 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. During the year, the Commissioners received £7.0m (2018: £6.6m) and paid £0.4m (2018: £0.4m) interest in the year.

The Commissioners hold loan notes issued by its subsidiary Jahr Tree Co Pty in Australia totalling £22.5m (2018: £22.2m) at year end. The interest accrued on these loan notes in the year was £3.4m (2018: £3.9m). This transaction was made at open market value.

During the year, Palace Public Occasions Limited was charged £0.2m (2018: £0.1m) by the Commissioners for costs incurred by the Commissioners on behalf of the company. An additional £0.1m (2018: £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

	2019 £m	2018 £m
Residential service charges, sinking funds and tenants' deposits	16.3	15.5
Trust funds	8.9	7.9
Total funds held on behalf of others	25.2	23.4

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, £0.3m (2018: £0.2m), is applied in accordance with the terms of the trusts.

Certain other trustees are directed to pay some or all of their income to the Commissioners for specified purposes. The total amount received in the year was £0.1m (2018: £0.2m).

Notes to the financial statements continued

For the year ended 31 December 2019

22. Post balance sheet event

Subsequent to the year end, listed investment markets experienced substantial volatility associated with uncertainties linked to the COVID-19 virus pandemic. Due to the uncertain effect of the pandemic on unlisted securities and real estate values, the effect of this event cannot be quantified at present. The Commissioners manage investment risk in a number of ways, including through their long term, actively managed and genuinely diversified investment approach. For further details please see Fund Strategy on page 22 and Risk Management on page 44.

The Commissioners are exposed to changes in actuarial assumptions linked to market data in relation to the provision for clergy pensions. As these actuarial assumptions are based on a snapshot of market conditions at each balance sheet date, there is no immediate impact on the Commissioners' balance sheet. Any changes to assumptions required will be reflected in the snapshot of market conditions taken at 31 December 2020.

The Commissioners are also exposed to falls in listed investment markets and changes in actuarial assumptions linked to market data through its participation in the Church of England Funded Pensions Scheme and the Church Administrators Pension Fund. However, this will not have a direct impact on the Commissioners' balance sheet because it accounts for these schemes as if they were defined contribution schemes. Any changes to contributions or deficit recovery arrangement will be considered as part of the next triennial actuarial review of the schemes.

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 2020 Annual General Meeting of the Commissioners, 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 2020–2022.

At its meeting on 26 March 2020 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 2020 could be made firm and (ii) that there was insufficient reason to amend the following sums the Committee expected it could make available for distribution in 2020-2022 following last year's triennial actuarial review:

- 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 and we carried out an annual update of this review as at 31 December 2019. 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 pensions obligation and pensions liability. As the pensions are payable throughout the lifetimes of the pensioners, the term of this area of expenditure is longevity related and not known in advance. We therefore make assumptions of future life expectancy for the purpose of calculating the capital value of the pensions obligation and pensions liability.
2. Distributions 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 pensions obligation and pensions 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 (termed as "additional 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 2019, £1,516 million of the Commissioners' assets were required to meet their clergy pension obligations and a further £85 million to meet the staff pensions liabilities;
- (ii) we had no objection to the Commissioners maintaining the package of longevity-related, fixed-term, core in-perpetuity and "additional distributions" building block payments agreed in principle following the 2020–2022 triennium. 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 next interim assessment as at 31 December 2020;
- (iii) the fund's capacity for "additional distributions" had reduced since the previous year's full review. Had this been a triennial assessment we would have advised that the Commissioners should commence planning to reduce their "additional distributions" sum available for additional distributions from £50 million per annum to £32 million per annum within the next three years.

Recognising the high level of volatility in the sum available for "additional distributions", we continue to advise that the Commissioners should pay a significant proportion of such distributions in a form that will automatically cease, or can be reduced or stopped within a reasonably short timescale if any future actuarial review determines that such distributions are no longer affordable.

Alec Day FIA

Peter Carver FIA CERA

For and on behalf of Hymans Robertson LLP

April 2020

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 Property Holdings	Top 20 Equity Holdings
Hyde Park Estate, London W2	ALPHABET INC
Value Linked Loans	ROYAL DUTCH
Metro Centre, Gateshead	TAIWAN SEMICONDUCTOR
Chichester Rural Estate	SAMSUNG ELECTRONICS
Rochester Rural Estate	CHARLES SCHWAB
19-26 Long-Acre, London, WC2	DENTSPLY SIRONA
Canterbury Rural Estate	COGNIZANT TECHNOLOGY
Molpus Managed Timberland, Virginia, USA	LLOYDS BANKING
Royal Lancaster Hotel, London, W2	UNILEVER
Carlisle Rural Estate	HSBC HOLDINGS
Signature Senior III	GLAXOSMITHKLINE PLC
TIR Managed Timberlands, SE USA	CITIGROUP INC
Halsall Estate	CIE FINANCIERE
Huntingdon Estate	THERMO FISHER
Kelmscott Estate	FACEBOOK INC
Ely Let Land	UBS GROUP
Catford Island Retail Park, London	JONES LANG
EIG Energy Fund XVI	TESCO PLC
South Durham Estate	ASTRAZENECA PLC
Millbank Estate	BP PLC

The top 20 equity holdings represent 6.4% of the Commissioners' total investable assets.

The top 20 property holdings represent 14% of the Commissioners' total investable assets.

The Church Commissioners and Board of Governors at April 2020

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
Andrew Selous 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 Faulk
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
Helen Steers
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

Gareth Mostyn

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
Helen Steers
Duncan Owen
Mark Woolley
Gareth Mostyn **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
Emma Upstone
Hilary Wild
Stephanie Harrison **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 Faulk
Bishop of Manchester, David Walker
Dean of Ely, Mark Bonney
Dean of Gloucester, Stephen Lake
Dean of Winchester, Catherine Ogle
Dean of Guernsey, Tim Barker
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Rosemary Butler – Representative of
Bishops' spouses
Kathryn Blacker – Representative for
AEC/CAFA
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 Snow
Bishop of Newcastle, Christine Hardman
Ven Penny Driver
Revd Canon Clare MacLaren
Revd Christopher Smith
Revd Anne Stevens
Revd Simon Talbott
Revd Stephen Trott
Canon Peter Bruinvels
Morag Ellis QC
Jay Greene
Susan Pope
Garth Watkins
Andrea Mulkeen **Committee Secretary**

Notes

Overview
Mission
Investment
Governance
Financial Statements
Reference

Notes



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

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