ACCOUNTING AND REPORTING REGULATIONS
FOR ENGLISH ANGLICAN CATHEDRALS

prepared by the
CATHEDRALS ADMINISTRATION AND FINANCE ASSOCIATION
in conjunction with the ASSOCIATION OF ENGLISH CATHEDRALS
and specified by the CHURCH COMMISSIONERS
under Section 27 of the Cathedrals Measure 1999

December 2018

Copies of these regulations may be downloaded from

The Association of English Cathedrals website:

www.englishcathedrals.co.uk

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1. INTRODUCTION

1.1. Statement by the Church Commissioners

With the support of the Cathedrals Administration and Finance Association and the Association of English Cathedrals, the Church Commissioners have specified under section 27 of the Cathedrals Measure 1999 what constitutes best professional practice and standards relating to the report and accounts of any cathedral to which the Measure applies.

The Chapter of any such cathedral shall:

- prepare accounts (incorporating an annual report) which give a true and fair view of the state of affairs of the cathedral and its connected entities at the end of its financial year and of their financial activities for that year. The accounts are to comply in all material respects with the December 2018 Accounting and Reporting Regulations for English Anglican Cathedrals; and
- state, in the notes to the accounts, that the accounts so comply or describe which requirements have not been complied with and give reasons for the non-compliance.

These requirements apply to all financial years commencing on or after 1 January 2019.

1.2. Preface

Cathedral-specific accounting guidelines have been in existence since 1996. The Guidelines and (since 2006) the Regulations have always closely followed charity reporting requirements, and so have been periodically updated to take into account developments in charity financial reporting. This version, the December 2018 Regulations, incorporates developments that have taken place in charity financial reporting since the introduction of FRS 102 and the Charities SORP (FRS 102), and also clarifies the accounting treatment of certain areas.

The key updates in these Regulations are in relation to:

- Updates to the section on subsidiaries, joint ventures and associates to more closely reflect the Charities SORP and FRS 102 requirements;
- Requiring heritage assets acquired after 1 January 2019 to be included on the balance sheet if material;
- Allowing an accounting policy choice to hold an investment property rented to a group entity as a tangible fixed asset in the cathedral's individual financial statements;
- Clarification that transactions between the cathedral and a subsidiary are related party transactions and must be disclosed;
- Requiring a reconciliation of net debt to be provided; and
- Information on gift aid donations received from non-charitable subsidiaries of the Cathedral.

Nevertheless, cathedrals should take note of the Regulations as a whole to ensure that all relevant changes have been identified and implemented.

In respect of the accounts of their corporate property held for ecclesiastical purposes, Chapters are, by virtue of Part 1 Chapter 2 section 10(2) of the Charities Act 2011, subject not to the Charities (Accounts and Reports) Regulations 2008 (which enforce the Charities SORP (FRS 102)) but to any specification as to what constitutes best professional practice and standards relating to the report and accounts made by the Church Commissioners under section 27 of the Cathedrals Measure 1999. In specifying these regulations, the Church Commissioners have recognised that cathedrals, although not within the Charity Commission's regulatory framework, are charities and that therefore the regulations should accord with the Charities SORP wherever relevant. The relationship with the Charities SORP is described on page three. Any additional requirements created by the regulations either reflect specific legislation applicable to cathedrals or are, in the opinion of the Church Commissioners, necessary in the context of cathedral accounting.

In respect of any corporate property held for non-ecclesiastical purposes (for example, schools), Chapters may be within the Charity Commission's regulatory framework. In respect of registered charities of which they are trustees, Chapters are within the Charity Commission's regulatory framework.

1.3. The Regulations, a true and fair view and the relationship with other pronouncements

The Cathedrals Measure 1999 requires the Chapter of each cathedral to which the Measure applies to prepare an annual report and audited accounts which show a true and fair view of the transactions throughout the year and of the position at the end of the year in accordance with best professional practice and standards. Those standards are currently embodied in the Financial Reporting Standard applicable in the UK and Republic of Ireland, last updated by the Financial Reporting Council in March 2018 referred to as FRS 102. The Cathedrals Measure 1999 empowers the Church Commissioners to specify what constitutes best professional practice and standards relating to the report and accounts. With the support of CAFA and the AEC, the Church Commissioners have specified the form of accounts to be used.

These regulations are applicable to a Chapter's corporate property held for ecclesiastical purposes. To the extent that a Chapter controls any other property which is for the benefit of the cathedral and which falls within the ambit of the Charities Acts, or any other legislation, then the accounts relating to any such property must be prepared in accordance with the appropriate legislation and SORPs in addition to the relevant information being included in the consolidated accounts prepared in accordance with these regulations. The regulations specify that a cathedral's accounts must also contain information about related trusts and other entities which are for the benefit of the cathedral's ministry.

A cathedral's accounts are intended to give a true and fair view. They must be prepared on the going concern assumption and the accruals concept and they must be prepared in accordance with FRS 102. For the avoidance of doubt, it is not permissible for a cathedral to adopt section 1A of FRS 102 *Small Entities*.

The regulations detail the application of the Charities SORP (FRS 102) to cathedral accounts and also provide for certain additional disclosures relevant in the context of cathedral accounting. The recommendations of the SORP are subordinate to any specific guidance provided under section 27(2) of the Cathedrals Measure 1999.

For most cathedrals these regulations provide all the guidance required in order that the accounts should give a true and fair view, but reference to the Charities SORP (FRS 102) may be required, particularly where cathedrals have activities or property for which the accounting treatment will be more fully described in the SORP. It may be necessary, in some circumstances, to provide information additional to that specified in the regulations in order to give a true and fair view. Should it be necessary to depart from the regulations to give a true and fair view, the reasons for it, and its estimated financial effect on the accounts, must be disclosed in a prominent note to the accounts.

Throughout these regulations, the words ‘must’, ‘should’ and ‘may’ distinguish, as they do in the SORP (FRS102), those requirements which must be followed and those recommendations that should be followed as best practice.

The term ‘must’ is used to indicate elements that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Failure to follow a ‘must’ recommendation is a departure from these regulations.

The term ‘should’ is used for an item in the annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. A failure to follow a ‘should’ recommendation with respect to the report or accounts is not regarded as a departure from these regulations.

The term ‘may’ is used for an item in the annual report or an approach to a particular disclosure that a cathedral may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the regulations. Cathedrals may choose whether such examples of alternative treatments are adopted at their discretion.

The regulations describe the minimum amount of information to be included in a cathedral's report and accounts. They should not be construed as preventing the provision of additional information if this is thought desirable or where it is required under a cathedral's own statutes.

1.4 Key to Abbreviations used

- AEC Association of English Cathedrals
- CAFA Cathedrals Administration and Finance Association
- FRC Financial Reporting Council
- FRS Financial Reporting Standard issued by the FRC
- SOFA Statement of Financial Activities
- SORP Statement of Recommended Practice

2. GENERAL

2.1. Materiality

The SORP (FRS 102) and these regulations set certain accounting treatments and disclosures in the context of their materiality. Cathedrals should give particular consideration to material items or transactions as their omission or misstatement could influence economic decision-making by the user of the accounts and any assessment of the stewardship of cathedral funds. An omission or misstatement of a material item may result in the accounts failing to give a true and fair view.

Materiality needs to be considered in the context of the accounts and depends on:

- the size of the item;
- the nature of the item or error;
- the impact of its omission or misstatement on the reported gross income or total expenditure and net assets; and
- the impact of its omission or misstatement on particular analysis headings within the statement of financial activities, balance sheet and, where applicable, statement of cash flows and on the disclosures made in the notes to the accounts.

Cathedrals should only disclose accounting policies that apply to material items or transactions. Cathedrals should avoid providing unnecessary information for non-material items or transactions.

Although the SORP (FRS 102) and these regulations need only be applied to material items or transactions, it is inappropriate to make, or leave uncorrected, immaterial departures from these guidelines to achieve a particular presentation of a cathedral's financial position, financial performance or cash flows.

These regulations specify when a cathedral must always consider a particular item or transaction material, for example the disclosure of related party transactions. Chapter is responsible for deciding whether an item is or is not material. In cases of doubt an item should be treated as material.

2.2. Content and purposes of the report and accounts prepared under these regulations

The report and accounts must give a true and fair view of the Chapter's stewardship of the resources which are under its control and are for the benefit of the cathedral's ministry. They must also contain information about those trusts and other connected entities, which are for the benefit of the cathedral but not under the control of the Chapter, e.g. Friends.

The cathedral's annual report and accounts must contain the following statements:

- Annual report
- Independent auditor's report
- Consolidated statement of financial activities (SOFA)
- Consolidated balance sheet and entity only balance sheet
- Cash flow statement
- Accounting policies; and
- Notes to the accounts.

The accounts must be prepared consistently each year, meaning that the same transaction or type of transaction must be treated in the same way each year unless to do so would not give a true and fair view. If the accounting treatment of a recurring transaction changes, this must be clearly disclosed in the accounting policies if material.

2.3. Users of the report and accounts

In preparing its annual report and accounts the Chapter should consider the needs of those who will use them. Such users will include:

- the Council, the Chapter and the College of Canons
- the cathedral community and congregation
- the Church Commissioners
- the Association of English Cathedrals
- diocesan bodies
- funding providers
- other cathedrals
- grant providers and lenders of funds; and
- the general public

2.4. Summary Accounts

Cathedrals may provide information about their activities and finances in other forms to suit particular audiences, e.g. Annual Reviews, newsletters, presentations and websites. The information provided must be consistent with the statutory Annual Report and Accounts, the existence of which should be made clear and details of how to obtain a copy provided.

Formal summary accounts are not recommended as they will not provide sufficient information to give a full picture of the cathedral's activities and financial position.

2.5. Comparative figures

Comparative amounts must be provided for all amounts presented in the current period's financial statements, which includes the notes. This includes all disclosures required by these Regulations, unless otherwise stated. Comparative amounts do not need to be presented for:

- Analysis of changes in net debt;
- Reconciliations of opening and closing balances for tangible fixed assets;
- Reconciliations of opening and closing balances for investment property;
- Reconciliations of opening and closing balances for intangible assets;
- Reconciliations of opening and closing balances for goodwill;
- Reconciliations of opening and closing balances for provisions;
- Reconciliations of opening and closing balances for defined benefit obligations, the fair value of plan assets, and any reimbursement rights recognised as an asset for defined benefit pension schemes; and
- Reconciliations of opening and closing balances for biological assets.

2.6. Funds

Funds must be analysed between

- unrestricted,
- restricted (also known as special trusts in England & Wales) and
- endowment (capital) - expendable or permanent.

For the fund disclosures required, see section 9. The Chapter should decide on the most suitable form of presentation. Appendix 1 explains the legal position relating to these funds.

2.7. Audit

The accounts must be independently audited by an auditor who is a firm or individual who may, under section 144(2) of the Charities Act 2011, audit the accounts of a charity. A partner or employee of the auditor should not be a member of any of the bodies comprising the corporate body.

The auditor's terms of engagement must be agreed in writing with the Chapter of the cathedral, and should be updated at least every three years.

The audit should be conducted in accordance with International Standards on Auditing (UK), as applied to charities in Practice Note 11 (Revised): The Audit of Charities, issued by the Financial Reporting Council. The report of the auditor should be addressed to the members of the Chapter of the cathedral.

The auditor will produce a post audit report, management letter or an equivalent document addressed to the Chapter at the conclusion of each year's audit. This should be presented to a meeting of Chapter.

2.8. Approval

The cathedral's accounts must be approved by the Chapter of the cathedral and the balance sheet signed and dated on its behalf by the Dean (or acting Dean) and another authorised member of Chapter. The balance sheet must state the name of the cathedral.

The annual report must be dated and signed by the Dean (or acting Dean) on behalf of the Chapter.

2.9. Publication

The annual report and accounts must be audited, approved and published within seven months of the end of the financial year end. The Cathedrals Measure 1999 requires that:

- the accounts must be displayed in a prominent position in, or in the vicinity of, the cathedral; and
- the accounts must be sent to the Church Commissioners and anyone who requests a copy.

As a matter of best practice, Chapter should provide a copy of the annual report and accounts on their website within 30 days after the accounts are signed by the Dean.

3. ENTITIES TO BE INCLUDED IN A CATHEDRAL'S CONSOLIDATED ACCOUNTS

3.1. General

In order to give a comprehensive and realistic picture of all the resources available to the Chapter in its running of the cathedral, it is necessary to prepare accounts which deal not only with the cathedral entity, but also other entities that are connected to the Chapter.

3.2. Aggregation into a cathedral's entity only accounts

Where a Chapter administers a trust for the benefit of the cathedral for one or more purposes of the cathedral, that trust must be regarded as part of the cathedral entity and included in the entity only accounts. It would then be included in the consolidation as part of the cathedral's figures.

The classification of the fund depends on the purposes the trust has. If it is for the general purposes of the cathedral, then this would form part of the unrestricted fund. If it is restricted to particular purposes, then this would form part of the cathedral's restricted funds.

3.3. Consolidation

Unless one of the exemptions in this paragraph applies, all subsidiaries must be consolidated on a line-by-line basis as set out in FRS 102, i.e.

- in the statement of financial activities, in place of any amount received or receivable from the entity, should be shown the entity's income and expenditure consolidated on a line by line basis; and
- in the balance sheet, in place of the cathedral's investment in the entity, should be shown the entity's assets and liabilities consolidated on a line-by-line basis.

A subsidiary is defined in FRS 102 as an entity that is controlled by another entity.

The exemptions are:

- A subsidiary that is immaterial to the group may be excluded from consolidation.
- A charitable subsidiary may only be excluded from consolidation when its objects and its beneficiary class are not concurrent with that of its parent. For further guidance see paragraph 3.4 concerning the benefit element of control.

3.4. Control

Control, in the context of the relationship between the Chapter and a connected entity, means the ability to govern the financial and operating policies of the other entity with a view to benefiting from its activities. Control is made up of two elements: power and benefit. The underlying principle is that the parent charity exercises control to obtain benefit from its interest in the subsidiary. The cathedral is deemed to exercise control over a subsidiary if it has both the power to govern and the ability to benefit. The power element is presumed to exist when the parent charity owns, directly or indirectly through its subsidiaries, more than half of the voting power of an entity.

However, control can also exist when the parent charity directly or indirectly controls half or less than half of the voting power of an entity, if it has:

- Power over more than half of the voting rights by virtue of agreement with other investors;
- The power to govern the financial and operating policies of the entity under a statute or an agreement;
- The power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body; or
- The power to cast the majority of votes at the meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.

The nature of the control a parent charity exercises differs in its character between non-charitable subsidiaries and controlled charities. Where a charity exercises control as an owner or investor in a non-charitable subsidiary, it does so to benefit from the cash flows and the financial return from that investment.

The parent charity can exercise control through trusteeship, which gives a parent charity the ability to govern the financial and operating policies of the subsidiary charity. The consolidated accounts show the total funds under the trusteeship of the parent charity.

The power element of control of one charity by another can be identified through:

- sole trusteeship;
- powers to appoint and/or remove a majority of the trustees;
- the terms of a formal agreement or arrangement; or
- the provisions of a clause in the governing document or a legislative provision.

Having trustees in common does not in itself demonstrate that the power element is present. Also, simply being the sole or main funder of another charity or entity is insufficient to demonstrate that the power element is present. While the funding of one charity by another indicates a degree of concurrence of purposes, for control to exist the power element must be present.

The benefit element of control is met where the purposes of the Chapter and its subsidiary charity are concurrent. The purposes of the Chapter do not have to be identical to those of its charitable subsidiary, nor do they need to encompass all the purposes of the charitable subsidiary. For concurrence, the purposes of the Chapter have to be similar enough to those of the subsidiary that the activities of the subsidiary can be seen to contribute to the purposes and aims of the parent charity and to benefit the parent charity's beneficiaries.

When considering whether the purposes are concurrent, judgement is required. The Chapter should consider whether the preparation of consolidated accounts will give a true and fair view of the nature of control it can exercise and its ability to benefit from its interest as the trustee of another charity.

The parent charity might benefit where the services and benefits provided by the subsidiary charity to its own beneficiaries also contribute to the purposes of the parent charity. The funds of the subsidiary charity are restricted to its own purposes and unless the parent and subsidiary charity have identical purposes, the subsidiary will be a separate component of the group's reported restricted funds. The reporting of a restriction over the use of a subsidiary charity's funds is important for the understanding of the consolidated accounts and of how funds held by charitable subsidiaries may be used.

Each relationship between the Chapter and another entity must be considered carefully to establish whether the tests of control and benefit are met. This is a matter of judgement for the Chapter to exercise each year. Some examples are provided below to aid Chapters in assessing relationships between them and other entities.

- *The Chapter operates a shop to sell goods for profit through a non-charitable company.* The Chapter is the sole shareholder and appoints the directors. In this situation, Chapter controls the entity through its control of a majority of the voting rights of the company and benefits from the financial return generated by the company. It therefore should be consolidated.
- *The Chapter is the sole member of a school, which is a company limited by guarantee and a registered charity. It has the right in the Articles of Association to appoint 6 out of 10 governors.* The Chapter may be considered to control the school because it has more than 50% of the voting rights of the Board of Governors. The Chapter must also consider whether the purposes of the school are sufficiently similar to that of the Chapter to contribute to the purposes of the Chapter. This is likely to be the case where the members of the school play an active role in cathedral life.
- *The Chapter is the sole member of a school, which is a company limited by guarantee and a registered charity. It has the right in the Articles of Association to appoint 3 out of 10 governors.* The Chapter may not be considered to control the school because it has less than 50% of the voting rights of the Board of Governors. However, the Articles of Association must be considered closely to see if the Chapter has rights as sole member that amount to control, or if the Chapter has an arrangement with the other Governors that amounts to control.
- *The Chapter is the sole trustee of an almshouse charity.* The Chapter has power over the almshouse charity, because it is sole trustee. Whether the benefit element test is met depends on the circumstances of each almshouse. If the almshouse provides accommodation mostly to those who are beneficiaries of the cathedral, or if residents are encouraged to attend cathedral activities, then it is likely that the benefit test is met. However, if the almshouses are managed separately to the cathedral with no or little overlap with the cathedral's activities, then it is possible that the benefit element is not satisfied.

3.5. Joint Ventures

These are entities formed to carry out a (usually trading) venture jointly with another party or parties and in which control is shared. The cathedral should use the equity method to account for joint ventures. It will disclose, in the consolidated SOFA, its share of the net profit or loss of the joint venture and, in the consolidated balance sheet, its share of net assets.

3.6. Associates

These are entities in which the Chapter holds a participating interest and uses it to exercise significant management influence. An entity is presumed to be an associate if it is not a subsidiary or joint venture and the cathedral holds 20% or more of the voting power of the associate. The cathedral should use the equity method to disclose, in the consolidated SOFA, its share of the associate's net operating profit or loss and of any other gains or losses as a separate line in the consolidated SOFA and, in the consolidated balance sheet, its share of the associate's net assets.

3.7. Non-coterminous year ends of entities included in a cathedral's consolidated accounts

The Chapter should ensure that all material entities to be included in the cathedral's accounts prepare their audited accounts for the same period and to the same date and using the same accounting policies. If that is not possible then the audited accounts of the entity concerned for the year that ended in the three months prior to the date of the cathedral's accounts should be used and the period covered by them should be disclosed. These financial statements should be adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

If there are no such accounts, then the cathedral should use special interim accounts prepared by the entity concerned for the same year as the cathedral. If that is not possible, then the most recently available accounts for the entity should be used and the period covered by them should be disclosed.

3.8. Accounting for funds held as agent or as a custodian trustee

If a Cathedral acts as an agent during the reporting period, it must disclose in the notes to the accounts:

- An analysis of funds received and paid by the charity as agent
- Details of any balances held as agent at the reporting date
- Details of any balances outstanding between any participating consortium members for which it is administratively responsible; and
- Where funds held as agent for related parties the charity must make the required disclosures for related parties.

A cathedral may also act as custodian trustee holding the title to property belonging to another charity on its behalf. Property held as custodian does not belong to the custodian trustee and so is not a component of the custodian trustee's assets, income or expenditure in the reporting period.

These regulations require that a cathedral that has acted as custodian trustee during the reporting period must disclose in the Chapter's annual report or as a note to the accounts:

- a description of the assets, classes of assets or categories of assets which it holds in this capacity;
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity's objects; and
- details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

3.9. Supplementary information

Information about subsidiaries, joint ventures and associates must be disclosed in the notes to the cathedral's consolidated accounts. Similar entities may be grouped; only material entities should be disclosed separately. For each material entity the accounts should state its name, company number and charity number (if applicable), its relationship with the cathedral and the degree of control exercised, information on its financial situation (its assets, liabilities, funds, income and results for the year) and particulars of any audit qualification. The cathedral should state how the entity has been treated in the accounts. To the extent that any entity has a material impact on a cathedral's finances, it should be covered in the annual report and commentary on the accounts.

A cathedral may have entities not controlled by the cathedral but wholly or principally for its financial benefit (e.g. Friends). For these entities, cathedrals must disclose summarised accounts for each material entity, giving:

- gross income
- net income
- amount paid or payable to the cathedral (i.e. the amount included in the cathedral's consolidated accounts)
- gross assets and
- net assets.

There should also be an indication as to whether the relevant accounts have been audited. If the audit report was qualified or contained an “emphasis of matter” paragraph, the nature of the qualification or emphasis should be disclosed.

4. THE ANNUAL REPORT

4.1. General

The cathedral's annual report should be produced in a format appropriate to the cathedral concerned. It must contain a review of activities and commentary on the accounts that provides an objective discussion that analyses and explains the main features underlying the financial results and position. This should be described simply and clearly so that it can be understood by all readers. For the Chapter, it provides an opportunity to explain in clear and simple terms what has happened over the past year, its future plans and the resources needed.

4.2. Objectives and activities

The report provides information intended to help the user understand how the cathedral's aims fulfil its legal purpose, the activities it undertakes and what it has achieved. The report must set out the cathedral's mission statement and summarise the ways in which the Chapter implements it. The cathedral's legal purposes must be disclosed, including a summary of how the cathedral's activities implement those purposes. The main priorities for the year should be outlined in the report; this information could come from the management plan. There should be reference to the plans for the next year as reported in the previous year (see paragraph 4.5) and comments given for any substantial changes.

Good reporting provides a coherent explanation of the cathedral's strategies for achieving its aims and objectives and explains how the activities it undertook contributed to their achievement. The report must provide an explanation of:

- Its aims, including the issues it seeks to tackle and the changes or differences it seeks to make through its activities;
- How the achievement of its aims will further its legal purposes;
- Its strategies for achieving its stated aims and objectives;
- The criteria or measures it uses to assess success in the reporting period; and
- The significant activities undertaken, explaining how they contribute to the achievement of its stated aims and objectives.

The review of the activities of the cathedral must include all material entities included in the consolidated accounts. The activities included in the report should, as a minimum, include those listed on the face of the SOFA under 'Expenditure' as well as any particularly significant items in the supporting notes. Accordingly, the following headings would normally be included in this section under significant activities undertaken:

- Ministry
- Cathedrals and precincts upkeep
- Education and outreach
- Community, parish and congregation
- Additions to cathedral buildings
- Additions to statutory inventory, and disposals from it (paragraph 6.2).

Within these headings it may be appropriate to comment on:

- Cathedral events
- Diocesan events in the cathedral
- The number attending services, and the number and type of services and other events held
- The numbers of visitors
- The extent of diocesan and other extra-cathedral activities undertaken by cathedral clergy and staff. There should be no notional charge in the accounts for the time spent on extra-cathedral activities. If actual income is received, then it should be shown under an appropriate heading.
- The use of volunteers by the Cathedral should be explained. Whilst it is not practicable for an economic value to be attached to the work of volunteers, it is nevertheless important for readers to be supplied with sufficient information to understand the role and contribution of volunteers.

Although cathedrals are not regulated by the Charity Commission these regulations require that a cathedral must explain the main activities undertaken to further the cathedral's purposes for the public benefit and to include in its report a statement confirming that the Chapter has had regard to the Charity Commission's guidance on public benefit.

4.3. Achievements and performance

Progress on achieving the main priorities must be reported, include a description of how success is assessed, and quantified if appropriate.

This section should also include reports on the following, if applicable:

- The nature of any important events affecting the cathedral
- A statement covering the progress of raising and spending money on major appeals
- Major works to the fabric of the cathedral
- If relevant, an explanation of the cathedral's social investment policy and how it contributed to achieving aims and objectives
- Investment policy and performance against that policy and against appropriate benchmarks

4.4. Financial review

The report must contain a review of the financial position of the cathedral and the other entities consolidated with it. Statements to be included are:

- A statement of the cathedral's policy in relation to its reserves and identify the amount of funds held for restricted purposes, designated or held in endowment funds.
- A comparison of the level of reserves compared to the policy and an explanation of the steps being taken to bring the reserves into line
- Where funds are in deficit an explanation why they are in deficit and the steps being taken to eliminate the deficit
- If relevant, an explanation of the financial effects of significant events

- Explain any material designated funds and when it is expected they will be spent
- In respect of stock exchange investments, a commentary should be given on the performance and management of the cathedral's investments in the context of the movements in the relevant stock market indices and inflation
- A description of the principal risks and uncertainties facing the cathedral and its subsidiary undertakings, as identified by the Chapter, together with a summary of its plans and strategies for managing those risks. This should be taken from the Chapter’s risk register.

Further items on which it may be appropriate to comment include:

- The level of donations income, both from the congregation and from other gifts
- Major sources of finance (e.g. legacies, grants)
- The results of trading operations
- Property (see paragraph 6.3)
- The extent of any material donated assets, goods or services, and how they have been dealt with in the accounts (see paragraph 5.3)
- The level of maintenance overhang
- The date of the last quinquennial and when the next is due.

Chapters which adopt the total return approach to investments must refer to Appendix 4 for details of the disclosures required in the Annual Report.

4.5. Plans for future periods

The report must provide a summary of the cathedral’s plans for the future, including its aims and objectives and details of any activities planned to achieve them.

The report should explain the Chapter’s perspective of the future direction of the cathedral. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

4.6. Structure, governance and management

The following information must be included in the Annual Report:

- The nature and date(s) of the cathedral's governing statute(s)
- State that the cathedral is an ecclesiastical corporation
- A description of the role of the cathedral within the diocese
- A description of the organisational structure of the cathedral and how the cathedral is managed. This will need a description of the three institutions (the Council, the Chapter and the College of Canons) comprising the corporate body and of the Finance Committee. The roles of each, and of the Bishop, as set out in paragraphs 3, 4, 5 and 9 of the Cathedrals Measure 1999, should be briefly explained. It is not required to name any individual (except as required by paragraph 4.7), though some might wish to do so.
- A statement regarding the relationships between the cathedral and other organisations with which it co-operates in the pursuit of its objectives
- Details of the method of appointing members of Chapter indicating who is entitled to appoint
- Policies and procedures adopted for the induction and training of new members of Chapter

- A description of how decisions are made, e.g. which type of decisions are taken by Chapter and which are delegated to staff
- Changes in senior clerical and lay appointments
- A disclosure on Chapter’s arrangements for setting the pay and remuneration of key senior staff and any benchmarks, parameters or criteria used in setting their pay
- A statement of the responsibilities of the Chapter (see below for an illustrative statement)
- If relevant, a summary of the cathedral's investment powers given by the Cathedrals Measure 1999 (see below for the relevant section of the Measure).

Illustrative Statement of the Responsibilities of the Chapter

The Chapter is responsible under requirements laid down by the Church Commissioners under the powers given to them by Section 27 of the Cathedrals Measure 1999 for:

- preparing and publishing an annual report and audited accounts which give a true and fair view of the financial activities for each financial year and of the assets, liabilities and funds at the end of each financial year of the cathedral and its connected entities
- stating that they have complied in all material respects with these regulations or describing which regulations have not been complied with and giving reasons for the non-compliance
- selecting suitable accounting policies and then applying them consistently
- making judgements and estimates that are reasonable and prudent
- preparing the accounts on the going concern basis unless it is inappropriate to presume that the cathedral will continue in business
- keeping proper accounting records from which the financial position of the cathedral can be ascertained with reasonable accuracy at any time, and
- safeguarding the assets of the cathedral and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Investment Powers given by section 16 of the Cathedrals Measure 1999

Cathedrals with land and investments on their balance sheet must provide a note of their investment powers. These are set out in section 16 of the Cathedrals Measure 1999 and may be summarised as follows:

Under the Cathedrals Measure 1999 the Chapter may invest the cathedral's funds in any of the following:

- Land
- Funds administered for the Central Board of Finance of the Church of England by CCLA Investment Management Ltd.
- Investments in which trustees may invest under the general power of investment in the Trustee Act 2000

- The improvement or development of property belonging to the cathedral, except that endowment funds may not be used to improve or develop the cathedral itself and its ancillary buildings unless a total return approach under the Church of England (Miscellaneous Provisions) Measure 2014 has been adopted.

4.7. Reference and administrative details

The cathedral's annual report must contain the following information:

- The full legal name of the cathedral and any other name commonly used
- The address of the cathedral office
- The names of the members of the Chapter and the executive posts held by them *
- The name of the administrator
- The names of the surveyor to the fabric (being the architect appointed under the Care of Cathedrals Measure 1990) and the archaeologist
- The names of the members of the finance committee *
- The names of the members of the fabric advisory committee *
- The name of the director of music or organist
- The name and address of the cathedral auditors
- The names and addresses of the cathedral's bankers, solicitors, accountants, investment managers, architects; and any other professional advisors used during the year.
- Details of any funds held as a custodian trustee on behalf of others

***** on the date the report was approved and also those who retired or resigned since the start of the relevant financial year

5. STATEMENT OF FINANCIAL ACTIVITIES (SOFA)

5.1. General principles

The consolidated SOFA must show all inflows and outflows of resources to and from the entities included in the cathedral's consolidated accounts together with transfers between funds. A SOFA is a single accounting statement that includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenditure by the cathedral on its activities, and presents a reconciliation of the movements in the cathedral's funds for the reporting period. The cathedral's statement of financial activities must adopt the same format in subsequent reporting periods unless there are special reasons for a change that is explained in the notes to the accounts.

5.2. General rules for income recognition

Income is recognised in the statement of financial activities (SOFA) when a transaction or other event results in an increase in the cathedral's assets or a reduction in its liabilities. Income must only be recognised in the accounts of a cathedral when all of the following criteria are met:

- Entitlement – control over the rights or other access to the economic benefit has passed to the cathedral.
- Probable – it is more likely than not that the economic benefits associated with the transaction or gift will flow to the cathedral.
- Measurement – the monetary value or amount of the income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

5.3. Income and receipt of endowment

Grants, donations (of cash or assets) and legacies

Grants, donations (whether of cash or of assets) and legacies that are subject to restrictions are described in the following paragraphs under the generic term "restricted amounts".

Restricted amounts should be credited in the SOFA to the restricted or endowment fund as appropriate as soon as they become receivable and irrespective of when the related expenditure will be incurred. If it is possible that a restricted amount will have to be repaid because certain conditions have not been met, then it should be shown as a liability, not credited to the SOFA. It will be transferred to the SOFA in the year in which the conditions are satisfied. If material, details of its receipt should be disclosed in the notes.

Where a donor imposes a condition that a grant may not be expended until a future period, the receipt should be treated as deferred income and recognised as a liability until the accounting period in which the grant may be expended.

When incurred, the related expenditure should be charged to the restricted fund in the SOFA, unless it is capitalised when it should be shown under the appropriate category in the balance sheet. Appropriate explanations in the notes and the annual report should also be provided. When a restricted amount relates to the purchase of a depreciable fixed asset, the receivable amount should be credited to the restricted fund of the SOFA and an amount should be debited to the restricted fund each year in respect of the depreciation of the asset.

Cathedral building and inventory additions

Income received for additions to the cathedral building or the inventory should be included with donations or grants receivable as appropriate. The proceeds from disposals from the inventory should be included with other income. Details must be included in the note on net inventory transactions (see paragraph 6.19, note 3).

Gift Aid and recoverable income tax

Tax recoverable under Gift Aid or the Small Donations Scheme must be shown in the same category as the donation to which the gift aid relates. Gift aid must be recognised upon receipt of a donation with a valid gift aid declaration. Gift aid payable must be allocated to the heading where the relevant donation sits. However, cathedrals must disclose the total amount of gift aid receivable in the year within the notes to the accounts.

Gift aid donations made by trading subsidiaries will be shown as a donation in the cathedral's single entity accounts, and will be eliminated on consolidation. The donation may only be accrued if there is a legal obligation for the subsidiary to make the payment at the balance sheet date. An example of such a legal obligation is a deed of covenant, where the company covenants that any taxable profits will be paid to the cathedral. If there is not a legal obligation in place, the donation may only be recognised in the cathedral's accounts when the donation is paid.

Investments total return

Unapplied total return that is allocated to income funds must be separately identified in the SOFA as an allocation between endowment funds and income funds either within the 'transfer' line or within the 'other income' section of the SOFA. See Appendix 4.

Third party receipts and payments

Where funding is provided on behalf of the cathedral by third parties (e.g. (a) the funding by the Church Commissioners, the diocese or other bodies of stipends and associated payroll costs of the Dean, Commissioners' canons or other clerical or lay staff, or (b) payments by the Friends of the cathedral) then these should be shown under both income and expenditure and suitably classified and described.

Donated services and facilities

A cathedral may receive assistance in the form of donated facilities, beneficial loan arrangements, donated services or services from friends and volunteers. The rules for determining the value of this income to be included in the SOFA are:

If another party is bearing the financial cost of the resources supplied and the cost to the third party of providing them is quantifiable, then that is the value to be used. (This will not normally apply to commercial discounts except where they are clearly intended as a donation.)

Where this information is not available or if the cathedral considers the value to be less than the costs borne by the third party, a reasonable estimate of the gross value to the cathedral should be used. An equivalent amount should be included as expenditure under the appropriate heading in the SOFA

Where there is no financial cost borne by another party for the provision of the assistance (e.g. in the case of Friends and volunteers) the intangible income should not be included in the SOFA.

Whether or not the benefit is quantifiable and included in the accounts, it should be acknowledged and described in the annual report (see paragraph 4.4.2).

Gifts in kind

Where investments, property or other assets are donated to the cathedral, or are sold to it at less than fair value, then the difference between the fair value and the cost to the cathedral, if any, should be shown as income in the SOFA, in the column(s) for the fund(s) to which the gift was made. If it is not practicable to estimate a fair value for a donated asset then it should be described in the annual report together with an indication of the use to which it will be put.

If an asset cannot be valued at the date of receipt but is later sold, the sale proceeds should be included as income at the date of sale. If the amount arising from the sale of an asset in a period later than the period of receipt of the asset is significant, this fact should be reported and the amount disclosed.

In the balance sheet, material donated assets, must be recorded at the value recorded in the SOFA and identified to the appropriate fund.

5.4. Expenditure

Costs of raising funds

Expenditure incurred in order to earn income must not be netted off that income but must be shown under "expenditure on raising funds". Examples are the costs of running a cathedral shop, maintaining investment property and collecting investment income. Income from appeals managed by the cathedral or its agents should be brought into account gross, and costs should be accounted for as expenditure on raising funds.

Building repairs, restoration and maintenance

Only expenditure actually incurred on repairs, restoration and maintenance should be charged to the SOFA. Any amount retained for future expenditure should be carried forward as part of the unrestricted or designated funds as appropriate.

Expenditure on repairs, restoration and maintenance, including direct labour, should be allocated to the appropriate heading in the SOFA.

Support costs

Support costs are those costs which in themselves do not contribute to mission or generate funds but are necessary for those activities to take place. They may include governance costs, office staff costs, office accommodation, office equipment, information technology, training and general office costs. These costs must all be allocated to those activities which they directly support and then to the captions within each of those three main headings. The costs of service departments should be allocated to those departments they support if they cannot be directly allocated to one of the expenditure headings in the SOFA. The method of apportionment should be reasonable and consistent between reporting periods. Greater accuracy should be balanced with the costs of apportionment. For example, information technology and telephone costs could be allocated by the number of computers or telephones in each department; office upkeep, photocopying and stationery could be allocated according to the number of full- time-equivalent staff. Training would be allocated to where it has been given.

For the avoidance of doubt, support costs must be allocated across the charitable headings and the raising funds heading. They may not be included within “other expenditure” or placed solely in one category.

An analysis of material categories of support costs by each main expenditure heading in the SOFA and the method of apportionment must be provided in the notes. See Module 8 of the SORP (FRS 102) for further information.

VAT

Any irrecoverable VAT must be included in the expenditure which gives rise to it. The total amount of irrecoverable VAT paid by the cathedral must be disclosed in the notes to the accounts.

5.5. Format of Consolidated Statement of Financial Activities

The SOFA must be analysed in columns between:

- Unrestricted funds
- Restricted funds
- Endowment funds
- Total funds

Appendix 1 explains how to account for funds. Like the Charities SORP (FRS 102), the regulations do not require designated funds to be separated from unrestricted funds on the face of the SOFA. However, a number of cathedrals designate an appreciable proportion of their free reserves. The regulations recognise that these cathedrals may wish to disclose this by way of an additional column in the SOFA between unrestricted funds and restricted funds.

Comparative figures for each column of the SOFA must be shown on the face of the SOFA or in the notes.

Headings where there is nothing to report in both the current and preceding reporting period should be omitted.

5.6. Exceptional and extraordinary items

Under these Regulations, no amounts should be described as "extraordinary" on the SOFA, balance sheet or within the notes to the accounts.

Where a transaction has been entered into that is exceptional in nature, that transaction must not be disclosed as a separate category of income or expenditure. It must be shown within the relevant heading on the SOFA and disclosed either in the notes to the accounts or as a separate item within the relevant heading if it is necessary to disclose it in such a prominent way. Where an exceptional item is presented, there must be a description of the nature of the transaction and why it is considered to be exceptional.

5.7. SOFA: Explanation of what to include under individual items

The SOFA must be a comprehensive account of all resources receivable and payable under the accruals concept by the cathedral during the year. No amount may be credited or debited directly to any fund without passing through the SOFA.

The items in this section are listed in the order in which they appear in the SOFA. Further analysis within headings may be provided if desired and headings not required should be omitted. Individual items may either be shown on the face of the SOFA or in the notes to the accounts with clearly identifiable totals carried to the SOFA. The notes should normally include all the captions listed in this section. Italicised headings are the minimum that must be reported on the SoFA itself.

Comparative figures for the total of each individual item shown either on the face of the SOFA or in the notes must be given.

Income and endowments from:

Donations and legacies

This includes all donations, legacies and grants. Cathedrals should separately disclose donations, legacies and grants on the face of the SOFA, under this category heading.

- Congregational giving

Income received from congregational collections and donations (excluding those for specific appeals, from visitors and trusts, and from legacies, all of which, if material, should be shown under specific headings).

- Donations from Friends and local trusts

All amounts given by the cathedral's Friends, including the amounts spent by Friends on the cathedral's behalf. This heading, expanded if appropriate, will also include grants from trusts formed to raise funds for the cathedral.

- Other donations

Donations from visitors and individuals and organisations, which fall outside the concept of congregational giving.

- Donated goods

Goods, facilities and services donated to the cathedral must be recognised as income when the criteria for their recognition are met. In accepting donated goods for resale, a cathedral is receiving a gift in kind on trust for conversion into cash to fund cathedral activities. Where practicable, donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale. Cathedrals should refer to the SORP (FRS 102) Module 6.

- Legacies

Under the fundamental accounting concept of accruals all income should be accounted for when it becomes due. Legacies are, in principle, no different from any other item of income and should be accrued as a debtor where the criteria applicable to the accrual of any item of income can be fully met. These criteria are:

- Entitlement: when the cathedral has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.
- Probable: Receipt of a legacy must be recognised when it is probable that it will be received. Receipt is normally probable when there has been a grant of probate; the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy, and conditions attached to the legacy are either within the control of the cathedral or have been met.
- Legacy income must only be recognised when it can be measured or estimated with sufficient reliability.

Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment has been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable.

If the interest of the cathedral in a pecuniary or residual legacy cannot be measured reliably, details of the legacy should be disclosed as a contingent asset until the criteria for income recognition are met. Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.

The amounts receivable should be allocated to the relevant fund columns in the SOFA according to any restrictions placed on their use.

- Church Commissioners' grants

Stipends and other associated costs paid by the Church Commissioners for the Dean and Commissioners' residentiary canons plus any income received under S23 of the Cathedrals Measure 1999 or any other sort of grant from the Church Commissioners. Stipends and Section 23 grants should be included as restricted funds. The associated expenditure should be allocated pro rata between all relevant staff headings.

- Diocesan grants

Any sort of grant from the diocese, including any stipends, salaries and other associated costs paid by the diocese for clergy or lay staff engaged on cathedral duties, pro rata by the time involved. The associated expenditure should be allocated to the relevant headings.

- Heritage Lottery Fund grants

- Allchurches Trust grants

- Other grants

Grants from trusts and other organisations, which derive from sources not specifically raising funds for the cathedral.

A cathedral in receipt of government grants must disclose the nature and amounts of government grants recognised in the accounts; unfulfilled conditions and other contingencies attaching to grants that have been recognised as income; and an indication of other forms of government assistance from which the cathedral has directly benefited.

Charitable activities

- Facility and other fees

Parochial fees for marriages, funerals and memorial services.

- Gross income of the choir school

This heading will only be used where the school's results are consolidated. The income reported in the cathedral's consolidated accounts will not include fees or any other income received by the school from the cathedral as these will be eliminated on consolidation against the cost of fees paid in the cathedral's books. However, this information should be provided in a note to the accounts, see paragraph 8.10.

Other trading activities

- Charges to visitors

All income received from tourists and visitors to the cathedral as formal entrance charges etc. Donations from visitors have their own heading under " Income from donations".

- Lettings of cathedral or other buildings

- Fundraising events

- Gross income of shop, refectory and other trading activities

Gross earnings from the provision of shop and other retail outlets, refectory and other catering facilities and any income received from other trading activities, including work performed by the cathedral's staff, e.g. masons, stained glass artists, members of the works staff (such as gardeners), etc, for other bodies. Cathedrals may wish to expand this and add further sub- headings if such breakdowns are material.

Investments

Where material, the notes should provide a breakdown of investment income analysed according to each class of investment shown on the balance sheet or in the investment note to the accounts.

Other income (if applicable)

- Insurance recoveries

An insurance claim must be recognised when entitlement has been established to the reimbursement of the insured loss, the receipt of that reimbursement is virtually certain and its amount can be measured reliably. The receipt of the insurance reimbursement can be recognised either as an item of other income or by offsetting it against the related expense heading in the SOFA.

Gains on disposals of operating assets

These are gains on disposal of fixed assets other than investments. Losses should be shown within expenditure.

Expenditure on:

Cathedrals must disclose expenditure within the headings set out below. Charitable activities should be disclosed individually on the SOFA, within the charitable activities category.

Raising funds

- Gross costs of shop, refectory and other trading activities

- Costs of fundraising and lettings

- Investment management costs

This includes the cost of portfolio management, obtaining investment advice, administration of the investments and costs associated with managing investment property.

Where investment managers deduct fees from investment income, the cathedral should report the gross investment income before fees and report the management fees charged in this cost category. However, cathedrals are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.

- Support costs (if not allocated across above sub-headings)

Charitable activities

A cathedral must provide a summary of its charitable expenditure across three headings: Ministry, Cathedral and precincts upkeep, and education and outreach, and according to whether the costs are direct costs, grants made or support costs.

Grant making activities, if material, should be disclosed in more detail. There must be a breakdown of grant making activities that provides the user of the accounts with an understanding of the activities or projects that are being funded and, in the case of institutional grants, information as to the recipient of the grants.

Nevertheless, a cathedral must provide a breakdown of direct costs, because it is likely to incur most of its costs through direct expenditure. The following categories of direct costs are provided as examples.

- Ministry

    - Clergy stipends and working expenses

This figure should include clergy stipends, employer's national insurance and pension contributions, working expenses and associated costs whether paid by the cathedral, the Church Commissioners, the diocese or others.

    - Clergy housing costs

    - Clergy support costs

Costs associated with the cathedral clergy such as training, conferences, identifiable payroll costs and other expenses. It should also include the costs of direct support staff, e.g. the Dean's secretary.

    - Services and music

Costs of holding services, e.g. sanctuary supplies, printing service cards etc. Costs of the music staff and choir, fees payable to any choir school not included in the consolidated accounts, visiting choirs, choir tours, vestments, sheet music, commissions, organ repairs and tuning etc. All costs of the vergers, including salaries, employer's national insurance and pension contributions, benefits including housing costs and other expenses should, if appropriate, ideally be divided between this heading and interior upkeep.

- Cathedral and precincts upkeep

    - Major repairs and restoration

Major repairs and restoration of the fabric are works often involving elements of conservation or replacement and are distinguishable from routine maintenance by the size of the work involved, the irregular nature of their incidence, and the fact that they will not recur in the foreseeable future or for a very long period of time. These costs include all associated expenditure including professional fees.

    - Maintenance and interior upkeep

Costs of routine repairs to and maintenance of the cathedral fabric including professional fees, premises management costs, materials etc. Costs of upkeep of the interior of the cathedral include cleaning, purchases of equipment, fittings and furniture not capitalised as fixed assets and maintaining the heating. Periodic modest refurbishment will come under this heading.

    - Cathedral insurance

    - Cathedral inventory purchases

    - Precincts, security and gardens upkeep

The costs of gardeners, precinct cleaners, security officers and their equipment (excluding those already included under other headings): this should also include other associated costs such as lighting walkways, signs, notices, trees, etc.

- Education and outreach
    - Choir school costs
    - Educational activities

The educational aspect of visitors' and education centres and the costs of courses and seminars, in particular those for schools.

- Archives and library

- **Community, parish and congregation**

Expenditure related to the creation and maintenance of the cathedral community roll and meetings of the community and any cathedral community committees. For those cathedrals that have such costs: parish share, youth work, adult education for congregation, parish or congregational groups and activities, committees etc.

Net gains / (losses) on investments

Any realised and unrealised gains or losses on investment assets and investment properties including gains or losses from revaluations in the reporting period.

Gross transfers between funds

The reasons for any transfers between funds should be explained in the notes to the accounts.

Other recognised gains and losses

- Unrealised gains and losses on tangible fixed assets held under the revaluation model. Realised gains and losses are shown within income or expenditure.
- Actuarial adjustments on defined benefit pension schemes.
- Other gains or losses

5.8. Reconciliation of funds

Opening and closing balances to each class of funds must be shown with the differences reconciled by the movement in funds. Closing fund balances presented in the SOFA must agree with the equivalent totals in the Balance Sheet.

6. BALANCE SHEET

6.1. General

The aim of the balance sheet is to show the assets held by the cathedral and the liabilities owed to third parties. Each asset and liability must be allocated to a fund based on whether there are any restrictions on monies donated or where the monies form part of an endowment fund. Cathedrals must present an analysis of the assets according to which fund they relate to. In order to do this, cathedrals may present a balance sheet with a column for each fund or, if this is not desired, they may present an analysis in the notes to the accounts.

Fixed assets

6.2. The cathedral, its ancillary buildings and the inventory

The SORP defines heritage assets as follows:

"A heritage asset is a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An asset may have the attributes of a heritage asset, for example it may be of historic or artistic importance, but unless it is also held and maintained for its contribution to knowledge and culture then it will not fall within the definition of a heritage asset.

Heritage assets may include abbeys, monasteries, cathedrals and historic churches and monuments where a contribution to knowledge and culture is ancillary to faith or other purposes.

Similarly, the artefacts contained within, or associated with, such assets may also be heritage assets. For example, associated artefacts could include religious artefacts contained within a cathedral or historic church."

The SORP provides that "Charities are not required to recognise heritage assets on the balance sheet if information on their cost or valuation is not available and such information cannot be obtained at a cost commensurate with the benefit to the users of the accounts and to the charity. Where reliable information on cost or value is not available, charities will need to consider if the cost of obtaining a valuation is justified by the usefulness of the information to the users of the accounts and to the charity for its own stewardship purposes".

It is likely that information on the cost of heritage assets is not available in relation to the cathedral and its ancillary buildings, such as the chapter house, cloisters and libraries, due to their historic nature. To ensure consistency between cathedrals, cathedrals and ancillary buildings must be stated at their historic cost, which is likely to be £nil, and not at a valuation.

Similarly, it is likely that no value will be attributed to historic items included in the inventory prepared under S24(1) of the Care of Cathedrals Measure 2011 as being of architectural, archaeological, artistic or historic interest. To ensure consistency between cathedrals, historic items in the inventory must be stated at their historic cost, which is likely to be £nil, and not at a valuation.

However, new inventory items acquired on or after 1 January 2019 may meet the definition of a heritage asset. These items should be included on the balance sheet at the cost to the cathedral or the estimated value of the item if the value is material. However, it is likely that no active market exists for the heritage assets acquired for the inventory and/or the cost of acquiring a valuation exceeds the benefit to be obtained. Therefore, in most cases, it will not be possible to reliably estimate the value of the asset and so the asset will not be recognised in the accounts. However, relevant disclosures must still be made about the nature of the asset.

Information on the cathedral buildings and items in the inventory should be given in the notes to the accounts and should be sufficient to enable the reader to appreciate the age and scale of these assets.

Whether included on the balance sheet or not. the cathedral must provide a summary of transactions relating to heritage assets for the current year and each of the previous four years (if practicable) that includes:

- The cost of acquisition of heritage assets;
- The value of heritage assets acquired by donation;
- Proceeds received from heritage assets disclosed in the period; and
- Any impairment recognised in the period.

The cathedral may choose to present a reconciliation of the movements between the opening and closing carrying amounts on the balance sheet for heritage assets.

6.3. Property

There are two types of properties: investment properties and properties held for the cathedral’s own purposes.

Investment properties must be measured initially at cost and subsequently at fair value at the reporting date and disclosed as an investment property. These regulations do not permit the use of FRS 102 to subsequently measure investment properties at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is not provided on investment property.

Properties used for cathedral purposes must be measured initially on the balance sheet at their historical cost and disclosed as a tangible fixed asset. A cathedral may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds. If a policy of revaluation is adopted, then all assets within that particular class must be revalued.

Mixed use property should be separated between investment property and property held for operational use as a tangible fixed asset. However, if the fair value of the investment property component cannot be measured reliably, the entire property should be accounted for as property within tangible fixed assets.

If a policy of revaluation is used for fixed assets, then cathedrals must undertake valuations on a regular basis to ensure that the carrying amount does not differ materially from the fair value of the asset at the end of the reporting period. This appraisal is normally undertaken by professionally qualified valuers although it may be carried out internally provided staff have knowledge of the relevant property market.

The notes to the accounts must disclose the effective date of the revaluation; whether an independent valuer was involved; the methods and significant assumptions applied in estimating the items' fair value and for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

A separate revaluation reserve must be shown within the funds analysis on the balance sheet in relation to revalued tangible fixed assets

Revaluation gains must be recognised as 'Gains on the revaluation of fixed assets' within the SOFA. unless they reverse a charge for impairment that has previously been recognised as a cost within the expenditure headings of the SOFA.

Revaluation losses must be recognised as an expense in the relevant expenditure heading of the SOFA except to the extent to which they offset any previous revaluation gains, in which case the loss is shown in the 'Gains/(losses) on the revaluation of fixed assets' section of the SOFA.

Any gain on disposal over the carrying amount must be recognised in 'Other income' within the SOFA.

Some cathedrals may own or lease property used by a choir or other school. If the school does not meet the criteria for consolidation and pays rent to the cathedral, there is a presumption that the buildings are investment properties and should be included under that heading in the balance sheet at fair value. If the school is consolidated, then the buildings should be classified in the consolidated accounts in the note on tangible fixed assets. In the single entity accounts, the cathedral has a choice as to whether to present it as an investment property or as a tangible fixed asset. If the latter, the cathedral must disclose the carrying amount at the end of the year of investment property rented to another group entity where the cathedral has chosen to account for such property using the cost model.

6.4. Depreciation of properties held for operational use

Depreciation should be provided on the balance sheet values of all properties except investment properties. Whether or not school buildings should be depreciated will depend on whether they are classified as investment properties, see paragraph 6.3.11. Land is not depreciated.

Depreciation should be calculated by reference to remaining useful economic lives and estimated residual values based on current prices. The economic life should be reviewed each year and, if it is material, the residual value should also be reviewed each year.

The only exception to charging depreciation is for immateriality. This implies a long unexpired life and/or a high residual value (based on current prices). To justify a high residual value the cathedral may be able to demonstrate that it has one or more of the following:

- A policy and practice of regular maintenance
- A property unlikely to suffer obsolescence, e.g. due to changes in fashion
- A policy and practice of disposing of similar properties well before the end of their lives

- A record of the disposal proceeds of similar properties matching balance sheet values.

An annual impairment review should be carried out

- if depreciation is not charged on grounds of immateriality; or
- for each property whose unexpired life is estimated at more than 50 years.

Where different parts of a property have substantially different useful lives the different parts must be valued and depreciated separately, if material.

6.5. Plant, machinery, vehicles, office equipment, computers, furniture and fittings

Unless written off on acquisition, the cost of plant, machinery, vehicles, office equipment, computers and furniture and fittings must be carried at cost less depreciation. The threshold below which the cathedral writes off items on acquisition should be stated in the accounting policies note. The depreciation charged must be recognised as an expense in the SOFA. The expense is charged or apportioned to the relevant SOFA headings reflecting the asset's use.

6.6. Movements on fixed assets

A reconciliation must be provided in the notes between the figures for each of the major subdivisions of fixed assets at the end of the previous and current years, showing purchases, sales, recognised changes in value and amounts written off.

6.7. Financial Instruments

FRS102 s11-12 & SORP Module 11 detail the treatment of financial instruments, distinguishing between "Basic Financial Instruments and "Other Financial Instruments". Initial measurement is by the amount payable or receivable or by fair value. Basic Financial instruments are dealt with in FRS102 s11 and Other Financial Instruments are considered in FRS102 s12.

6.8. Investments

Fixed asset investments in quoted shares, traded bonds and similar investments must be measured initially at cost and subsequently at fair value (their market value) at the reporting date. If investments are material then, in order to give an indication of the degree and nature of risk to which they are exposed, they should be classified in the notes between type (e.g. securities, properties) and whether listed on a recognised stock exchange in the UK, overseas, or unlisted. Where values of material investments are determined other than by reference to readily available market prices, the method of valuation should be disclosed. Shares in unlisted companies should be valued by reference to latest dealing prices, earnings, dividend record and underlying net assets as appropriate.

Unapplied total return fund must be included as a part of the relevant endowment together with the value of the trust for investment on the balance sheet. See Appendix 4.

Current assets

6.9. Stock

Stock for sale as part of a non-charitable trade must be measured at the lower of cost and net realisable value. Donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale. If the estimation of fair value of donated goods for resale is impractical, then the value to the cathedral is recognised as income when sold. The reasons why it is impractical to estimate fair value must be stated in the accounting policies.

A description of items included in stock should be provided in the notes to the accounts. It is unlikely that stocks of consumables (e.g. candles, communion wafers and wine) would be sufficiently material to justify inclusion in the balance sheet.

6.10. Debtors

Debtors should be analysed in the notes by age (due within one year and over one year) and by type:

- trade debtors
- amounts owed by connected entities
- prepayments and accrued income
- other debtors

An amount recoverable more than a year after the end of the reporting date must be measured at its present value at the balance sheet date if the time value of money is material.

6.11. Short term investments and cash

This heading includes cash on deposit and cash equivalents with a maturity of less than one year. However, if the cash or cash equivalents are held as part of a fixed asset portfolio, then they should be presented as fixed assets.

Liabilities

6.12. Borrowings

Disclosures on borrowings must follow the requirements of FRS 102; a description should be provided of each loan giving its rate of interest, repayment method and any security provided by the cathedral, by any other entity included in the consolidation, or by a third party. An analysis of total debt should show amounts falling due:

- in one year or less (under current liabilities)
- between one and two years
- between two and five years and
- in five years or more.

6.13. Creditors

Creditors must be analysed in the notes between age (within one year and over one year) and by type:

- accruals for grants payable

- bank loans and overdrafts
- trade creditors
- amounts owed to connected entities
- payments received on account for contracts or performance-related grants
- accruals and deferred income
- taxation and social security
- other creditors

Where a cathedral's accounting year and holiday year end on different dates it is likely that employees may have taken more or less than their pro-rata holiday entitlement. FRS 102 specifically requires an entity to account for this asset or liability as an accrual, if it is material to the accounts. No specific disclosure is required.

6.14. Provisions

An analysis reconciling the opening and closing carrying amounts of each class of provisions must be included in the notes. A brief description of the nature of the obligation and the expected amount and timing of resulting payments must be given with an indication of the uncertainties about the amount and timing of those outflows. The amount of any expected reimbursement should be stated.

Provisions for liabilities must be measured at the best estimate of their settlement amount. If the settlement date of a provision is likely to be more than 12 months from the reporting date and the time value of money is material to the amount, then the provision should be discounted back to its present value at the reporting date.

6.15. Contingent assets and liabilities

Contingent assets and liabilities, which are not disclosed in the balance sheet, must be described in the notes and an assessment of its financial effect given, where practicable.

6.16. Defined benefit pension scheme asset or liability

See Appendix 3.

7. CASH FLOW STATEMENT

7.1. General

The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement of cash flows must analyse cash flows using three standard headings:

- operating activities,
- investing activities and
- financing activities.

The statement of cash flows should distinguish between the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

The statement of cash flows must be prepared on a consolidated basis.

7.2. Operating activities

Operating activities are the principal income producing activities that are recognised as income and expenditure in the SOFA. The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

Examples of cash flows arising from operating activities include:

- cash receipts from donations and grants;
- cash receipts from Gift Aid claims or repayments of tax;
- cash receipts from fees, rents (excluding rent from investment properties) and royalties;
- cash payments of grants made;
- cash payments to suppliers of goods and services;
- cash payments to and on behalf of staff (for example, staff salaries and pension contributions); and
- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary).

7.3. Investing activities

Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classed as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, tangible fixed assets including property, plant and equipment.

Examples of cash flows arising from investing activities include:

- cash receipts from interest and dividends received;
- cash receipts from rent on investment properties;
- cash receipts from the sale of plant, property and equipment and other long-term assets;

- cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- cash payments to acquire investments (including conversion of endowment from cash to another form of investment); and
- cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment from cash to another form of fixed asset).

7.4. Financing activities

Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be ‘capital’ in charity law as they must be invested or retained.

Examples of cash flows arising from financing activities include:

- cash receipts from donations of endowment or the accumulation of cash under a power to create expendable endowment;
- cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;
- cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);
- cash repayments of borrowing including mortgages, loans and other borrowing; and
- cash payments by a lessee which reduces the outstanding liability relating to a finance lease.

7.5. Disclosures in the notes to the accounts

When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example cash and cash equivalents held in endowment funds, the entity must disclose the amount unavailable and explain why it is unavailable for use.

Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the balance sheet, a reconciliation must be provided.

A reconciliation of net debt must also be provided. Net debt consists of the borrowings of a charity, together with any related derivatives and obligations under finance leases, less any cash and cash equivalents. When several balances (or parts thereof) from the balance sheet have been combined to form the components of opening and closing net debt, sufficient detail shall be shown to ensure users can identify these balances. The analysis need not be presented for prior periods.

8 NOTE DISCLOSURES

8.1 Accounting policies

Cathedrals must describe, in a note to the accounts, the accounting policies that have been followed in their preparation, and in particular should state whether they have been drawn up in accordance with these regulations, and applicable accounting standards. FRS 102 explains how accounting policies should be determined. Any departures from these regulations, or FRS 102, must be justified and explained and the financial effect quantified. Accounting policies should be disclosed that are relevant to cathedrals where the amounts in the current or preceding year are material.

Accounting policies, as a minimum, must include the following:

- Basis of preparation
- Basis of consolidation (if consolidated)
- Going concern
- Income
- Expenditure
- Tangible fixed assets
- Heritage assets
- Investments
- Debtors
- Cash at bank and in hand
- Creditors and provisions
- Pensions

The going concern policy must include the conclusion the Chapter has made after they have made their assessment of the cathedral's ability to continue as a going concern, and the period of time that the Chapter's assessment covers. If there are material uncertainties about the cathedral's ability to continue as a going concern, then these must be disclosed in the accounting policies. If there are no material uncertainties, this fact must be stated.

8.2 Funds

The notes to the accounts must provide information on the structure of the cathedral's funds. In particular:

- the movements on the material individual fund balances and the reasons for them, differentiating between unrestricted funds, designated funds, restricted funds and permanent endowment
- disclosure should be made of the purpose of each of these funds and the restrictions or conditions imposed
- any funds in deficit should always be separately disclosed. An explanation should be given in the annual report (see paragraph 4.4). Designated funds can never be in deficit
- explanations should be provided for any unusual movements in the funds. In disclosing details of movements on funds, material transfers between different funds and allocations to designated funds should be separately disclosed, without netting off, and should be accompanied by an explanation of the nature of the transfers or allocations and the reasons for them.

8.3 Staff costs

The total cost of all paid staff of the cathedral must be disclosed in the notes to the accounts, giving the split between:

- Wages and salaries, including stipends
- Social security costs (employer's national insurance costs)
- Pension costs.

This disclosure should separately identify payments to clergy and payments to lay staff.

In addition, for any redundancy or termination payments, the following must be stated:

- the total amount for the reporting period
- the nature of the payment
- the accounting policy and
- the extent of funding at the balance sheet date.

The notes to the accounts must contain details of the average number of staff working for the cathedral during the year. The numbers should be divided between appropriate categories. This should include all those, including clergy paid by the cathedral, the Church Commissioners or other parties, working full or part time for an entity included in the cathedral's consolidated accounts. The total number of staff must be disclosed and, if materially different, the full time equivalent number of staff should be given. Individuals who have only their expenses reimbursed should not be regarded as paid employees.

8.4 Emoluments of higher paid staff

A note must show, if applicable, the number of employees and cathedral clergy whose emoluments fell within each band of £10,000 from £60,000 upwards. (Emoluments include stipends, fees, wages and salaries (however described and including those paid by the Church Commissioners), holiday and sick pay and the value of taxable benefits in kind but not employers' pension contributions.) If no one has emoluments above £60,000 that fact should be stated. In addition, pension details must be disclosed in total for higher paid staff, as follows:

- employers' contributions in the year to money purchase schemes
- the number of staff to whom retirement benefits are accruing under money purchase and defined benefit schemes respectively.

8.5 Pensions

8.5.1 When contributions are made to a multi-employer defined benefit pension scheme where the cathedral's share of an actuarial deficit cannot be identified, this is treated as a defined contribution scheme. However, where there is an agreement in place to make additional contributions based on current and past service of an employee, a liability must be recognised for the present value of outstanding additional contributions.

8.5.2 Appendix 3 explains how to report on the pension schemes managed by the Church of England Pensions Board.

8.6 Related party disclosures

8.6.1 Any related party transactions must be disclosed. Related party transactions occur when the cathedral, or any other entity included in the cathedral's consolidated accounts, transfers assets or liabilities or receives or provides services to or from a related party, irrespective of whether there is consideration. This includes transactions between the cathedral and other entities included in the consolidation.

8.6.2 Related parties are those where one party either can, or would appear to be in a position to, control or influence the other, or both parties are subject to common control or influence. Related parties, in the context of cathedrals, include:

- Members of the corporate body (Council, Chapter and College of Canons)
- Members of the same family or household of persons in the corporate body or of related persons who may be expected to influence, or be influenced by, that person
- The trustees of any trust, not being a charity, the beneficiaries or potential beneficiaries of which include persons in the categories above or persons connected with them
- Any business partner of any person in the categories above
- Any body corporate in which persons in the categories above, taken together, have a participating interest
- Any controlled entity or joint venture or associated undertaking in which the cathedral has a participating interest and any director of such an entity
- Any charity or trust the majority of whose trustees are persons in the corporate body
- Any pension fund for the benefit of any person in the corporate body, or the employees of the cathedral, or any person connected with the cathedral
- Any officer, agent or employee of the cathedral having authority or responsibility for directing or controlling the major activities or resources of the cathedral.

8.6.3 The information to be disclosed is:

- The name(s) of the transacting related party or parties
- A description of the relationship between the parties (including the interest of the related party in the transaction)
- A description of the transaction
- The amounts involved
- Outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons
- Any amounts written off from such balances during the reporting period
- The terms and conditions, including any security and the nature of the consideration to be provided in settlement
- Details of any guarantees given or received and
- Any other elements of the transactions, which are necessary for the understanding of the accounts.

8.6.4 The disclosure can be given in aggregate for similar transactions and type of related party unless disclosure of an individual transaction or connected transactions is necessary for an understanding of the impact of the transactions on the accounts of the cathedral. Where the related party is a member of the Council, Chapter or College of Canons, or a person related to a member of the Council, Chapter or College of Canons, each related party transaction must be separately disclosed.

8.6.5 The cathedral must make the following disclosures in relation to members of Chapter who are remunerated by the cathedral:

- The legal authority under which payments are made e.g. the Cathedrals Measure 1999 and the Cathedral constitution.
- The individual remuneration of, pension provision for and any other benefits of, each member of the Chapter. If the Chapter member is also employed on diocesan duties, then the proportions which reflect their time spent on cathedral affairs should be given (in accordance with the amounts included in the SOFA and the note on total staff costs). For diocesan clergy whose duties do not extend beyond Chapter business, the amounts involved are likely to be immaterial.
- A statement that the remuneration of, and pension provision for, clerical members of the Chapter are paid in accordance with scales laid down annually by the Church Commissioners, the Archbishops' Council and the Church of England Pensions Board, if applicable.
- If any supplement to those scales is paid by the cathedral by way of either additional stipend or expense allowance (as opposed to reimbursement of specific expenses), the supplemental amounts each receives must be included in the figures disclosed. It was recommended by the Archbishops' Commission on Cathedrals that supplemental payments be abolished in respect of future appointments. Under the Cathedrals Measure 1999, such payments require the consent of the Church Commissioners where made to individuals whose basic stipends the Commissioners are responsible under the Measure for funding.
- The note may distinguish between remuneration and benefits received as a member of Chapter, if any, and payments received as an employee.

The aggregate numbers and aggregate remuneration of these members of the Chapter are to be included in the disclosures required by paragraphs 8.2 and 8.3.

The aggregate amount of expenses reimbursed by the cathedral to members of Chapter, the nature of those expenses (e.g. travel, entertainment etc.) and the number of persons to whom expenses were paid must be disclosed. Expenses include similar payments made direct to a third party, e.g. travel tickets or accommodation. If no expenses were reimbursed, this fact must be stated.

8.6.6 Some related party transactions are such that they are unlikely to influence the pursuance of the separate independent interests of the cathedral. These need not be disclosed unless there is evidence to the contrary. Examples are:

- Donations received from a related party so long as the donor has not attached a condition which would or might require the cathedral to alter the nature of its activities. However, disclosure of donations received from related parties is required in total.
- Minor or routine services provided to the cathedral by people connected with it
- The purchase from the cathedral by a related party of minor articles, which are offered for sale on the same terms as are offered to the general public.

8.6.7 If funds belonging to the cathedral have been used to purchase insurance:

- to protect the cathedral from loss arising from the neglect or default of members of the Council, Chapter or College of Canons or of its employees or agents; or
- to indemnify the persons above against the consequences of any neglect or default on their part

these facts and the cost involved should be disclosed.

8.7 Auditor’s remuneration

The total cost to the cathedral of the remuneration (fees and reimbursed expenses) of the auditors of all the entities included in the cathedral's consolidated accounts must be disclosed in the notes to the accounts, showing separately remuneration for:

- audit services;
- assurance services other than statutory audit;
- tax advisory services; and
- other financial services, such as consultancy, financial advice, accountancy and book keeping.

8.8 Guarantees

Details must be given of any guarantees given by the cathedral or other entities included in the consolidated accounts and of any charges given on any of the assets of the cathedral or entities included in the consolidation.

8.9 Commitments

Disclosure should be made in the notes of the amount of future major expenditure (both capital and revenue) and any material charitable commitments. Details of how the expenditure is to be funded, including related grants not yet received, should also be disclosed.

8.10 Consolidated entities

Transactions between the cathedral and its subsidiaries are related party transactions and must be disclosed in the accounts.

8.11 Events after the end of the reporting period

Events after the end of the reporting period (i.e. the balance sheet date) fall into two categories: adjusting events and non-adjusting events.

Adjusting events

Adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which provide evidence of conditions existing at the reporting date which affect items in the balance sheet and items reported in the SOFA. Cathedrals must review and amend the amounts recognised in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.

Examples of events occurring after the end of the reporting period that require adjustment include:

- Settlement of a court case that confirms the entity had a liability at the end of the reporting period and not a contingent liability;

- Notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested;
- Information allowing a more reliable estimate of an amount designated (however, designation of funds for a new purpose after the reporting date is not an adjusting event);
- Identification of a fraud, mis-statement or error which has a material effect on an item in the accounts;
- New information concerning an impairment of an asset, for example doubts over a property valuation or a bad debt; or
- New information that indicates that the entity may not be a going concern.

Non-adjusting events occurring after the end of the reporting period

Non-adjusting event are those events occurring after the end of the reporting period but before the accounts are authorised for issue which relate to conditions that arose **after** the end of the reporting period. The disclosure of non-adjusting events provides useful and relevant information about the entity to users of the accounts. Examples of non-adjusting events that may occur after the reporting date that should be disclosed include:

- The purchase of a new building to expand the entity's capacity to further its purposes;
- The announcement or implementation of a major restructuring;
- The announcement of a new fundraising appeal or the degree of success achieved by a fundraising appeal;
- A material loss of assets or diminution in the value (impairment) of assets subsequent to the reporting date, for example due to flood or fire;
- A material decline in the market value of investments;
- The commencement of a major litigation; or
- The entering into significant commitments or the identification of material contingent liabilities or the giving of material guarantees.

For each category of non-adjusting event, the notes to the accounts must provide details of the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

Chapters which adopt the total return basis for the investment of endowment funds must refer to Appendix 4 for details of the disclosures required in the notes to the accounts.

9 GLOSSARY OF TERMS SPECIFIC TO CATHEDRALS

9.1 Ancillary buildings

The buildings attached to a Cathedral within the red line, i.e. the boundary set out in the relevant plan attached to the Ecclesiastical Exemption (Listed Buildings and Conservation Areas) Order 1994, such as the chapter house, cloisters and libraries. For valuation purposes, investment property, dwelling houses and properties used solely for commercial purposes, e.g. shops and refectories are excluded even if they are situated within the red line.

9.2 Inalienable assets

An Inalienable asset is an asset held by a cathedral which it must retain indefinitely. Inalienable assets have all of the following characteristics:

- The asset is retained indefinitely for a cathedral's own use and benefit to further its charitable aims.
- The cathedral is effectively prohibited from disposing of the asset without external consent.
- The asset, by its nature, will belong to a cathedral's restricted funds and, depending on the trusts attached to the asset, may be part of the permanent endowment.

Disposal without external consent could be prohibited by the cathedral's governing document, the donor imposed conditions or in some other way. Normally, the asset will belong to the cathedral's permanent endowment, where it is held on trusts that contemplate its retention and continuing use but not its disposal. However, in the case of a gift in kind of a wasting asset, such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. The asset will be expended to the extent of the aggregate amount of its depreciation or amortisation, properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

9.3 Inventory

The Care of Cathedrals Measure 2011 defines those items to be included in the inventory (see Appendix 2).

9.4 Fair value

Fair value describes the open market value of an asset. It is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted, between knowledgeable and willing parties in an arms length transaction.

For securities listed on a stock exchange, the fair value is the bid price of the security quoted on that stock exchange.

If there is no market price available, then the chapter must estimate the fair value, assisted by an expert valuer if appropriate. Chapter must aim to make their best estimate of a price for the sale or purchase of the asset or liability even though a transaction for an identical or similar asset has not taken place on an open market.

Appendix 1 - THE FUNDS OF A CATHEDRAL

The purpose of this appendix is to explain the legal position as regards the various funds of a cathedral and the implications this has for the way in which the funds are accounted for.

Unrestricted funds

Unrestricted funds are spent or applied at the discretion of the Chapter in furtherance of the ministry of the cathedral. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.

Designated Funds

The Chapter may set aside part of the cathedral's unrestricted funds to be used for particular purposes in the future. Such funds are called "designated funds". The designation has an administrative purpose only and does not legally restrict the Chapter's discretion to reallocate such funds to unrestricted funds. Identifying designated funds may be helpful when explaining the cathedral's reserve policy and the level of reserves it holds.

Restricted Funds

Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which the cathedral can lawfully use the restricted funds. It is possible that a cathedral may have several individual restricted funds, each for a particular purpose.

In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In which case, the cathedral will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, the chapter may decide to designate those funds to reflect the purposes which the donor has in mind.

Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the cathedral. Alternatively, the restricted fund may be an endowment. Trust law requires a cathedral to invest the assets of an endowment or retain them for the cathedral's use in furtherance of its charitable purposes, rather than apply or spend them as income.

When a tangible fixed asset is funded through an appeal or by way of a grant or donation, the accounting treatment of the asset acquired will depend on the circumstances of each case. In deciding whether the asset is categorised as restricted or unrestricted, Chapter should consider whether the terms of the gift:

- Require the cathedral to hold the tangible fixed asset acquired on an on-going basis for a specific purpose; or
- Are met once the specified asset is acquired, so allowing the cathedral to use the asset acquired on an unrestricted basis for any charitable purpose.

In maintaining the accounting records, cathedrals must separately identify each restricted fund and the income and expenditure from each restricted fund.

Costs charged to a restricted fund relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken by the restricted fund(s). In addition to a reasonable allocation of support costs, other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates. Expenditure attributable to a restricted fund may still be charged to it even if there is an insufficient balance on that fund at the time. However, expenditure should only be charged to a restricted fund in deficit when there is a realistic expectation that future income will be received to cover the shortfall, for example when a decision has been made to invite donations to that restricted fund.

Endowment Funds

A capital fund where there is no power to convert the capital into income is known as a permanent endowment fund, which must generally be held indefinitely. This concept of "permanence" does not however mean that the assets held in the endowment fund cannot be sold nor does it mean that they are incapable of depreciation or loss. What it does mean is that permanent endowment capital cannot be spent as if it were income. However, certain payments can be made out of the endowment, such as the payment of investment management fees where these relate to investments held within the endowment. Where assets held in a permanent endowment fund are sold, their place in the fund must be taken by the proceeds, which can be used to purchase a different investment asset.

- Income

Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the cathedral (unrestricted income), unless a specific purpose has been declared for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income.

- Expenditure

Any expenses incurred in the administration, or protection of endowment investments should be charged to capital. For example, the fees of someone who manages endowment investments, or the cost of improvements to land held as an endowment investment. Only where the trusts of the charity provide to the contrary, or there are insufficient funds in the endowment to meet such costs, can they be charged against the other funds held by the charity.

However, where charities have land held as endowment investments, then rent collection, property repairs and maintenance charges would normally be charged against the relevant income fund as would the cost of rent reviews. Valuation fees and other expenses incurred in connection with the sale of such land would normally be charged to capital, ie. against the gain (or added to the loss) realised on the disposal.

Valuation fees incurred for accounting purposes would normally, in the case of endowment investments, be charged to capital and recorded in expenditure.

All income derived from assets held as endowment investments should be included in the Statement of Financial Activities. Normally the income forms part of the unrestricted funds but if the application of the income is restricted to a particular purpose the income and corresponding expenditure should be appropriately identified in the restricted funds. Any income not spent at the year- end should be carried forward in the appropriate unrestricted or restricted fund.

General points Asset Gains and Losses

If a gain is made on the disposal of an asset, the gain will form part of the fund in which the asset was held. An unrealised gain on an asset will also form part of the fund in which the asset is held. Similarly, unrealised losses and provisions for depreciation and impairment of an asset will reduce the fund in which the asset is (or, in the case of a realised loss, was) held. In order to ensure that gains, losses and provisions are added to or deducted from the correct fund it is therefore essential to know which assets and liabilities are held in which fund.

Restricted Income and Expenditure

The trustees of a charity will be in breach of trust if they expend restricted income otherwise than in furtherance of that aspect or those aspects of the objects of the charity to which expenditure is restricted. It is therefore essential that due care is taken to spend out of a particular restricted income fund only where the trusts so permit. Expenditure may be charged to a restricted fund to create a deficit in the fund where there is a genuine anticipation of receipts which can properly be credited to the fund in order to meet the expenditure (e.g. where a decision has been taken to invite donations for that fund). The fund which is actually drawn upon to finance the expenditure should be held upon trusts which are wide enough to permit the expenditure (in case the expected receipts do not materialise). However, if expenditure has been charged to an unrestricted fund, it should not subsequently be recharged to restricted fund receipts simply in order to increase the unrestricted fund. Loans from one fund to another are classed as transfers and can only be made where the purpose of the funds are sufficiently similar to allow such payments.

Fund Assets and Liabilities

It is also important for the trustees to ensure that the assets and liabilities held in a fund are consistent with the fund type; if a fund which, because of donor restrictions, must be applied in the short term is represented by assets which cannot reasonably be expected to be realised in the short term, there is a real possibility that the charity will not be able to apply the funds as directed.

Income Application

Where restricted income has been invested prior to application for a suitable charitable purpose, any income/gains derived from the investment will be added to, and form part of, the restricted income fund in question. Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the charity (unrestricted income), unless a specific purpose has been declared by the donor for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income. Gains from the realisation of investments in an (endowment) fund form part of the fund itself.

Appendix 2 - CARE OF CATHEDRALS MEASURE 2011

The following is a brief summary of the Care of Cathedrals Measure 2011 in so far as it is relevant to the cathedral buildings and the Inventory.

The Care of Cathedrals Measure 2011 is designed to make provision for the care and conservation of cathedral churches. It establishes a Cathedrals Fabric Commission (the Commission) and requires each cathedral to set up a Fabric Advisory Committee. No work may be carried out on the cathedral that would materially affect its architectural, archaeological, artistic or historic character, nor may any object of architectural, archaeological or artistic interest be sold, lent or disposed of without the approval of either the Commission or the Fabric Advisory Committee (FAC).

The Measure sets out in detail how this approval is to be obtained.

The cathedral architect must report to the Chapter and to the Commission every five years on the work which he considers will need to be carried out as soon as practicable (s26).

The cathedral's FAC consists of an equal number of members appointed by the Chapter and the Commission. The Commission's nominees will have special knowledge of the care and maintenance of buildings of outstanding architectural or historic interest and a particular interest in the cathedral concerned (Sch 2(1) of the Measure).

The Chapter is required to maintain an inventory of all items considered by the FAC to be of architectural, archaeological, artistic or historic interest in the possession of the cathedral church (s 24). The form of the inventory is specified by the Commission. The sale, loan or other disposal of an object included in the inventory requires approval from the cathedral's Fabric Advisory Committee. If the item is of outstanding interest, then approval is required from the Cathedrals Fabric Commission.

"An object of architectural, archaeological, artistic or historic interest" should be taken to be any object of intrinsic merit in these fields, or any object which in some way elucidates or extends the current knowledge or understanding of the architectural, archaeological, artistic or historic heritage of a cathedral church and its foundation, or which is illustrative of its contribution to ecclesiastical or wider history" (Advisory Guidelines, 3iii, Cathedrals Fabric Commission, 1992). Items to be recorded in the inventory include altars, fonts, furnishings, plate of precious metals, other vessels and ornaments, vestments, textiles and embroideries, musical instruments (e.g. organs), bells, clocks and dials, monuments, paintings, windows, tiles and ceramics (see Appendix 1 to Advisory Guidelines for a checklist of possible categories and types of object).

Some cathedrals may have prepared asset registers or other lists of all their possessions, including e.g. chairs and audiovisual equipment. Such lists should not be confused with the inventory required by the Measure.

The Measure is supported by detailed rules (Care of Cathedrals Rules 2006) and directions and guidelines issued by the Commission. All these documents should be referred to if it is necessary to obtain a fuller understanding of the subject. Advice can be found on the ChurchCare website, www.churchcare.co.uk

Appendix 3 - PENSION SCHEMES

Background – Clergy Pensions

Clergy pensions are provided by two different schemes:

- The Church of England Pensions Scheme, funded by the Church Commissioners, relates to pensions arising from service up until 31 December 1997. No charge for that past service pension obligation is made on cathedrals and cathedrals have no responsibility to account for any aspect of this scheme.
- The Church of England Funded Pensions Scheme (the Funded Scheme) relates to pensions arising from service from 1 January 1998. This latter scheme is a contributory defined benefit scheme with contributions being paid by those paying the stipends/salaries of the members. When cathedrals are responsible for paying clergy stipends, they make contributions to this funded scheme and must account for this in their accounts.

Contribution rates to the funded scheme will vary according to actuarial review, normally undertaken every three years.

Background – Lay Employee Pensions

The provision of pension arrangements for lay employees can vary between cathedrals, with some participating in a section of the Church Workers Pension Fund and others having separate 3rd party provision.

The Church Workers Pension Fund ("CWPF") now has 3 discrete "Sections" within the Fund that cathedrals can be participating employers of:

- Defined Benefit Section ("DBS");
- Pension Builder Classic (has been known as the Defined Contribution Scheme or Pension Builder);
- Pension Builder 2014 – a cash accumulation scheme within the Pension Builder section of CWPF which has been designed to meet the mandatory requirements of the Government's Auto Enrolment Regulations

Accounting Requirements – the basics

There are two main types of pension scheme (or "plans"):

- a defined contribution plan;
- and a defined benefit plan.

In a defined contribution scheme the employer contracts to pay specific contributions to an employee's pension fund, usually based on a percentage of salary. The employee will also normally contribute to the scheme. The amount the employee will receive in the future as a pension will depend on the investment performance of the particular fund's assets. The employer has no other ongoing liability. The cost of providing the pension will be charged to staff costs in the annual accounts as the contributions payable for the year.

In a defined benefit scheme, the employer contracts to finance a pension which will provide a certain amount, for example, one/sixtieth of final salary multiplied by the number of years' service over a given period of time. In such schemes the employer has an open-ended liability. A defined benefit scheme requires periodic actuarial review to advise the employer/trustees of any adjustments needed to the annual rates of contributions to be made. Final salary schemes are the most common type of defined benefit scheme, and the higher-paid an employee is on retirement and the longer the length of service the greater the employee's pension entitlement will be and thus the greater the liability to be met out of the pension scheme. Actuarial reviews are complicated, as future salary levels and investment returns can only be estimated, and at the point of any year-end review the fund could appear to be in deficit or surplus depending on the state of investment markets and on the various assumptions made in the method of calculation required under the standard.

Module 17 of the SORP (FRS 102) states that a multi-employer defined benefit pension scheme must be accounted for as a defined benefit pension unless sufficient information is not available to use defined benefit accounting. Where sufficient information is not available charities participating in a multi-employer defined benefit scheme must account for contributions to the plan as if they were made to a defined contribution plan. A charity that is accounting for its obligations under a defined benefit multi-employer plan as though it were a defined contribution plan must also recognise any liability to make payments to fund any deficit relating to past service where it has entered into an agreement to make those payments. The cathedral must recognise a liability for the present value of contributions payable that result from the terms of the agreement with the multi-employer plan. This expense should be allocated, where practicable, to the activities in the SOFA to which the past service cost relates and must be disclosed separately if it is material.

Defined Contributions plans are post-employment benefit plans where the employer pays fixed contributions into a separate fund. There is no obligation on the employer to make additional payments to the plan. Any liability and expenses should be allocated to the unrestricted funds and restricted funds on the same basis as other employee related costs. If a scheme is not a defined contribution plan then it is a defined benefit plan.

The disclosure of the full impact of any multi-employer defined benefit plan in the Cathedral's balance sheet and SOFA requires the ability to be able to identify each employer's share of the scheme's assets and liabilities. Where this is not possible then the pension plan is treated in the accounts as a defined contribution plan – though full notes about the plan are required.

The significant difference within FRS102 is that where a multi-employer defined benefit pension scheme is accounted for as a defined contribution scheme and the participating Employers have an agreement in place to fund a deficit relating to past service, the employers should recognise a liability to make the payments to fund the deficit (FRS 102 28.11A and SORP17.190).

The standard notes that should the liability not be settled within the next 12 months then it should be measured at the present value of the future deficit reduction contributions payable. These payments are discounted to the present value using the market yield on high quality corporate bonds, if material. They would also recognise a finance cost within their SOFA equal to the unwinding of the discount rate.

By means of illustration, assuming deficit payments of £375,000 per year payable over 15 years, using a discount rate of 4.5% would result in a balance sheet liability of around £4 million. The finance costs would be equivalent to an annual deficit payment of c.£375,000 in this example.

Accounting application to cathedral financial statements

Defined contribution schemes are operated by a number of cathedrals in relation to lay members of staff, but the Clergy Funded Pension Scheme and the majority of other pension schemes for cathedral lay staff are defined benefit schemes in nature.

Some cathedrals are members of the CWPF for lay employees, in which each cathedral is classed as a separate employer. However, both schemes should be treated as defined contribution schemes for the purposes of cathedral financial accounts rather than defined benefit schemes. This is because the schemes assets and liabilities cannot be apportioned between the participating employers and the divisions that exist between employers' sections are notional.

However, each cathedral needs to take care that if they have entered into an agreement that determines how the cathedral will fund a deficit, then the cathedral needs to recognise a present value liability for the contributions payable that arise from the agreement (to the extent that they relate to the Deficit) with a resulting expense in the SOFA allocated it to the activities to which the past service cost relates and disclosed separately (if material).

Cathedrals whose staff are not members of the Church Workers Pension Fund but have a defined benefit scheme with some other provider should clarify with their providers how they should account for the scheme under FRS102.

No provision should be made by cathedrals for past service pensions for clergy service up to 31 December 1997 which are paid from the Church of England Pensions Scheme funded by the Church Commissioners. With effect from 1 January 1998, cathedral clergy became members of the Church of England Funded Pension Scheme - its accounting treatment is the same as that of the Church Workers Pension Fund.

The remaining sections of the Church Workers Pension Fund (Pension Builder Classic and Pension Builder 2014) are known as “hybrid schemes” in that their nature combines elements of both defined benefit and defined contribution schemes. These schemes are to be accounted for as defined contribution schemes for the purpose of the cathedral’s financial statements. The amounts recognised within the SOFA are the amount of contributions payable for that fiscal period.

Pension Disclosure

Cathedrals should disclose the pension position by way of a note. The Pensions Board will provide a draft wording for this note each year.

Appendix 4 - TOTAL RETURN (INVESTMENTS)

1 Trust law requires the trustees of a permanently endowed fund to be even-handed in the way that they allocate investment returns between current and future beneficiaries. Under standard trust rules, income generated from endowed investments must be spent on the purposes of the fund for current beneficiaries and any capital gains or losses must be allocated to the capital of the endowment held to produce income for the benefit of future beneficiaries.

2 The Church of England (Miscellaneous Provisions) Measure 2014 amends the Cathedrals Measure 1999 to allow cathedrals to adopt a total return approach to permanent endowment funds.

3 When a **total return** approach to investment is adopted, the permanently endowed funds are invested to produce an investment return without regard to whether that return is in the form of income (for example, dividends or interest) or capital appreciation.

4 The investment return, whether produced from income or capital, forms a component of the endowment fund known as the 'unapplied total return'. The trustees then periodically determine how much of the 'unapplied total return' is released to income for spending and how much is retained for investment as a component of the endowment. This allocation must be made equitably to balance the need for income to meet current requirements and to hold funds as part of the endowment to produce investment returns for the future.

5 Under a total return approach to investment, the endowment has two distinct components:

- the value of the original and any subsequent gifts made to the capital of the endowment (which cannot normally be spent) which is termed the 'value of the trust for investment'; and
- the 'unapplied total return' which represents the accumulated investment returns from the investment of the endowment less any amounts which have been allocated to income.

6 The Chapter may, if satisfied that it is in the interests of the cathedral to do so, amend or revoke a total return resolution. Where the Chapter is proposing to revoke a total return resolution, it must determine whether or not there is a negative total return, where the total return represents a reduction in the value of the cathedral's endowment, as it was immediately before the total return resolution was passed.

7 Where the Chapter determines that there is a negative total return, it must make provision in its annual report and accounts specifying how an amount equivalent to the negative total return is to be paid in to the cathedral's endowment over such period as the Chapter thinks reasonable, not exceeding 10 years from the date when the total return resolution is revoked.

8 Where the Chapter does not determine that there is a negative total return, the Chapter must determine what part of the unapplied total return of the assets of the cathedral should be allocated for accumulation as part of its investments.

9 The amount allocated must not result in the value of the cathedral's endowment immediately after the date of the revocation exceeding its value immediately before the date when the total return resolution was passed, increased by the rise in the Retail Price Index between the last mentioned date and the date of revocation.

Disclosures required in the trustees' annual report

10 The Chapter must provide the following additional information in the annual report:

- the date that the initial value of the trust for investment and the initial value of the unapplied total return was established;
- the policy used to identify the initial amounts of the trust for investment and any unapplied total return and the date this analysis was performed;
- an explanation of the policies used by the Chapter and the factors considered in determining the amount of the unapplied total return allocated to income (termed the trust for application) and any amounts allocated to the trust for investment in the reporting period;
- an explanation of the policies used by the Chapter and the factors considered in determining the amount, if any, of the trust for investment (permanent endowment) allocated to the unapplied total return or any recoupment made from the unapplied total return into the trust for investment in the reporting period; and
- the name and professional qualifications of any person who has provided advice to the Chapter as to the amount that can be allocated to income and/ or the trust for investment from the unapplied total return in the reporting period.

The accounting treatment

11 The SORP (FRS 102) requires that the following accounting treatment must be used where a charity adopts a total return approach to the investment of endowment:

- income from the endowment's investments must be recognised as 'investment income' in the endowment column of the SOFA;
- investment gains and losses (realised and unrealised gains and losses) must be recognised as 'investment gains and losses' in the endowment column of the SOFA;
- any part of the unapplied total return that is allocated to income funds must be separately identified in the SOFA as an allocation between endowment funds and income funds either within the 'transfer' line or within the 'other income' section of the SOFA; and
- the amount of any unapplied total return fund must be included as a part of the relevant endowment together with the value of the trust for investment on the balance sheet.

12 Exceptionally, where investment losses exceed the amount of unapplied total return, the loss must be treated as a reduction in the value of the trust for investment component of the permanent endowment until such time as these losses are reversed.

Disclosures required in the notes to the accounts

13 The SORP (FRS 102) requires that the notes to the accounts must provide the following information for each endowment fund that is invested on a total return basis:

- the amount of the value of the trust for investment which comprises the gift component of the endowment at the start of the reporting period;
- the amount of any additional gifts to the endowment fund during the reporting period added to the value of the trust for investment;
- the amount of any unapplied total return at the start of the reporting period;
- the amount of the investment return from the investment of the endowment for the reporting period;
- the amount of any allocations of unapplied total return to income funds;
- the amount of any recoupment to make good the value of the trust for investment;
- the amount of any allocation from the trust for investment to the unapplied total return;
- the amount of any unapplied total return at the end of the reporting period;
- the total amount of the endowment fund at the end of the reporting period; and
- details of the power of investment or the order that permits the charity to adopt a total return approach to investment.

Appendix 5

CATHEDRALS ADMINISTRATION AND FINANCE ASSOCIATION ACCOUNTS WORKING GROUP

Members of the working group (2015 revisions)

Jacqui Brown(Chairman)	Head of Finance	Durham Cathedral
Caroline Robinson (Secretary)	Chapter Treasurer	Chelmsford Cathedral
Carol Fletcher	Senior Financial Planner	Church Commissioners
John Atherden	Cathedral Accountant	Manchester Cathedral
Rob Trice	Finance Manager	Rochester Cathedral
Richard Gurd	Finance Director / Cathedral Accountant	Salisbury Cathedral
Fran Joel	Finance Manager	Sheffield Cathedral

Members of the working group (2018 updates)

Caroline Robinson (Chairman)	Chapter Treasurer	Chelmsford Cathedral
Carol Fletcher	Senior Financial Planner	Church Commissioners
John Atherden	Cathedral Accountant	Manchester Cathedral
David Webster	Financial Accounting Manager	Church Commissioners