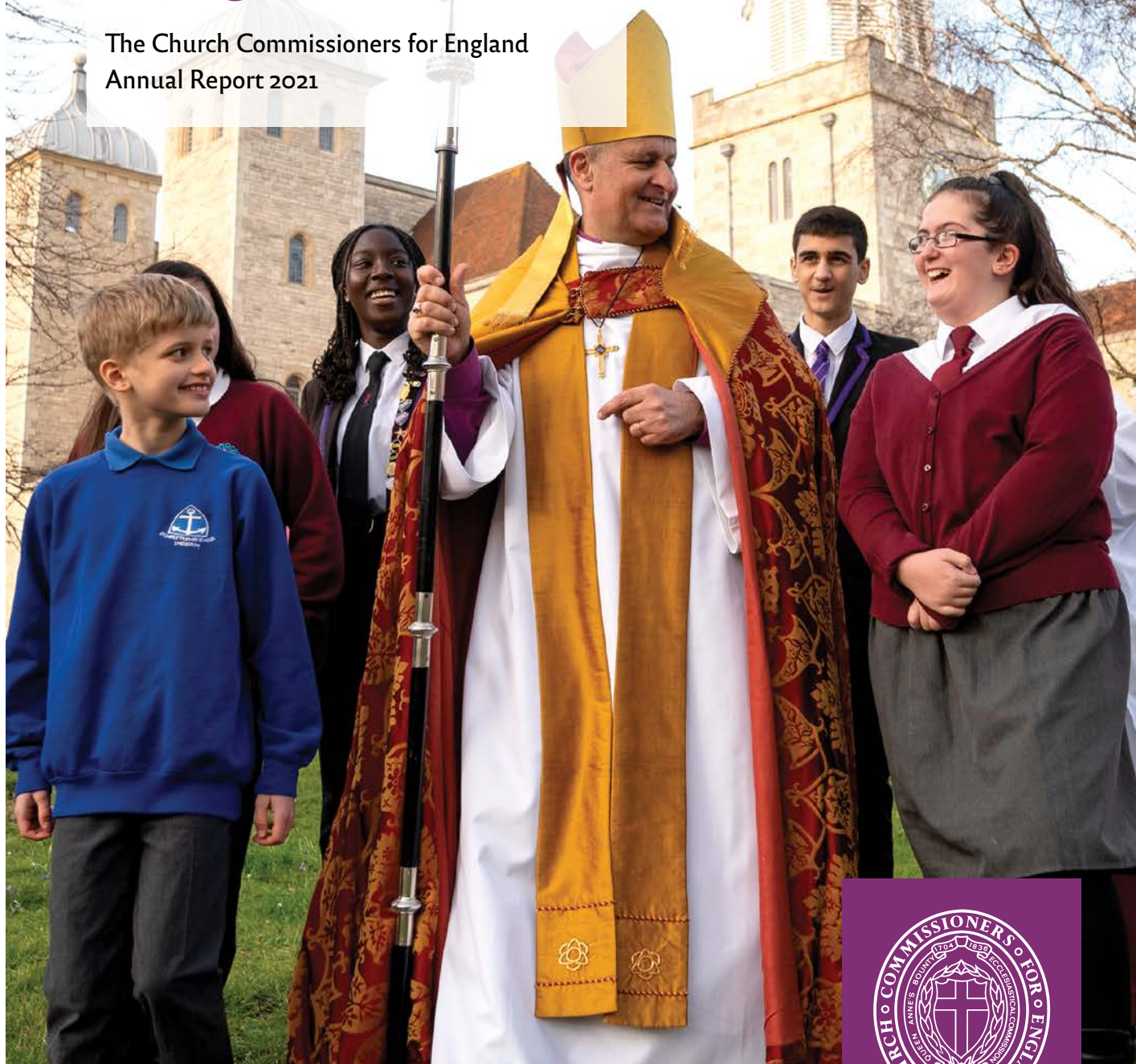


SUPPORTING THE WORK AND MISSION OF THE CHURCH OF ENGLAND

The Church Commissioners for England
Annual Report 2021



CHURCH COMMISSIONERS *for* ENGLAND



The Church Commissioners
Annual Report 2021

Supporting the work and mission
of the Church of England

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



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THE CHURCH COMMISSIONERS FOR ENGLAND

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Front cover: Peter Langdown



OVERVIEW AND WELCOME FROM THE ARCHBISHOP OF CANTERBURY

I am profoundly grateful for the support the Church Commissioners continue to give to the Church, especially for the wide breadth of initiatives they manage which go on in the background and which many rely upon.

I would especially like to share my gratitude to the staff and trustees for their work over the previous year.

During the pandemic, when many parishes were suffering financially, the Church Commissioners provided much-needed funding to enable sustainability, support and growth. The ongoing commitment from the Commissioners to provide significant finances to enable a large proportion of the mission and ministry of the Church is hugely welcome. This resilient and growing financial support provides confidence as the Church emerges from the challenges of the pandemic over the past two years.

We also owe our gratitude to the Church Commissioners for the critical administrative work they do for the Church. This includes supporting the ministry of cathedrals and bishops, as well as dioceses and parishes considering pastoral reorganisations. The national resources the Commissioners provide alongside the financial support for the Church's mission and ministry is greatly valued.

In obedience to Christ, we are a Church that is for all people in how we respond to the needs of the country, and to people of all faiths and none. Following the release of the *Coming Home* report in February 2021, the Church Commissioners have been working in partnership with others across the Church and beyond as we step up our efforts to provide safe and affordable housing for all. This is a key part of the Church's mission to be a Church in all places and contexts and so I am particularly grateful for this work.

The environment and climate change has been a key issue for the Church as we do all we can to protect God's creation. I have long been impressed with the

Commissioners' commitment on this issue and the engagement they undertake on the Church's behalf to encourage and enable sectors of the economy to transition to net zero carbon. Their work continued to have a significant impact in 2021. We continue to challenge ourselves as well as the companies in which the Commissioners invest, particularly lobbying to protect the world against deforestation as the Commissioners take a leading role as a responsible investor.

Their responsible investment approach, founded on the principles of "Respect for People" and "Respect for the Planet", has given the Church Commissioners opportunities to have thorough and meaningful conversations with economic partners and companies on which we all rely daily. Here in the Church, we are in the business of conversion, and therefore we should not rest until we have created a fair and just society in which all can flourish.

I would like to share my gratitude for the great support Loretta Minghella, former First Church Estates Commissioner, and former Third Church Estates Commissioner Eve Poole gave to the Church during their tenures. Loretta and Eve have dedicated much to serving our community. We are indebted to them both and will miss them greatly. The appointment of Alan Smith, the new First Church Estates Commissioner, and Flora Winfield, who joined the Commissioners in February 2022 as Third Church Estates Commissioner is exciting for the Church, and I welcome them both to their new roles.

I pray for the work of the Commissioners, the staff and all those who deliver for the Church thanks to their support.

Justin Welby
Archbishop of Canterbury and Chair



The Church Commissioners have provided much-needed funding to enable growth, sustainability and support during the pandemic



AT A GLANCE

We support the mission of the Church of England through ethical and responsible management of the Church's historic endowment fund.

	2021	2020
Total return	13.3%	10.4%
Total return (30 years average)	9.9%	9.5%
Supporting dioceses and the local church	£86.8M	£99.1M
Bishops' and Archbishops' ministry	£42.2M	£37.9M
Cathedrals' ministry	£12.3M	£20.0M
Other activities	£6.0M	£5.5M
Total charitable expenditure excluding clergy pensions obligation	£147.3M	£162.5M
Total cash paid on clergy pensions	£116.1M	£118.9M
Investment fund	£10.1BN	£9.2BN





St James's Piccadilly,
Diocese of London

OUR PURPOSE

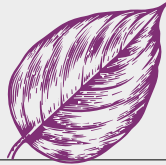
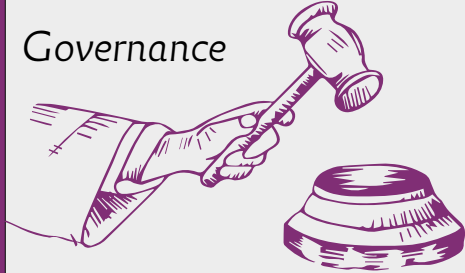

The Church Commissioners work to support the Church of England's ministry, particularly in areas of need and opportunity. We do this through responsible and ethical management of a diverse investment portfolio which enables us to maintain and grow our support for the Church, by helping to ensure funding is intentionally used for mission

and growth, by managing our costs effectively, and by embracing the principles of accountability and service in all that we do. Successful delivery of our purpose is underpinned by investment in a team of high-calibre trustees, committee members, and staff, and our commitment to their wellbeing and inclusion.

STRATEGIC PRIORITIES		2021 ACHIEVEMENTS	2022 OBJECTIVES
<p>Supporting the Church's Vision & Strategy for the 2020s, through targeted funding, practical guidance and effective processes</p> 	<p>Ensure that Church Commissioners' funding is intentionally used for mission and growth</p>	<ul style="list-style-type: none"> ⌘ Worked in partnership with the Archbishops' Council to ensure diocesan funding streams continue to be deployed in line with agreed criteria and in accordance with need, reflecting the ongoing impact of Covid-19 ⌘ Managed the replenished Cathedral Sustainability Fund to address strategic priorities and Covid-19-related support ⌘ Completed the move into and opened the new Lambeth Palace Library, realising the vision to collect, preserve and make accessible the collections so they can be explored and enjoyed by all 	<ul style="list-style-type: none"> ⌘ Complete triennial actuarial review, agree spending plans for 2023–25 and ensure they are well communicated ⌘ Support Racial Justice through appropriate resourcing, including through the 2023–2025 triennium spending plans ⌘ Complete the investigation into historic links to the transatlantic slave trade, reporting on the findings as a platform of remembrance, reconciliation and repair so as to promote a better future for us all
	<p>Support different parts of the Church to enhance the use of their resources to advance mission and growth</p>	<ul style="list-style-type: none"> ⌘ Implemented the new Cathedrals Measure and established a co-regulation function with the Charity Commission ⌘ Ensured continued fairness in adjudicatory functions under the Mission and Pastoral Measure while seeking to improve process efficiency through legislative change – prepared consultation paper for consideration by General Synod and wider church 	<ul style="list-style-type: none"> ⌘ Support local churches and dioceses with the development of shared/consolidated service functions ⌘ Continue Mission and Pastoral Measure review. Report to February Synod, then develop next steps
<p>Investing for Good</p> 	<p>Allow the Commissioners to meet their pension obligations and maintain and grow over time their support to the wider Church, by achieving a real rate of return (target: CPIH +4%) through a diversified portfolio to manage risk that's at the forefront of responsible investment globally and is consistent with our ethical policies</p>	<ul style="list-style-type: none"> ⌘ Maintained delivery of strong investment returns, above target over the long term ⌘ Continued implementation of new investment systems and operational processes to support execution of investment strategy ⌘ Developed and delivered a refreshed Responsible Investment strategy, centred on pillars of "Respect for the Planet", focusing on climate change and natural capital, and "Respect for People", focused on human rights and diversity and inclusion 	<ul style="list-style-type: none"> ⌘ Continue to deliver strong investment returns, above target (CPIH+4.0%) over the long run ⌘ Continue Responsible Investment efforts centred on two main pillars: "Respect for the Planet" and "Respect for People" ⌘ Plan to progress on biodiversity, diversity and inclusion, and artificial intelligence themes in particular ⌘ Introduce new resourcing to take forward suitable affordable housing sites and piloting alternative strategies for taking forward development sites ⌘ Continue the process of identification and implementation of cost-efficiency initiatives, including exploring opportunity to bring 'in house' more of the public equities portfolio

OUR PURPOSE

continued

STRATEGIC PRIORITIES		2021 ACHIEVEMENTS	2022 OBJECTIVES	
FIRM FOUNDATIONS	<div>Environment</div> 	A Church that cherishes God's creation and leads by example in becoming net zero by 2030	<ul style="list-style-type: none">✦ New objective for 2022 <ul style="list-style-type: none">✦ Continue Responsible Investment efforts centred on the "Respect for the Planet" pillar✦ Integrate ESG across real estate portfolio. Develop strategy to achieve net zero commitment (including assessment of carbon pricing) and natural capital strategy to enhance biodiversity	
	<div>Safeguarding</div>	A Church that affirms the dignity of all people by being a safe place for all children and vulnerable adults	<ul style="list-style-type: none">✦ New objective for 2022 <ul style="list-style-type: none">✦ Support the Church's efforts to make it a safe place for all by participating in the design and implementation of an appropriate redress scheme for survivors of safeguarding failures	
	<div>Governance</div> 	Effective Board, Committees and Executive, to ensure objectives are met, and with appropriate accountability to Parliament and Church	<ul style="list-style-type: none">✦ Continued to support the appointment of high-calibre trustees, championing increased diversity. Particular focus was on supporting the Crown with successful appointments of First and Third Church Estates Commissioners✦ Embedded a new governance portal to improve effectiveness, efficiency and security of administration for Board and Committee meetings✦ Progressed historic slave trade research project	<ul style="list-style-type: none">✦ Support the implementation of any changes arising from the Governance Review Group✦ Support robust trustee recruitment processes leading to high-quality, diverse appointments and effective induction of new members
	<div>Finance</div>	Management of costs and commitments so our financial support, especially for areas of need and opportunity, can be maintained and grown over time	<ul style="list-style-type: none">✦ Continued to manage finances in line with agreed spending plans and budgets. Carried out annual actuarial review to maintain a distribution policy consistent with the aim of optimising support for today's Church while ensuring long-term sustainability✦ Improved communication and broadened understanding of Church Commissioners' financial investment and distribution strategy	<ul style="list-style-type: none">✦ Complete triennial actuarial review, agree spending plans for 2023–25 and ensure it is well communicated
	<div>People</div> 	Attract, retain and motivate high-calibre staff. Support staff engagement, performance, belonging and inclusion to ensure effective delivery of our goals	<ul style="list-style-type: none">✦ Continued focus on belonging, inclusion and wellbeing in the National Church Institutions (NCI), informed by results of 2021 staff engagement survey✦ In partnership with other NCIs, developed a future (hybrid) working model and associated offer to staff (including policies, technology, office accommodation and training)	<ul style="list-style-type: none">✦ Finalise, launch and embed work on values and behaviours, run employee engagement survey, analyse results and support action planning✦ Embed hybrid working, consequent policy adjustment, learning and support✦ Evaluate the Belonging and Inclusion action plan and develop next steps/launch action programme
	<div>Technology</div>	Maximise the benefits of technology to connect communities, and also provide efficient and cost-effective services across the Church	<ul style="list-style-type: none">✦ In partnership with other NCIs, developed a future (hybrid) working model and associated offer to staff (including policies, technology, office accommodation and training)	<ul style="list-style-type: none">✦ Deliver technology that supports efficient and accurate delivery of other objectives and supports effective decision making✦ Design a technology road map and plan for developing a better digital service offer✦ Deliver the clergy payroll on the new People System

CHURCH ESTATES COMMISSIONERS AND THEIR PRIORITIES

The Church Estates Commissioners shared their views on how the Church Commissioners support the mission and ministry of the Church.



Among the trustees of the Commissioners are the three statutory Estates Commissioner roles. The First Church Estates Commissioner, Alan Smith, chairs the Assets Committee; the Second Church Estates Commissioner, Andrew Selous, is an MP and the Church's representative in Parliament; and the Third Church Estates Commissioner, Canon Flora Winfield, chairs the Mission, Pastoral and Church Property Committee and the Bishops and Cathedrals Committee.

Alan Smith: First Church Estates Commissioner

Q: What are your priorities and goals since you assumed this role in October 2021?

A: It is a real privilege to have been selected to this unique role. I am inheriting an excellent executive team and joining the Assets Committee comprised of many who are leaders and experts in their fields, in particular in running and overseeing significant investment activities and governing complex organisations. Our top immediate priorities surround: (1) purpose – that we continue to manage the endowment fund wisely so as to maximise the funds available for the Church's mission, especially in the 2023 to 2025 triennium; (2) people – we as Commissioners are blessed with executives and teams who are overseeing a globally leading in-perpetuity endowment fund in support of one of the country's largest charities; ensuring that they are cared for and remain capable is

another top priority; (3) planet – in the decade ahead, and in particular the next five years, everything we do must prioritise how we ensure we achieve a just transition to a low carbon, net zero world.

Q: How can the Commissioners support a mission-focused church?

A: First and foremost by us as Commissioners being good stewards of the endowment fund and empowering Gareth as Chief Executive and Tom as Chief Investment Officer through supporting and enabling them to manage the fund as effectively as possible. Good governance is essential for the good returns necessary to responsibly maximise the funds available for the mission of the Church. The ability to have a very long-term outlook in our strategic thinking which takes into account inter-generational equity and then support the executive translating that into executable spending plans for the next triennium is another key role the Commissioners play. To be effective at that, we as Commissioners seek to understand the mission of the Church and the priorities as set by those who lead it at the national, diocesan and parish levels so that we make informed decisions in our spending allocations.

Q: You mentioned that the net zero transition is a priority of yours. What are the Commissioners doing to respond to the climate crisis?

A: The Commissioners have a target to reduce the

carbon intensity of the investment portfolio by 25% by 2025 and to be net zero by 2050. Doing this while influencing a 'just transition' is critical.

The impact of climate change on people is just as important as the transition to net zero. If there is a net zero world but people who are least able to adapt have been left behind or are left worse off, then we will all have failed. Our two Responsible Investment pillars are "Respect for People" and "Respect for the Planet". When we engage with companies, we ask them to focus on these priorities too.

We want a net zero world, not just a net zero investment portfolio.

Andrew Selous: Second Church Estates Commissioner

Q: What is your role?

A: My role is to be the Church's representative in the House of Commons and to ensure the statutory accountability of the Church to Parliament. I answer questions from MPs in the Commons chamber once a month, and written questions in between. This provides opportunity for MPs to raise issues of concern to them and their constituents, and for me to highlight issues that I think are important.

Q: What issues are important to you?

A: Furthering the mission of the Church to proclaim Christ's message of hope is the most important part of my role. As well as that I take a keen interest in the importance of rural land to the country and to local parishes, supporting rural communities and encouraging a more regenerative and nature-friendly way of farming. I also work to highlight the persecution of Christians in the world and to end the mistreatment of all on grounds of their faith or belief.

Q: What opportunities do you see for the Church through Church Commissioners' funding?

A: I am privileged to work with a part of the Church that funds and enables growth through Church planting and mission. There is an opportunity to increase the number of ordained ministers, particularly from diverse backgrounds.

The Rev'd Canon Dr Flora Winfield: Third Church Estates Commissioner

Q: What areas of work do you oversee?

A: As the Third Church Estates Commissioner, I am a member of the Church Commissioners Board and work closely with other Board colleagues and with the staff team, as we seek to support and enable ministry in the parishes, dioceses and cathedrals of the Church of England. I chair the Bishops and Cathedrals Committee and the Mission, Pastoral & Church Property Committee: helping to promote and deliver on our

carbon net zero ambitions are also a key part of this role. This year, the Bishops and Cathedrals Committee will be continuing their role in supporting cathedrals as they emerge from the challenges of the pandemic. During her time as Third Church Estates Commissioner, Dr Eve Poole, my predecessor, worked very effectively with the General Synod and representatives from across the Church to deliver the Cathedrals Measure, and we are working with cathedrals as they continue to implement these important governance reforms. The Committee and their dedicated staff team also work to ensure that the ministry of diocesan bishops is appropriately supported, and that See houses are well managed and maintained. Our work with cathedrals and See houses will be particularly focused on supporting progress towards the General Synod goal for the Church of England to be carbon net zero by 2030.

In addition to their day-to-day work in support of parishes and dioceses, the Mission, Pastoral & Church Property Committee is working on the next stages of consultation for review of the Mission and Pastoral Measure, and the members of the Committee and staff team are looking to ensure wide consultation and conversation around finding consensus on the next steps. The first round of consultation around the review of the Mission and Pastoral Measure generated a huge amount of interest and energy from the wider Church community. This is very encouraging to see and the developing process is a great testament to the team, who have worked tirelessly to listen and take account of voices from all perspectives. Our next task is to continue consultation and conversation to identify areas of consensus, and demonstrate how the Measure can evolve to serve the Church's ministry, while still having rigorous checks and balances in place to protect and sustain the future of our parishes.

Q: What are you most looking forward to in your role over the next 12 months?

A: Parishes and cathedrals have shown tremendous resilience, tenacity and creativity over the past two years. This has been a testing time for everyone, and parishes and cathedrals have, in their great variety of ways, been able to sustain and even develop their particular ministries and place in our life together, as we serve every community across the nation. I think our contribution to this ministry is one of enabling: we are here to support and enable these distinctive ministries to flourish, and I will be visiting colleagues in parishes, dioceses and cathedrals over the next few months, to listen and to learn as we begin to emerge from Covid and face new challenges and new possibilities.

LOOKING AHEAD – A LETTER FROM THE CHIEF EXECUTIVE

A priority for us is to ensure that all our people – staff and trustees – feel valued for who they are and what they bring. This is especially true in 2022, after two years that have tested us all to the limit.



Following another year of upheaval and uncertainty, as hopes and disappointments ebbed and flowed with the pandemic, the value of partnership has become even more important to all of us. It is in partnership that we can achieve more and care for each

other better. This holds true for the trustees and staff of the Church Commissioners, working with our sisters and brothers across the Church.

The Church Commissioners exist to support the ministry of the Church of England. We are pleased to play our part in the body of Christ, and as we look ahead to 2022 and beyond, the Board of the Church Commissioners is taking care to maintain and strengthen the contributions we are best placed to make to the life of the Church, while at the same time underlining the importance of deepening partnership with the other parts of the Church. We know that it is by working together as parts of one body that we are best able to achieve our shared ambition of building up God's Church in this land, and we delight in the knowledge that it is the same Holy Spirit that works through us all.

A priority for 2022 will be determining national funding plans for the next three-year period: the 2023–25 triennium. We are already deeply engaged with various partners about the quantum and prioritisation of this funding for the next triennium and beyond. These conversations will be challenging, yet vital – the impact of Covid-19 has not gone away and the scale of the financial

need and ambition in all parts of the Church has not diminished. As we work in partnership with other church governance bodies to make difficult decisions around the allocation of resources, we thank God for the Church's endowment with which we are entrusted, for the expertise and commitment of those who manage it, and for the impact of the financial and other support it delivers for parishes, dioceses and cathedrals.

We also thank God for the opportunity to have an impact in the world through our Responsible Investment activity, underpinned by the principles of "Respect for People" and "Respect for the Planet". We will continue to use the platform given to us by our investing activities, for example to challenge racial injustice and combat climate change, working in partnership with the Church's other National Investing Bodies as well as members of the wider investment community who share our passion for these goals.

A priority for us every year is to ensure that all our people – staff and trustees – feel valued for who they are and what they bring. This is especially true in 2022, after two years that have tested us all to the limit. All of our work, in the Church Commissioners and across the Church, is thanks to wonderful people, made in the image of God. I thank God for the staff and trustees of the Church Commissioners, for our partnership and our friendship, and pray that together we will make the best use of the gifts He has given us, to serve Him and the Church.

Gareth Mostyn
Chief Executive and Secretary

LOOKING AHEAD – TRIENNIUM DISTRIBUTION PLANS

The Triennium Funding Working Group (TFWG) convened for six months from October 2021 to consider funding priorities for the coming triennium and beyond. This is a collaborative group spanning the Church Commissioners, the Archbishops' Council and the House of Bishops. The principle of inter-generational equity underpins the process.

Alongside the work of the TFWG, the Church Commissioners' Assets Committee has been working with its actuarial advisers to determine the capacity for sustainable distributions.

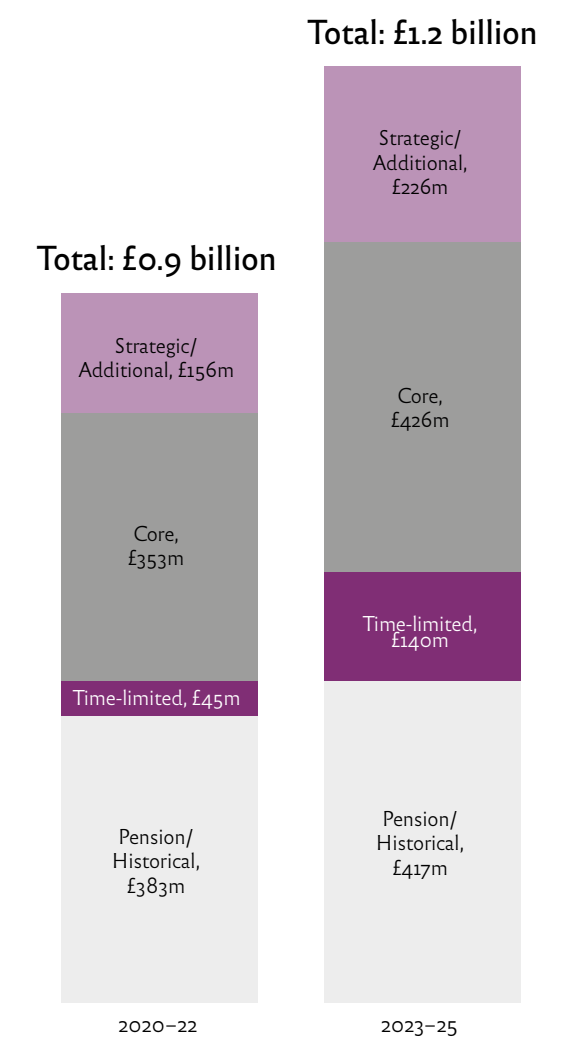
This work has given rise to recommendations that would see a significant increase in the level of distributions for the next triennium, from £0.9 billion in 2020–22 to £1.2 billion in 2023–25.*

Core funding includes elements of expenditure that are considered of fundamental importance to support the mission and ministry of the Church, e.g. funding for communities with fewer resources, and statutory funding responsibilities of the Church Commissioners, such as cathedral funding.

Strategic (previously "Additional") funding covers targeted programmes, e.g. supporting growth in the number of clergy interventions to address racial justice.

Time-limited expenditure is focused on transformational initiatives which are planned for a short- to medium-term time frame. A key example is enabling progress towards the carbon net zero goal of 2030 as set by the General Synod.

*Subject to approval at the Church Commissioners' AGM



SUPPORTING THE CHURCH IN NUMBERS

£900m

We have committed to distribute more than £900m between 2020 and 2022.

1/6

The Church Commissioners contribute towards 1/6 of the total annual running costs of the Church of England.

6.7%

From 2005 to 2020, our financial support for the Church (excluding pensions) grew on average by 6.7% per year – three times the rate of inflation.

SUPPORTING THE CHURCH OF ENGLAND

The Church Commissioners make funds available to support projects providing mission and ministry across England.

St Thomas a Becket, Diocese of Canterbury

SUPPORTING DIOCESES AND THE LOCAL CHURCH

One of the key ways in which the Church Commissioners achieve their purpose is through the distribution of funding to the Archbishops' Council to support dioceses and the local Church.

The Strategic Investment Board (SIB) has responsibility, on the Archbishops' Council's behalf, for determining the distribution of grant funding, evaluating its impact and advising the Council on funding strategy. The SIB's membership includes the First Church Estates Commissioner and two other members of our Board of Governors. Grants to the Archbishops' Council in support of dioceses and the local church are set out in note 5 of the financial statements, with the key funding streams explained further below.

SUSTAINABILITY FUNDING

As part of a package of measures to support dioceses and, through them, parishes, during the Covid-19 pandemic, the Archbishops' Council allocated up to £35m of the funding made available to it by the Church Commissioners to create a new grant funding stream in 2020 – Sustainability Funding.

Sustainability Funding aims to maintain short-term financial stability for dioceses as they implement or develop their strategies for long-term mission health and financial stability. Strategic Transformation Funding is available to support dioceses with these long-term change programmes. The SIB awarded £14.9m of the £35m to 24 dioceses in 2020.

The SIB agreed, in the light of the ongoing pandemic and its effects on diocesan and parish finances, to make further awards of Sustainability Funding in the second half of 2021. It also agreed to continue to target the funding on dioceses with fewer investment assets and less affluent populations.

During 2021, staff continued to keep in close touch with dioceses to understand their financial position. In making its decisions on applications for Sustainability Funding in 2021, the SIB took account of the steps that dioceses are taking to address the impact of Covid-19 on their financial position, the measures they have undertaken in recent years to improve their financial sustainability

and the steps they are taking or planning to develop their longer-term mission health and financial sustainability. It awarded a total of £9.3m to 17 dioceses. The SIB will distribute further Sustainability Funding in the second half of 2022.

LOWEST INCOME COMMUNITIES FUNDING

The formula-based Lowest Income Communities (LInC) funding was introduced in 2017 to support dioceses in developing mission and growth in lower-income communities. Dioceses report annually on their use of the funding.

Many dioceses use LInC funding to support parishes which, due to their deprivation, cannot meet their parish share, in order to ensure ministry provision in these areas. The SIB continues to encourage dioceses to ensure that their LInC funding is targeted towards supporting their most deprived communities. In 2021, 26 dioceses received LInC funding totalling £27.4m. An additional £6.7m was paid to support dioceses that receive less funding than they did under the previous formula.

As part of a package of measures designed to provide cash flow relief to dioceses during the pandemic, the Council and Commissioners paid all the LInC and transitional funding upfront in January 2021 and again in January 2022.

STRATEGIC DEVELOPMENT FUNDING

Strategic Development Funding (SDF) supports major change projects which fit with dioceses' strategic plans and make a significant difference to their mission and financial strength.

Since 2020, SDF has been targeted at promoting growth in the largest urban areas, and at one or more of younger generations and deprived communities, channelling the funding available

in 2020–22 towards people and areas where the Church has had little effective engagement.

In June 2021, in response to a recommendation in the report of the Archbishops' Anti-Racism Taskforce, *From Lament to Action*, the SIB amended the SDF criteria to explicitly include targeting SDF on United Kingdom Minority Ethnic/Global Majority Heritage (UKME/GMH) communities. The new criteria will apply to projects awarded SDF from 2022. The previous criteria for SDF encompassed many areas that contain significant UKME/GMH communities and a number of existing projects have a specific focus on these communities.

The SIB will consider programmes not targeted at the largest urban areas if they are focused on areas of particular deprivation, UKME/GMH communities or younger generations and have reach and impact in keeping with the other priorities for SDF.

The aims of SDF align closely with the Church's Vision and Strategy priorities of building a church of missionary disciples, a church which is younger and more diverse, and a church where this mixed ecology is the norm. In 2021, £15.3m of SDF was awarded to seven projects in seven dioceses, which will be drawn down over more than one year. SDF is awarded on the basis that the cash drawdown stays within the limits of the monies allocated for this funding in the three-year spending period, reflecting the fact that the projects supported can run for up to six years.

The 2021 awards brought the number of major change programmes in dioceses that have been supported by SDF to a total of 84. Of these, 68 projects have been funded since January 2017 when the SDF programme was significantly expanded.

During 2021, staff continued to keep in close touch with dioceses about the continuing impact of Covid-19 on the delivery of their SDF projects.

As was the case in 2020, the overall picture is encouraging. Throughout 2021, projects continued to respond with enormous creativity, energy, resilience and compassion to the challenges caused by the pandemic and the ongoing restrictions. Projects have continued to engage online during the pandemic, offering regular worship, evangelism and discipleship courses and small groups as well as providing community support such as holiday clubs. Social engagement has also continued to grow and develop over this time, including, for example, running foodbanks, offering debt counselling and providing advice and practical support for the unemployed.

However, projects have also continued to face significant challenges. Some have reported that it takes longer to form deeper relationships online and that it is easier to lose people who are on the fringe. Recruitment to key posts has continued to be a major challenge and has caused significant delay to project progress. Projects have increasingly reported that clergy and other leaders are tired and at risk of burnout. And, with the move to online services, groups and courses, measuring outcomes has become much more difficult, particularly those relating to growth in numbers and discipleship.

The SIB has recognised the impact of Covid-19 on projects and has delegated to staff authority to approve extensions in project timescale of up to 18 months due to the impact of the pandemic upon them to enable them to deliver all their anticipated outcomes. In 2021, 14 projects were given an extension in timescale.

The projects awarded SDF in 2021 were:

- ✿ **Blackburn** – The project will help revitalise ministry in the deprived towns of Blackburn and Blackpool and build capability for revitalisation for the East Lancashire Valley and along the Fylde coast. St Luke's church, Blackburn will become a church-planting youth church, alongside developing clergy and children's and youth workers across the diocese. St John's church, Blackpool will develop into a multi-generational church with a strong youth focus, supporting church plants in similar contexts and ministering to those suffering from deprivation. Awarded £3.5m towards project costs of £5.7m.
- ✿ **Chichester** – The project will invest in Brighton and Hove by accelerating the development of two churches from different traditions: All Saints, Hove (modern Catholic) and St Peter's, Brighton (charismatic evangelical). All Saints will expand its social outreach to grow its congregation and provide missional and educative resources for other churches from a Catholic tradition. St Peter's will undertake four church plants focusing on areas of social deprivation and potential to reach a younger demographic. Awarded £2.5m towards project costs of £11.5m.
- ✿ **Coventry** – The project will establish new worshipping communities in four locations in areas of high deprivation in the major population centres of Coventry and Bedworth. Awarded £1.25m towards project costs of £4.1m.
- ✿ **Exeter** – Ministry in Torbay will be revitalised through planting 'Bay Church' to grow a new youth congregation and revitalise at least three more family and youth-focused churches in Torbay (including one post-SDF). The project will grow parent-led children's volunteer groups and youth groups to nurture discipleship, offer

CASE STUDY

SUPPORTING MINISTRY

The Archbishops' Council used part of the Additional Distributions made available this triennium to grow ordained vocations. The increase in stipendiary clergy was one of the ambitions of Renewal and Reform and will help reverse a previous decline in numbers. The support is proportionately higher for those dioceses that need it most.

The Ministry Experience Scheme (MES) is one of the ways in which the Church encourages vocations among younger people. This one-year scheme offers young people from a wide variety of backgrounds the opportunity to discover their calling, combining work in parish ministry with theological studies. The majority of the MES participants go on placements in low-income parishes, focusing energy and resources in the areas of greatest need. More than 100 participants out of a total of 500 (since 2013) went on to train for ordained ministry, and 75% of all participants said they would embark on further discernment and training in ministry.



a Torbay-wide enquirers course and run a social action programme focusing on deprived parents, children and youth. Awarded £1.5m towards project costs of £3.1m.

- ✦ **Leeds** – The proposal aims to reach the 99.4% of unchurched students in Leeds and Huddersfield. Two student churches will be developed: the first into St Augustine's, Wrangthorn in Leeds, focusing on engaging unchurched students; and a second into Holy Trinity, Huddersfield, alongside investment in digital engagement. Awarded £1.5m towards costs of £2.9m.
- ✦ **Southwell and Nottingham** – The project will invest in mission to children and young people in deprived areas of the city of Nottingham and in the wider county. Ten flagship churches will be developed for children and families ministry, and the project will also establish five youth hubs and develop 25 new local leaders in mission. Awarded £3.5m towards project costs of £5.3m.
- ✦ **Winchester** – The project will revitalise ministry and mission across Basingstoke by creating a church-planting church across four sites: St Michael's Church (town centre); All Saints (town centre); St Peter's Church (South Ham); and Christ the King (Brighton Hill). The project will engage with the town centre and estates through prayer, worship, discipleship and social action and will have a strong focus on younger age groups. Awarded £1.6m towards project costs of £6.5m.

STRATEGIC DEVELOPMENT FUNDING IN 2022

The SIB had agreed to make a total of £64m of SDF available for award to dioceses in 2020–22 (£21m p.a.). However, in autumn 2020, £12m of this funding was reallocated to help finance the Sustainability Funding, necessitating a significant reduction in planned SDF expenditure. Taking into account the awards made in 2020 and 2021, this leaves £15m of SDF available for award in 2022.

INDEPENDENT REVIEW OF STRATEGIC DEVELOPMENT FUNDING AND LOWEST INCOME COMMUNITIES FUNDING

In 2021, the SIB commissioned an independent review of SDF and LInC funding, chaired by Sir Robert Chote. The review drew on experience with the two funding streams to make recommendations about how the funding might be best used in future to support dioceses in their visions for mission and growth. The review sought to answer two questions:

What have SDF and LInC achieved in the Church since their inception in 2017?

How can national funding best be used in the future to enable dioceses to deliver growth in numbers, depth and social transformation?

The report was published in spring 2022. The findings will be put into a plan and taken forward in the new triennium.

STRATEGIC TRANSFORMATION FUNDING

The Archbishops' Council and Church Commissioners made a one-off sum of £44m available in 2020–22 to help dioceses develop and deliver diocesan-wide mission and growth strategies to ensure a thriving and sustainable future for the Church.

The overall aims of Strategic Transformation Funding (STF) align with those of SDF, i.e. to support major change programmes which fit with dioceses' strategic plans and make a significant difference to their mission and financial strength. The SIB has agreed that the funding will support a relatively small number of dioceses, targeted at those with the least historical and current resources. In December 2021, the Board made its second major award of STF, awarding £4.2m to Manchester diocese for its transformation programme. This followed an initial award of £1.7m for the first phase of this project, bringing the total amount awarded to Manchester to £5.9m.

The majority of the funding for Manchester will support new parish-based roles. The project is investing in children's and families' workers, rolling out across the diocese the SDF-supported Children Changing Places project based in Bolton. There will be increased investment in leadership training for ordained and lay leaders, with a particular focus on the diocese's new lay focal leaders. Parishes will also be able to access direct help from Deanery Transformation Support Officers to help them to extend and grow their mission.

By the end of 2021, a total of £11.6m of STF had been awarded for major transformation projects in the Manchester and Sheffield dioceses.

In 2021, the Board also invited two Stage 1 applications for STF forward to the next stage. Staff are working with several other dioceses to support them as they develop their transformation programmes.

All dioceses are eligible to apply for funding to strengthen their strategic capacity. This funding is

made available from the monies allocated for Strategic Transformation Funding. Fourteen awards totalling £4.7m of Capacity Funding were made to 10 dioceses in 2021.

INNOVATION FUNDING

The SIB launched Innovation Funding in 2021. This £4.8m fund will support limited-scale projects which will innovate in the light of the Church of England Vision and Strategy and generate learning about 'good growth', i.e. growth which increases the number of new disciples, strengthens discipleship, grows the impact of the Church's social engagement work, or increases and diversifies the number of leaders in the church.

Innovation Funding aims to help find creative approaches to challenges facing the Church of England today and will support innovation focused on at least one of the following underrepresented groups as we aim to be a church which fully represents the communities we serve in age and diversity: younger people and children; lower income communities; UK Minority Ethnic/Global Majority Heritage populations; and urban areas.

In 2021, the SIB agreed two awards of Innovation Funding. It awarded £252,000 to Ely Diocese's Barnwell Sports Ministry and Mission project which is seeking, through innovative use of sport, to invest in the mission and growth of the church in Barnwell, a deprived estate in Cambridge. The SIB also agreed to award funding of up to £250,000 to the London diocese for its Persian Anglican Community of London Project which seeks to develop an organised and equipped team of trained Christian community workers, evangelists and disciples that will support Farsi speakers in their practical, social, cultural and spiritual needs.

SOCIAL IMPACT INVESTMENT

In 2021, the Social Impact Investment programme was established within the Archbishops' Council with £16 million of grant funding from the Church Commissioners. The programme exists to deploy social investment capital to advance the Church of England's missional objectives and will support projects which share the Church of England's Christian values and benefit society.

In November 2021, the programme announced its first investment, a £1.6m commitment to the Women in Safe Homes fund. This investment will support the purchase and refurbishment of properties which are then leased to women's support organisations who in turn let them at affordable rates to vulnerable women at risk of homelessness, whilst also providing them with individualised and specialist support.

ARCHBISHOPS', BISHOPS' AND CATHEDRALS' MINISTRY

The Church Commissioners meet the stipends, office and working costs of the archbishops and bishops, as well as cathedral senior clergy, in support of their ministry.

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

LAMBETH PALACE

Lambeth Palace is owned and maintained by the Church Commissioners. The Palace is in need of repair, its infrastructure having not been updated since well before the Second World War. In 2021, under the regular oversight of the Bishops and Cathedrals Committee, a detailed options exercise was undertaken by the design team and consequently the scope of the Lambeth Palace Refurbishment Project was agreed by the Board. The project reached the end of Stage 3 during 2021 and was granted full planning permission by Lambeth Council. The tender process for the main works had been completed and a contractor had been engaged under a pre-contract agreement. Additional scope items had been identified as beneficial to the Lambeth Palace Refurbishment Project – focused on sustainability, accessibility, safety, security, resilience and negative legacy – and these were also approved by the Board of Governors.

BISHOPS' HOUSING

The Commissioners have a statutory duty to support diocesan bishops with housing and to provide suitable accommodation which facilitates the bishops' work and mission. From 2021, Savills was appointed as the strategic managing agent for the See house portfolio except for Bishopthorpe and Lambeth Palaces. This has enabled us to ensure consistent compliance checks and reporting across the portfolio.

The Chelmsford and Portsmouth See houses were refurbished to enable the new bishops to take up their respective ministries during the summer of 2021 and early 2022 respectively. As part of these refurbishment works, we took the opportunity to review and undertake sustainability interventions

to ensure the portfolio forms part of the Church's commitment to be carbon net zero by 2030. We continue to roll out the installation of electric vehicle charging points at the See houses and to carry out sustainability studies at all of our properties. We continue to face challenges with contractors and supply chains due to the Covid-19 pandemic, while seeking best value due to building and maintenance costs increasing above the prevailing level of inflation.

CHANCEL REPAIR LIABILITY

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

Consequently, the Bishops and Cathedrals Committee became responsible for the oversight of the Church Commissioners' expenditure on all chancel repairs and related matters. In 2021, we approved 48 new chancel repair projects which, with the existing projects from previous years, enabled us to provide financial and administrative support to approximately 86 parishes during the year. Similarly, we also supported nine cathedrals by taking on the financial responsibility for the repair of approximately eight chancels which those cathedrals have liability for.

THE CATHEDRALS MEASURE 2021

The Cathedrals Measure 2021 received Royal Assent in June 2021. The Cathedrals Measure 2021 makes several significant changes to the governance of cathedrals and brings chapters within the remit of the Charity Commission. Unlike other Church of England bodies, cathedrals will be regulated by both the Charity Commission and the Church

Commissioners under the terms of a memorandum of understanding.

In preparation for the first chapters to fall under the Measure, we have prepared a suite of guidance notes and provided a web resource to help chapters make this transition. We have also provided bespoke training on the process of registration and selected a panel of solicitors that chapters may use with up to 30 hours at our cost, to facilitate the preparation of new constitutions and statutes appropriate for the new Measure.

SUSTAINABILITY AND THE AMBITION TO REACH NET ZERO CARBON BY 2030

Following the General Synod's call for all parts of the Church of England to work to achieve year-on-year reductions in carbon emissions to achieve a target of zero net emissions by 2030, the Commissioners instructed a firm of sustainability advisers to undertake a review of the existing carbon footprint of our See houses and to make recommendations as to what alterations could be undertaken to achieve net zero by 2030.

We are undertaking the same exercise for cathedrals and will be using these surveys to inform and assist us

in working with chapters to develop a plan to achieve this very demanding target and to use any learnings from this work to benefit the wider Church of England.

LAMBETH PALACE LIBRARY

In 2021, the Library completed the move of its collections and staff, as well as those of the Church of England Record Centre, into its new purpose-built home on Lambeth Palace Road. This huge undertaking, safely moving nearly 20km of precious collections, took several months. The Library reopened to readers in August, by appointment, and to the general public in November. Visitors now enjoy walk-in access for the first time to see changing displays of highlights from the Library's collections and to find out more about the history of the Church of England. The official opening of the new Library has had to be postponed because of the ongoing pandemic and is scheduled to take place in 2022.

MEETING OUR AIMS:

Supporting the Church's Vision and Strategy for the 2020s, through targeted funding, practical guidance and effective processes. See more on pages 10–13.



CATHEDRAL AND CHURCH BUILDINGS

During 2021, as part of the Transforming Effectiveness stream of work, the Cathedral and Church Buildings Division moved to work within the Church Commissioners structures while continuing to deliver on supporting parishes. The Bishop of Bristol, Viv Faull, and the Bishop of Ramsbury, Andrew Rumsey, jointly took up the role of lead bishop for buildings.

We support the people who care for our churches and cathedrals by offering guidance and advice on the day-to-day maintenance of our churches and on how to go about making changes to church and cathedral buildings. We also work with government and the heritage sector to develop policy and leverage funding.

ENVIRONMENT

Continuing to deliver on our net zero commitment was a key pillar of our work in 2021. Since General Synod voted to adopt a 2030 net zero target for our buildings, we have worked in earnest to understand our current emissions. This work, made possible by the Energy Footprint Tool, revealed several insights, including the fact that more than 80% of the average church's energy use goes on heating.

The initial years of using the tool have seen an increase in churches participating and also in projects responding to the data it reveals. One in 14 Church of England churches are now reporting net zero carbon emissions, according to the latest data from the Energy Footprint Tool.

A contingent from the Church of England attended COP26 in Glasgow to promote the key relationship between faith and environment and provide encouragement to all delegates.

Ahead of General Synod in November, a consultation was launched on a route map to net zero. This suggests how all parts of the Church of England can make changes together to achieve this ambitious goal. It included recommendations for buildings maintenance, particularly around minimising heat loss, heating

options and the availability of specialist advice for each setting alongside how the central Church and dioceses can offer support.

SUPPORT DURING THE PANDEMIC

The team continued to provide practical advice and guidance to the Church on the use of buildings and health and safety measures during the pandemic with the aim of helping churches navigate the current situation in relation to the Covid-19 pandemic. The guidance is updated regularly and reflects regulations and government guidance as well as that from public health bodies and is available for all to access on the Church of England website.

FUNDING

We also work with government and the heritage sector to develop policy and leverage funding. In 2021, we also worked closely with government to secure a three-year extension of the Listed Places of Worship grant scheme, administered via the Department for Digital, Culture, Media & Sport, which awards grants equivalent to eligible VAT on capital repair projects. This is worth up to £42m a year to our listed churches and cathedrals.

CONTESTED HERITAGE

The Cathedrals and Church Buildings team continue to help communities respond well to questions about contested heritage. The Contested Heritage project resulted in a framework being created following substantial consultation with dioceses, parishes and specialist groups.

The framework provides guidance on decision making and engagement; it encourages conversation, expanded

Solar panels on Melbourne Parish Church: St Michael with St Mary, Diocese of Derby



stakeholder engagement and representation, and offers advice and support to numerous churches now confronting the complex challenges of the past and the reality of its impact on the present.

The guidance published in 2021 specifically addresses the issue of heritage associated with racism and the slave trade – including plaques, statues, inscriptions and other monuments, and hopes that by doing so it will establish a methodology which can be used for other forms of contested heritage.

The guidance does not prescribe solutions, but presents a range of options and considerations, together with suggested models for local consultation and discussion. It encourages balanced, inclusive decision making. The Church of England's 16,000 churches and 42 cathedrals are home to memorials and monuments to individuals from a period spanning more than a thousand years. The project enables communities to come to a consensus about next steps for such memorials relevant to their individual context.

DIGITAL CHURCHYARD MAPPING

Following a partnership with a technology company, a project to map each of the Church of England's 19,000

graveyards began. This project using laser scanning technology will result in a free-to-access map of graves being available online. St Bega in the Diocese of Carlisle was the first church to be scanned as part of the project, which is now fully underway. The online record system will be available for the public to access in 2022.

CASEWORK

In 2021, the Church Buildings Council and Cathedrals Fabric Commission for England considered casework covering a range of issues, including access, installation of green technologies, projects to improve community use of church buildings, and adaptations to provide for a variety of forms of worship. The team collates casework themes to identify areas where additional guidance would be helpful, leading to the publication of new advice on equal access and solar panels.

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MISSION, PASTORAL & CHURCH PROPERTY

The Church Commissioners have a responsibility to work with parishes, patrons, diocesan teams and bishops to further the 'cure of souls' by helping the Church manage changes to the patterns of worship, mission and ministry at a parish and diocesan level.

This work is fundamental to our shared mission and ministry, as it enables the Church to respond to changing factors such as demography and population shifts, and to encourage growth.

The Commissioners have a quasi-judicial role and are responsible for the management and delivery of the processes of the Mission and Pastoral Measure (2011), the Church Property Measure (2018) and related legislation. This work is overseen by the Mission, Pastoral and Church Property Committee (MPCPC). The Committee was chaired by the Third Church Estates Commissioner (Dr Eve Poole) and met seven times in 2021. Dr Poole left her role in November 2021, and her replacement, Canon Dr Flora Winfield, started work in February 2022. The Committee would like to express their gratitude to Dr Poole for all her work. During her tenure, Dr Poole brought governance change by merging the two committees responsible for MPM decision making together, and led the Committee with skill and sensitivity.

We work with parish representatives and diocesan teams as they bring draft proposals forward, and adjudicate on them when required. This will include schemes for pastoral change, the closure of church buildings, and the reuse of churches which are no longer needed for regular public worship. The Committee also considers wider policy and strategy matters and work with the NCIs, the Strategic Buildings Support Group and other partners.

The Covid-19 pandemic continued to affect casework in 2021. The disruption from Covid meant scheme publication was delayed, and the consultation periods had to be extended. It was not possible to hold

in-person hearings until September, and we found that dioceses were taking longer to develop proposals, as they had to extend their local consultation and engagement.

- ✦ 102 new proposed pastoral schemes were received during 2021 and 82 were made, leaving 99 to be carried forward to 2022. Continuing the trend of the previous year, most of the schemes were for the union of benefices and the union of parishes.
- ✦ 18 sales or leases of closed church buildings and two deeds of variation were completed.
- ✦ The Mission, Pastoral and Church Property Committee adjudicated on 11 pastoral schemes and one parsonage case, two cases related to closed church buildings and two cases which settled the future for church buildings which were already closed.
- ✦ Good progress was made on the disposal of six churches on our long-standing case list, which include churches that have been closed for more than five years, and draft schemes were published for a new use for a further four cases.

In total, just over £0.73m in net proceeds from the disposal of closed churches and sites was allocated to dioceses to support mission and ministry and new initiatives in 2021. This was a significant fall from previous years, due to the impact of the pandemic on the timing of sales. In the past ten years, we have transferred £20.3m from proceeds to dioceses to support ongoing mission.

REVIEW OF THE MISSION AND PASTORAL MEASURE

In 2020, the Legislative Reform Committee of the Archbishops' Council commissioned a review of the Mission and Pastoral Measure 2011. This work is now



Prickwillow, St Peter,
Diocese of Ely

part of the Church's efforts to be simpler, humbler and bolder. The review of the Measure, Mission in Revision (GS 2222), was published and debated at the July 2021 sessions of General Synod. Synod voted for the work to continue and there was a period of public consultation, which ended in October. The paper attracted widespread press attention and there were over 1,600 responses from individuals, churches and related organisations. The analysis of the responses was presented to the February 2022 sessions of General Synod as GS Misc 1312, and proposals will be brought forward to Synod in February 2023. The GS Misc paper identified the areas where there is consensus around future change, and that is being used as the starting point for the development of proposals.

TRAINING

The team provided extra training support to diocesan teams on finance in relation to parsonage disposals and the total return on investment approach. One-to-one support was provided for new starters in diocesan roles.

CHURCHES CONSERVATION TRUST (CCT)

The MPCPC is also responsible for overseeing the strategy and performance of the CCT, which is jointly funded by the Commissioners and the Department for Digital, Culture, Media and Sport. The CCT works in partnership with communities to conserve the most historically significant church buildings, and is responsible for 356 churches. During the pandemic, they were able to keep them open when allowed for worship, providing community and pastoral support at a difficult time. The CCT Chief Executive attended the MPCPC and presented the Annual Report and Accounts for 2021 and gave an update on the impact of Covid-19 on the work of the charity.

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INVESTING FOR THE FUTURE

The objectives, strategy and performance of the Church Commissioners' investment fund.

INVESTING FOR THE FUTURE IN NUMBERS

£10.1bn
Assets under management, up
from £9.2bn

13.3%
Total net return

Llandegla Forest, Wales

INVESTMENT POLICY AND OBJECTIVES

The Church Commissioners manage an investment fund of £10.1bn, in an ethical and responsible way. The fund has delivered an average return of 10.7% per annum over the last ten years.

OBJECTIVES

- ✳ To manage the fund to ensure consistent and sustainable distributions for our beneficiaries
- ✳ To achieve a total return of CPIH+4.0% per annum measured over the long term
- ✳ To meet performance benchmarks for individual asset classes
- ✳ To manage risks appropriately
- ✳ To act within our ethical guidelines and be at the forefront of responsible investment globally

FUND STRATEGY AND PERFORMANCE

The Church Commissioners manage a diversified portfolio spread across a broad range of asset classes, consistent with our ambition to be at the global forefront of responsible investment.

Our investment objective is to generate a return of CPIH+4.0% per annum, on average, over the long term to support the work and mission of the Church of England today and for future generations. We have managed to match or exceed our target over 1, 3, 5, 10, 20 and 30 years. Over the past ten years, the fund has achieved an average return of 10.7% per annum.

Meeting or exceeding our performance objective allows us to meet our pension obligations and to grow, in real terms, our support for the Church, balancing the needs of both current and future beneficiaries.

The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes consistent with our ethical guidelines and our Responsible Investment Framework. The chart (opposite) shows our asset weightings at the end of 2021.

Despite the ongoing turmoil from the pandemic, 2021 marked the third consecutive year in which global equities posted strong returns. The MSCI ACWI was up 21.4% in local currency or 20.1% in GBP. Investors who embraced risk assets, despite worries about new Covid-19 variants and shifts in monetary policy, were rewarded. Yet despite surging stock markets, it was far from an 'easy' year, with many asset classes lagging inflation.

To make sense of asset class returns in any given year it often helps to understand what was expected/priced in at the start of the year, compared with what actually transpired. After the economic upheaval of the pandemic, at the start of 2021 markets were discounting sustained easy monetary policy: interest rates were at zero and priced to remain below pre-pandemic levels for a decade. Equities were discounting only moderate earnings growth in the developed world. As the year unfolded, we saw just how powerful the combination of fiscal stimulus and monetary easing could be in terms of economic stimulus. Nominal demand surged and became increasingly inflationary as it met broad-based supply constraints.

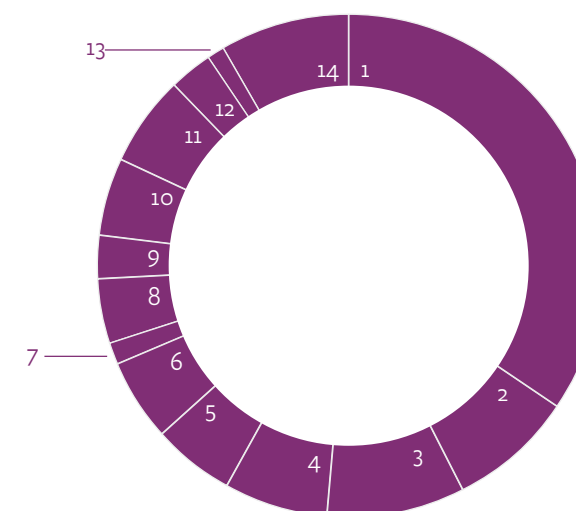
As a result, assets biased to rising growth and inflation, including equities (particularly in cyclical sectors), commodities, forestry, index-linked bonds and parts of real estate, performed strongly. Nominal assets such as government bonds and liquid credit strategies performed poorly.

During the year, fears surrounding new variants of Covid-19 impacted asset returns, with the Delta variant and, towards the end of the year, the Omicron variant leading to market sell-offs. Each subsequent wave has, to date, had less impact as economies and markets have adapted to the pandemic.

The Commissioners' fund overall was well placed to benefit from these trends, delivering a total net return of 13.3%, which compares favourably with our CPIH+4.0% per annum target. As in most years, some asset classes in the portfolio delivered very strong returns whereas others did less well and delivered more modest returns. This is because the fund is well diversified across a broad range of asset classes to help mitigate risk.

Our longer-term performance, which is significantly more important in terms of determining our distributions, also remains strong. Our 3, 5, 10, 20 and 30-year numbers are all ahead of our target. Based on these returns, the value of the Commissioners' investment assets at 31 December 2021 stood at £10.1bn compared with £9.2bn at the start of the year.

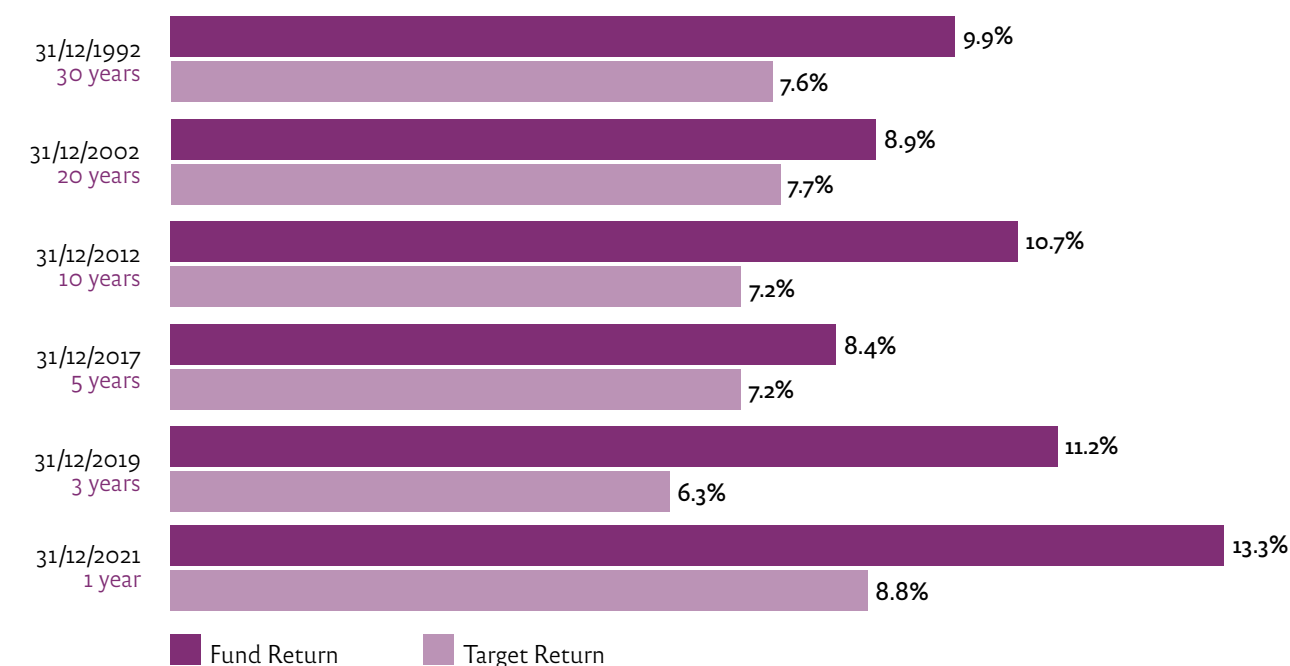
COMMISSIONERS' ASSET ALLOCATION



1 Public Equities	34.6%
2 Defensive Equities	8.1%
3 Absolute Return	8.7%
4 Private Equity	6.6%
5 Venture Capital	5.6%
6 Timberland	5.3%
7 Infrastructure	1.3%
8 Credit Strategies	4.2%
9 Commercial	2.7%
10 Residential	5.0%
11 Rural	5.8%
12 Strategic Land	2.9%
13 Indirect Property	1.1%
14 Cash And Cash-Like Assets*	8.1%

*Includes 0.2% in portfolio hedges

LONG-TERM TOTAL RETURNS PER ANNUM



Note: Target return was RPI+5.0% per annum to end 2018, CPIH+4.0% thereafter.

RESPONSIBLE INVESTMENT

The Church Commissioners are committed to being at the forefront of responsible investment globally. A key highlight was our successful application, approved by the Financial Reporting Council, to join as signatories to the 2020 UK Stewardship Code.

More information about our approach to responsible investment, which goes to the heart of the character and objectives of the Commissioners, can be found in the Responsible Investment section of the report.

PUBLIC MARKETS

For global equity markets, the economic environment remained positive. It was the third year in a row that US stock markets delivered an annual return above 15%. The last time this occurred was the late 1990s and that was the only other such instance since 1929.

Within equity markets the story was mixed: at a regional level the US and Europe performed well; Japan and Emerging Markets (EM) were the laggards, but within EM it was the weak China story that dwarfed everything else, given its dominant size in the EM index. Larger companies did better than smaller companies, although most of this effect was felt in the fourth quarter.

One of the most surprising developments in 2021 was the surge in retail investor activity. This led to mass organisation via online chat rooms, and triggered short squeezes in previously unloved companies – the so-called ‘meme stocks’ which caught markets and several high-profile institutional investors by surprise.

Overall, 2021 was a difficult environment for active managers, with the majority lagging the market and hence – unlike 2020 when we materially outperformed – 2021 was a year where our active managers struggled to keep pace with the sharply rising market. Overall, our public equity portfolio returned 13.3% versus the benchmark of 20.1%. Our track record over longer time frames remains ahead of the respective indices over 5, 10, 20 and 30 years.

Our absolute return portfolio, which represents around 8.7% of the fund, is designed to generate returns which are largely independent of the external environment. In 2021, it returned 17.9%, which is a little less than equity markets but materially ahead of our CPIH+4.0% target.

Our fixed income portfolio invests in credit strategies, both liquid and illiquid, but is a small allocation within the fund at present. The liquid portfolio, which includes investments in emerging market debt and structured credit, delivered a positive return of 13.4%.

The cash allocation of the portfolio remains relatively high, at 8.1% as at 31 December 2021. While this is above our typical long-term level, this reflects our cautious stance and commitment to manage liquidity and minimise any volatility in distributions that might

otherwise flow through from short-term market impacts. It ensures we do not need to realise short-term negative market impacts in the wider portfolio, and works in tandem with our approach to hedging these risks.

PRIVATE EQUITY AND VENTURE CAPITAL

The private equity and venture capital portfolios, which invest in unlisted companies, achieved total returns of 26.6% and 54.8% respectively in 2021. The portfolios continued to experience exceptionally strong gains during the year, which cannot be immediately realised given the long-term and illiquid nature of these assets, but contribute to the strong full year out-turn for these portfolios. During the year, we agreed further commitments to the private equity portfolio totalling £248m and £42m to the venture capital portfolio. Over the long term, our private equity and venture portfolios have significantly outperformed public equity markets, returning 18.7% per annum over the past ten years.

REAL ASSETS

The Church Commissioners’ real asset portfolios consist of a diverse range of property-related investments enabling us to take a long-term approach in line with good stewardship. In 2021, a natural capital and carbon baseline assessment was completed across our rural, strategic land and timberland portfolios. As a result, the development of a strategy for environmentally positive change has commenced. The output will ensure that net zero ambitions and a desire for biodiversity improvement, as well as stakeholder collaboration, are integrated within future portfolio decisions.

RURAL, STRATEGIC LAND AND TIMBERLAND

The rural strategy continues to seek to drive revenue and capital performance of the portfolio, with continued review of opportunities across the land holdings. Engagement with our agricultural tenants has been a priority for the team, enabling active dialogue and collaboration to support and grow farm businesses during the current agricultural transition. The total return for the rural portfolio in 2021 was 10.3%.

The Strategic Land portfolio delivered a return of 13.8% and receipts of £25.4m in 2021. Two new sites were delivered into the portfolio through the year, with the potential to deliver approximately 2,600 new homes and 840 new affordable homes. One of these sites, in the borough of Gravesham in Kent, will deliver a new community of 2,000 new homes (including 600 affordable homes), extensive areas of public green space and areas of biodiversity improvement, local shops and services, and a new primary school. The site will also include areas of employment.

The team has also been progressing areas of work aligned with the recommendations of the *Coming Home* report, published in February 2021. This includes the

progression of several ‘rural exception sites’ – small scale developments with higher levels of affordable housing – and the development and implementation of an ESG Framework for the portfolio which will focus on enhancing the social and environmental benefits derived from our developments.

The Commissioners’ timberland portfolio delivered a strong return of 34.6% during 2021. Despite net sales receipts of £23.2m, our overall acreage increased by 4,500 to a total 97,200 acres spread across Scotland, Wales, England, Ireland, the US and Australia.

Construction is well underway on the new 168MW wind power development in South Scotland. We additionally signed five new solar option agreements in Virginia, US, potentially worth up to \$46.5m to the Commissioners in the coming years.

All of our UK, US and Irish commercial forests are fully certified to high sustainable standards. During 2021 we planted 2 million trees and acquired land in southern Wales where we intend to establish a new woodland by planting 85,000 trees in early 2023.

RESIDENTIAL

Active asset management continued in 2021 with seven refurbishments completed across the portfolio, a planning application submitted for the Portsea Mews mixed-use development, the Connaught Village Green public realm scheme submitted for local authority approval and strong residential rental performance in the third and fourth quarters with zero voids and significant increases in rental income for new lets and scale developments with higher levels of affordable housing – and the development and implementation of an ESG Framework for the portfolio which will focus on enhancing the social and environmental benefits derived from our developments. The total return in 2021 was 0.4%.

A number of tenant and consumer engagement events were held throughout 2021 to support occupiers including: Kaleidoscope – A Celebration of Colour – where Westminster City Council installed a Green Plaque in honour of the life and legacy of iconic local artist Halima Nałęcz and the *Love Actually* inspired Christmas Lights shopping evening.

COMMERCIAL

The Commercial portfolio delivered a total return of 6.6% in 2021. A significant focus throughout the year has been on arrears recovery (due to Covid-19) and voids, with new lettings agreed at Brislington Retail Park and Clarence Street, Kingston upon Thames.

At Catford Retail Park, the development agreement with Barratt London for a residential-led mixed-use scheme completed with a planning application due for submission in early 2022.

INFRASTRUCTURE

2021 was another active year for the infrastructure portfolio. We continued our focus on energy efficiency and environmentally innovative infrastructure investments. In aggregate we committed £84m to new areas including biogas in the US, a diversified renewables investment in the US and a commitment to a global maritime fund. Overall, the infrastructure portfolio is estimated to have reduced global greenhouse gas emissions by a net 15,694 tonnes of CO₂e during the year. The infrastructure portfolio delivered a return of 12.6% in 2021.

INDIRECT PROPERTY

Our strategy over the past 18 months has been focused on allocating capital to resilient sectors, especially where we can deliver a good return and positive environmental or social impact. During the year, we committed £30m to the Bridges UK Alternative Property Fund, which invests in affordable key worker housing and energy efficient employment space. We also committed £20m to the Schroders-Civitas Social Supported Housing Fund, which provides specialist accommodation for adults with learning difficulties. The indirect portfolio delivered a return of -1.9% in 2021.

OPERATIONS

We continued our strategy in 2021 to invest in technology, data and internal operational capabilities to enhance our support across both securities and real assets and provide real time and accessible investment data for the internal teams. This allows us to support investment developments, manage operational risks and provide a trusted platform from which assurance can be maintained for all transactional and reporting activity. In addition, our internal investment has allowed us to begin to reduce costs elsewhere, and realise ‘operational alpha’. We have been able to reduce global custody costs by 34% per annum, which will be fully realised from 2022 onwards, while also enhancing service delivery. We further reduced the external costs of currency hedging, from mid-2021 onwards, with savings of between £1m-£2m per annum, depending on the extent of our hedging. We expect to continue to be able to leverage the value of our operational developments into 2022 and beyond by enabling further selective in-house management and reducing or avoiding external manager fees for these portfolios.

Alongside these developments, we maintain and continue to provide operational diligence and assurance across the external manager portfolios.

MEETING OUR AIMS:
Investing for Good. See more on pages 10–13.

HOUSING TO SUPPORT THE VULNERABLE

The Archbishops' Commission on Housing, Church and Community was launched in April 2019 with the ambitious remit of reimagining housing policy and practice.

This culminated in the *Coming Home* report published in February 2021, which set out a range of suggestions to policymakers, and also actions that the Church of England could take.

As a result, the Commissioners have explored investment opportunities where their capital could address the housing crisis and help the communities that are most affected.

In 2021, the Commissioners invested £20m into the Schrodgers-Civitas Social Supported Housing Fund. This fund is a collaboration between fund manager Schrodgers and social housing specialist Civitas. The aim of the investment is to provide bespoke, safe and appropriate social supported housing for vulnerable adults, addressing a chronic lack of supply in this type of accommodation. These bespoke houses will lead to better qualities of life for those living in them, and also free up much-needed NHS beds.

The investment team will track outcomes from this investment, such as the extent of improvement in the wellbeing of residents, through qualitative surveys and the number of residents placed, as well as environmental improvements. All such investments are targeting net zero carbon emissions by 2050.

In December 2021, the Social Impact Investment Programme confirmed its second investment, a £1m commitment to the Recovery Loan Fund, managed by Social Investment Business. The investment will enable Social Investment Business, working together with experienced social investor delivery partners, to provide affordable loans to charities and social enterprises as they adjust to the impact of Covid-19. For many social sector organisations, the pandemic has driven an increased need for their services while at the same time disrupting income and delivery models.



STRATEGY FOR AFFORDABLE HOMES

The Archbishops' Housing Commission recommends that the Church of England commits to using its land assets to promote more truly affordable homes, through developments that deliver on five core values. Homes should be:

- Sustainable
- Safe
- Stable
- Sociable
- Satisfying



Local Needs Housing at Mersham, Ashford, Kent

Working in partnership with the English Rural Housing Association, the Commissioners provided land for the construction of eight sustainable new affordable homes; a mix of one-, two- and three-bedroom properties for local residents. All domestic heating and hot water is provided via air source heat pump technology.

Photo: August 2017

OUR RESPONSIBLE INVESTMENT APPROACH

There has never been a greater need for responsible and ethical investment. Companies and investors must act now to combat climate change and the host of social challenges that have arisen over the past two years. Our work is grounded in two themes: 'Respect for the Planet' and 'Respect for People', both of which are underpinned by corporate governance.

RESPECT FOR THE PLANET

Our investment portfolio will be net zero no later than 2050. We will achieve this by using our influence as a global investor to effect real change in the economy.

To help achieve our net zero goal, we are members of the UN-convened Net Zero Asset Owner Alliance, a group of 42 institutional investors, representing \$6.6tn in assets under management.

RESPECT FOR PEOPLE

We are an active investor committed to being at the forefront of Responsible Investment globally. This means that environmental, social and governance (ESG) issues are an intrinsic part of how we invest, for both ethical and financial reasons.

Our approach to investments aligns with the Five Marks of Mission, and is shaped by ethical policies created following advice from the Church of England's Ethical Investment Advisory Group (EIAG).

CASE STUDY

BAYER

Engagement through Climate Action 100+ results in climate review

The Commissioners and Union Investment engaged with Bayer, the German pharmaceuticals and agribusiness company, as part of CA100+ and coordinated by the Institutional Investors Group on Climate Change. The engagement took place throughout 2021 with the aim of persuading the company to review and make public the climate readiness of the industry associations of which it was a member. In October 2021, Bayer published a review setting out its position on climate policy and assessing the net zero and climate change

positions of the industry associations and trade groups of which it is a member. The report found that while 32% of the industry association positions examined were fully aligned, over half had no public positions on climate-related issues that were priorities for Bayer. We welcomed Bayer's commitment to transparency and to addressing misaligned and partially misaligned industry associations and noted that we were looking forward to seeing tangible results in this regard. We continue to engage with Bayer.

CASE STUDY

EXXONMOBIL

The Commissioners have a long history of active engagement with companies, leveraging their position as an investor to drive positive change at corporates which mitigates risk and benefits both stakeholders and society. Our engagement with ExxonMobil exemplifies how we have been able to escalate engagement over a period of time, which ultimately resulted in a fundamental shift in strategy at the company and sent a signal that continues to ripple across the oil and gas sector.

The Commissioners started their engagement in 2015 with Exxon behind closed doors, which would have given the company the opportunity to make changes proactively and without public pressure. Engagement covered topics including disclosure, governance and climate performance.

The Commissioners, in 2017, successfully co-filed a shareholder resolution. It asked the company how its business model would be affected by global efforts to limit the average temperature rise. The resolution gained 62% of shareholders' support. This led to some improvements in disclosure, industry collaboration and governance in the following years.

Starting in December 2020, the Commissioners publicly supported a campaign led by activist

investor Engine No. 1, which urged Exxon to develop a pragmatic energy transition strategy and refresh its board, urging the company to focus on "accelerating rather than deferring the energy transition".

The campaign, also supported by CalSTRS, the US's second-largest pension fund, among others, in May 2021 resulted in a successful vote to replace one-quarter of the 12-member board of directors with experts on a range of climate and technology subjects.

As of the end of 2021, these directors have already made their presence felt, with the announcement of significant reallocations of capital towards low-carbon solutions and new emissions reduction targets.

While the election of new directors was an early improvement, there is an ongoing boardroom battle for the longer-term direction of the company. Until Scope 3 emissions targets are set, the company is not truly engaging with the energy transition.

Despite Exxon failing the 2021 hurdle, the Commissioners, having consulted the other National Investing Bodies, will remain invested in the company to demonstrate support for these new directors, and will re-evaluate the company's progress at the end of 2022.





CONNAUGHT
STREET W2
CITY OF WESTMINSTER

Hyde Park Estate, London

TOP 20 HOLDINGS (as at 31 December 2021)

TOP 20 PROPERTY HOLDINGS	TOP 20 EQUITY HOLDINGS
19–26 Long Acre and 28–30 Floral Street (Commercial)	Alibaba Group
Arbol Tree (Timberland)	Alphabet Inc
Ashford Estate (Rural)	Amazon.com Inc
Billholm (Timberland)	Baxter International Inc
Brownhills (Timberland)	Becton, Dickinson and Company
Carlisle Estate (Rural)	Dentsply Sirona Inc
Cherry Tree (Timberland)	Henry Schein Inc
Chichester Estate (Rural)	Illumina Inc
Dykeraw (Timberland)	Jones Lang LaSalle Inc
Ely Estate (Rural)	Meta Platforms Inc
Glenkerry (Timberland)	Microsoft Corp
Huntingdon Estate (Rural)	Salesforce.com Inc
Hyde Park Estate (Residential)	Samsung Electronics Co Ltd
Metrocentre (Commercial)	Schwab (Charles) Corp
Millbank Estate (Rural)	Siemens Ag
Rochester Estate (Rural)	Tencent Holdings Ltd
Royal Lancaster Hotel (Residential)	Tesco Plc
South Lincolnshire Estate (Rural)	Vestas Wind Systems
West Buccleuch (Timberland)	Visa Inc
Wycombe Retail Park (Commercial)	Workday Inc

FINANCIAL REVIEW

Our financial activity in 2021 and the processes and structures that underpinned it.



REVIEW OF FINANCIAL ACTIVITY

In a year of further uncertainty, with the continuing impact of the global pandemic felt across the Church and the country, the Church Commissioners were pleased to be able to distribute £147.3m in charitable expenditure (excluding pre-1998 clergy pensions).

Total income for the year was £148.1m (2020: £128.5m), £19.6m higher than the previous year due to an increase in equity dividend income and income from timberland. Total gains on investment assets, including movements on derivatives, foreign currencies and taxation, were £1,142.5m (2020: £772.4m). Investment performance is described on page 32 of this report.

Expenditure during 2021 totalled £226.4m (2020: £318.3m), a reduction of £91.9m on the previous year. After excluding pre-1998 clergy pensions expenditure, which for accounting purposes reduced by £86.7m, there was an underlying reduction in charitable expenditure of £15.2m (9.4%). This was offset by the cost of raising funds, which increased by £10.0m year on year to £84.2m (2020: £74.2m).

A summary of the expenditure in 2021 and 2020 and the difference between the two is shown below.

The amount spent on supporting dioceses and the local church was £86.8m (2020: £99.1m), a reduction of £12.3m. This is partly explained by higher levels of diocesan sustainability funding

awards in 2020 – the Commissioners and the Archbishops' Council worked together to respond to the impact of Covid-19, making grants of £14.9m in 2020 and £9.3m in 2021 (from a total £35m available in 2020–22) to dioceses to help mitigate the loss of income resulting from the pandemic. Strategic Development Funding grants were also lower in 2021 – at £14.1m compared to £22.6m in 2020, reflecting the timing of multi-year grant awards.

Other key grant expenditure in this category included £27.5m for Lowest Income Communities (2020: £26.4m); £3.2m in support for the growth of vocations through funding for additional ordinands (2020: £2.6m) and £11.3m of support for curates through Strategic Ministry Funding (2020: £5.4m); £2.5m towards a national strategy to increase giving and generosity across the Church (2020: £1.7m); and a Strategic Transformation grants programme that awarded £9.0m (2020: £11.4m) to dioceses to help support them with restructuring programmes to better align with their strategic plans. Further details of expenditure in this category can be found in note 5 to the financial statements and are discussed on pages 20–23 of this report.

Charitable activities	2021 £m	2020 £m	Difference £m
Supporting dioceses and the local church	86.8	99.1	(12.3)
Bishops' and Archbishops' ministry	42.2	37.9	4.3
Cathedrals' ministry	12.3	20.0	(7.7)
Other activities	6.0	5.5	0.5
Total charitable expenditure (excluding pre-1998 clergy pensions)	147.3	162.5	(15.2)
Pre-1998 clergy pensions	(5.1)	81.6	(86.7)
Total charitable expenditure	142.2	244.1	(101.9)
Raising funds	84.2	74.2	10.0
Total expenditure	226.4	318.3	(91.9)

Expenditure on Cathedrals' ministry also reduced in the year to £12.3m (2020: £19.5m). Additional funding of £20m was made available for 2020–22 for cathedral sustainability fund projects, with £9m awarded in 2020 in response to the impact of Covid-19, and a further £1.9m in 2021. The remaining funding will be expended in future years, and will include support for the implementation of the Cathedrals Measure 2021.

The pre-1998 clergy pensions expenditure decreased by £86.7m to a net income of £5.1m (2020: net expenditure of £81.6m) as a result of changes in actuarial assumptions. The Church Commissioners meet the cost of clergy pensions earned in service until the end of 1997 and have provided in full for forecast future payments. The most recent annual actuarial update has generated a net income of £6.4m, which was offset by scheme administration costs of £1.2m and support costs of £0.1m, resulting in overall net income of £5.1m. In 2021, the Commissioners' cash payments for clergy pensions were £116.1m (2020: £118.9m).

RESERVES POLICY

The Church Commissioners' policy is to invest their endowment to provide long-term financing to pay the pre-1998 clergy pension obligations and to make charitable distributions to support the mission and ministry of the Church of England in perpetuity. There is an aspiration to increase the in-perpetuity distributions in line with an inflationary factor, where such an increase does not hinder the Commissioners' ability to make similar distributions to future beneficiaries. The level of distribution each year is determined having regard to independent actuarial advice from Hymans Robertson LLP. Further details are provided in the Independent Actuaries' Report on page 63, including their qualifications for providing such advice.

The Commissioners account for and report returns (whether capital or income) on a total return basis under the terms of the Total Return Order obtained from the Charity Commission on 19 June 2012. This splits the fund into two components: the base level of the endowment and the unapplied total return. At 19 June 2012, the initial value of the base level of the endowment was £3bn and the initial value of the unapplied total return was £2.2bn. Further information on the Total Return Order is provided in note 17 to the financial statements.

In addition to being able to spend unapplied total return, the Commissioners have a time-limited power, which expires in December 2025, to spend endowment capital on their clergy pension obligations. In 2021,

this resulted in £116.1m (2020: £118.9m) being charged to the base level of the endowment.

The total endowment fund of the Commissioners as at 31 December 2021 stood at £8.6bn, including the provision for the pre-1998 clergy pension liability of £1.4bn, which is due for payment in future years. The base level of the endowment was valued at £2.5bn at 31 December 2021 (2020: £2.5bn), with the unapplied total return at the end of 2021 being £6.2bn (2020: £5.1bn). The trustees consider the level of unapplied total return to be sufficient, in light of their distribution policy, to meet their expenditure plans.

SPENDING PLANS

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

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

We continued to make funding available for these priorities in 2021, and no changes were made to the overall amount expected to be available for distribution in 2020–22. However, in light of the impact of Covid-19, decisions were taken in the previous year to reallocate available expenditure within the agreed spending plans in order to provide Sustainability Funding to dioceses and cathedrals across both 2020 and 2021, to help mitigate the loss of income they experienced as a result of the pandemic.

Work to develop the spending plans for 2023–25 has progressed well, with careful consideration given to both the level of distributions and the priorities for spending across the Church by the TFWG.

GOING CONCERN

To assess the Commissioners' going concern status, the trustees have examined their role in funding the Church's ministry, spending strategy and application of total return.

The Commissioners' role in funding the Church's ministry comprises certain legal obligations and discretionary funding. In assessing the going concern status of the Commissioners, the trustees have considered the Commissioners' role in funding the Church's ministry, the spending strategy, the application of total return and the legislation to allow endowment to be spent for specific pension purposes.

In addition, the trustees take account of independent actuarial advice provided by Hymans Robertson LLP on the affordability in perpetuity of their planned distributions. This advice is provided every three years when setting the spending plans for the next three-year period (the "triennium"), and this is updated annually to ensure that the spending plans for the current and next triennium remain affordable.

The approach adopted includes a smoothing mechanism that aims to give a full triennium's notice of any reduction in distributions unless there has been a significant deterioration in the balance between the Commissioners' assets and their spending plans. This means that while events such as Covid-19 and the current geopolitical context are factors for consideration, the Commissioners have a clear framework for assessing whether the events are sufficiently significant that they would change the amounts available for distribution to beneficiaries in the short term.

The annual actuarial update for the year ended 31 December 2021 includes stress testing scenario analysis, which models the impact on distributions in the event of different levels of reduction in asset values. This includes consideration of the impact of changes in

the performance of the asset portfolio, expected future returns or inflation on the affordability of distributions. In light of this analysis, there was no reason to consider that any changes were required to the planned distributions for the 2020 to 2022 triennium and the recommended distributions for the 2023 to 2025 triennium. The trustees have therefore concluded that the Commissioners are able to sustainably meet both their legal obligations and planned discretionary funding for at least the period to 31 December 2023.

In addition, the trustees have given consideration to the availability of liquidity in light of market turbulence caused by recent geopolitical events, the continuing impact of Covid-19 and other external factors. Under the Investment Risk Framework the Commissioners seek to hold at least 24 months' planned expenditure in cash and near cash, and are satisfied that they have sufficient cash to meet their obligations in the short term. Therefore, the Commissioners continue to adopt the going concern basis of accounting in the preparation of these financial statements.

CARBON REPORTING

The Commissioners also report on their energy use and carbon emissions.

In 2018, the Government published regulations concerning Streamlined Energy and Carbon Reporting (SECR). These are designed to increase awareness of energy costs within organisations, to provide data to inform adoption of energy efficiency measures, and to help them to reduce their impact on climate change.

The Commissioners are not required to follow these regulations; however, they are mindful of the General Synod's resolution of February 2020 for the whole Church, including the National Church Institutions (NCIs), to work to achieve year-on-year reductions in emissions and urgently examine what would be required to reach net zero emissions by 2030. The SECR regulations concern direct energy usage, and the Commissioners disclose further information on this area below, albeit these disclosures are voluntary and do not incorporate the full scope of the SECR regulations. The Commissioners intend to monitor their emissions using an intensity ratio of tonnes of CO₂e per total square metres of floor space or per headcount.

However, the Commissioners do not intend to use 2020 or 2021 as the base year for monitoring their emissions. As most energy usage relates to the use of offices, neither year will be suitable since most staff were working from home during these periods. The direct energy usage by the Commissioners is incurred as a result of staff travel and in the operation of offices at Church House, Lambeth Palace and Bishopthorpe Palace.

The data available for energy costs incurred relating to staff travel in past years is limited. However, in 2021 the NCIs entered into an arrangement with a travel

management provider that will enable travel costs and energy usage to be monitored effectively in future. In respect of both 2021 and 2020, travel and the associated energy usage was significantly reduced on previous years as a result of the Covid-19 pandemic.

Energy usage in the buildings our staff occupy principally consists of electricity and gas for heating and lighting. Usage in 2021 and 2020 was not normal because most staff worked from home during these periods. We are unable to quantify whether the additional energy usage incurred as a result of staff working from home outweighs the savings on our buildings. We are working with NCI colleagues to consider all options regarding how to reduce energy usage in Church House. These discussions will also consider the implications of changes to working practices resulting from Covid-19. The Corporation of Church House (the owner of Church House) is now embarking on a programme of work to the building, to improve energy efficiency with a commitment to move towards carbon zero. The new Lambeth Palace Library is designed to use no gas and has solar panels that are anticipated to provide approximately half of the annual electricity use of the building.

The total energy use by the Commissioners during 2021 at Church House, Lambeth Palace, and Bishopthorpe Palace was 2.7m kWh and the associated greenhouse gas emissions were 533 tonnes of CO₂e. This was calculated on the basis of energy usage as disclosed on utility bills and Government CO₂e conversion ratios.

RISK MANAGEMENT STATEMENT

The Church Commissioners operate a detailed risk management process with the aim of identifying and mitigating any risks that could inhibit their ability to achieve their goals.

The unprecedented challenges resulting from the Covid-19 pandemic have continued through 2021. While these have stretched all organisations, not least the Church Commissioners, the Church Commissioners have benefited from well-established risk management processes. The investment fund has performed well through this difficult period, testament to the robust governance and management provided by the Assets Committee and Investment team. The Commissioners' teams have also managed to maintain their various operational responsibilities, with previous work on addressing People, Business Continuity, and Technology Risks continuing to pay dividends.

There is a clearly defined Risk Management Policy which outlines the roles and responsibilities of trustees, management, and staff. Risk Management Guidance has been developed which explains the end-to-end risk management process and supports management in the identification, assessment and review of risks.

The Board of Governors has overall responsibility for the Church Commissioners' risk and internal control environment and reviews its risk management arrangements at least annually. The Board is responsible for setting risk appetite. There is a clearly defined Risk Appetite Statement that sets out the types and levels of risk the Board of Governors are prepared to accept. The evaluation of individual risks through this lens allows the Board to assess whether its risk taking is within the defined risk appetite and whether additional management actions are required.

The Board is supported in its work by the Audit and Risk Committee, which reviews the content of the Strategic Risk Register at each of its meetings. The risk management process is facilitated and monitored by the Internal Audit and Risk Management department. The Audit and Risk Committee receives regular reports from the Internal Audit and Risk Management department highlighting key changes to the risk register, as well as new and emerging risks. The Audit and Risk Committee regularly reviews and discusses operational risks, particularly those relating to investment operations, people and information security. An Audit and Risk Committee member attends each Assets Committee as an observer, providing concluding remarks to the Committee on the significant risk and control issues discussed during the meeting.

Operational risks, related to investment operations, are subject to regular review by the Assets Committee. The Assets Committee reviews and discusses the Investment Risk Register on a quarterly basis.

On an annual basis, the Internal Audit and Risk Management department produces a risk-based Internal Audit Plan, which identifies high-priority risks and processes that should be subject to independent review during the coming financial years. All internal audit reports are provided to the Audit and Risk Committee. The Committee gains assurance on the control environment and the management of specific risks through this reporting mechanism.

PRINCIPAL RISK AREA	KEY MANAGEMENT ACTIONS AND PLANS
Investment Return Failure to achieve investment returns required to meet pensions obligations and distributions to support the wider Church, as a result of events such as Brexit and Covid-19, the Russia–Ukraine crisis, wider geopolitical upheavals and rising inflation.	<ul style="list-style-type: none"> ✳ Effective and experienced Assets Committee oversight ✳ Disciplined valuation-led Investment Strategy and Process ✳ Genuinely diversified portfolio ✳ Proactive monitoring of market and currency exposures, and use of Tactical Asset Allocation to manage exposures as required ✳ Strengthening of resources with new key roles within the Investment division in the front and middle office ✳ Clearly articulated Investment Policy, including supporting frameworks and guidelines
Financial Control Failure to control costs and liabilities and manage stakeholder expectations impacts the ability to provide sustainable support and assistance to dioceses, cathedrals and other beneficiaries.	<ul style="list-style-type: none"> ✳ Working closely with the Archbishops' Council, dioceses and cathedrals to understand their priorities and manage their expectations ✳ Regular review of financial situation of cathedrals to better assess financial strength ✳ Assets Committee governance of money available for distribution, including independent actuarial review and advice ✳ TFWG established to review spending proposals for the next triennium (2023–25) ✳ Regular engagement between actuaries, staff and Assets Committee underway in connection with the end of 2021 Triennial Actuarial review
Operational Effectiveness Lack of effective planning of operations, capacity challenges and/or ability to manage projects results in inefficient and ineffective working practices and a failure to achieve objectives to budget/time.	<ul style="list-style-type: none"> ✳ Budgetary control of costs with regular meetings to review and check expenditure against budget ✳ Project Management Framework developed for the NCIs ✳ Project Review Board in place providing senior management oversight of the most complex or high-risk projects in the NCIs ✳ Commissioners' management regularly reviews its portfolio of projects ✳ Transforming Effectiveness Programme initiated to consider issues of affordability, efficiency and effectiveness across NCIs ✳ A Project Management Team has been established for the Lambeth Palace refurbishment. The project is led by senior staff and overseen by the Bishops and Cathedrals Committee
Effective use of Church Commissioners funding Strategic Development Fund and other national Church funding does not achieve the outcomes desired/expected and there are ineffective review/monitoring controls in place.	<ul style="list-style-type: none"> ✳ Strategic Investment Board (SIB) and Strategy and Development team give strong oversight of grant allocation and ongoing monitoring. Strategic Ministry Board (SMB) and Ministry team do likewise for Strategic Ministry Funding ✳ Recommendations of the independent review of Strategic Development Funding and Lowest Income Communities Funding to be acted on following completion in 2022 ✳ Annual review of SIB and SMB activity reported to Commissioners' Board ✳ Operation of a virement policy which allows the Commissioners to respond effectively to emerging needs as they arise ✳ TFWG has been established to review spending proposals for the next triennium (2023–25)

PRINCIPAL RISK AREA	KEY MANAGEMENT ACTIONS AND PLANS
<p>Reputational Risks Reputational risks relating to the Church Commissioners, other NCIs or the wider Church, impact upon the Commissioners' ability to achieve their strategic objectives.</p> <p>Wider societal issues/concerns with reputational implications for Church of England/Church Commissioners.</p> <p>Long-established endowment funds may give rise to a reputational risk linked to the possibility of their original source, or early investment of funds, having slave-trade connections. This could be the case for the original Queen Anne's Bounty and Ecclesiastical Commissioners' funds.</p>	<ul style="list-style-type: none"> ✳ Proactive and frequent engagement with key Church stakeholders on Commissioners' strategy and priorities ✳ Financial Communications team proactively manages responses to media in relation to Investment Strategy ✳ Experienced and effective governance and scrutiny applied by the Assets Committee, Audit and Risk Committee and Board of Governors ✳ Regular analysis on financial performance of cathedrals to assess which cathedrals are in a potentially challenging situation ✳ Proactive engagement with local communities and churches regarding local housing schemes ✳ Monitoring societal attitudes and proactive consideration of social justice issues with potential relevance to the Church Commissioners, past and present ✳ The Church Commissioners have established a sub-group of the Board to analyse the issue of historical linkages to Transatlantic Chattel Slavery with a report on findings and proposed next steps due in the second half of 2022
<p>Business Continuity Business continuity, IT resilience, cyber security, health and safety challenges etc. impact delivery of strategic objectives. Inability to deliver key services in the event of a major business continuity threat (e.g. Covid-19).</p>	<ul style="list-style-type: none"> ✳ Cyber Essentials Plus accreditation secured and key control measures are monitored on an ongoing basis by management ✳ ISO27001 Project to further embed best practice cyber security protocols planned ✳ IT security training provided to all staff ✳ Critical technology infrastructure housed in a remote location. ✳ Business Continuity Plan in place for the NCIs, including IT Disaster Recovery ✳ Business continuity capability tested with new emergency contact system and remote-working day well ahead of the pandemic ✳ Hybrid working successfully implemented during 2021 with the Pan-NCI Covid-19 Business Continuity Group meeting regularly throughout 2021
<p>People Inability to recruit and/or retain high-quality staff with the requisite skills.</p> <p>Poor diversity amongst leadership and trustees detracts from quality of decision making.</p> <p>Looking after physical and mental welfare of staff.</p>	<ul style="list-style-type: none"> ✳ Staff Engagement Survey completed in February 2021. Action plan is closely monitored by Chief Officers of the NCIs ✳ Belonging and Inclusion strategy developed and 24-month review and action plan well underway ✳ Values and Behaviours workshops undertaken during 2021, resulting in the development of a refreshed set of values for staff and trustees ✳ Improvements introduced to recruitment processes with focus on inclusion and diversity ✳ Continued focus on staff wellbeing with Employee Assistance programme introduced, NCI Mental Health 'first-aid' support and additional resilience and mental health training provided in light of Covid-19 ✳ Investments team remuneration structures overseen by Remuneration Committee

PRINCIPAL RISK AREA	KEY MANAGEMENT ACTIONS AND PLANS
<p>Health and Safety Risk to staff, tenants, or general public on Commissioners' owned land.</p>	<p>See Houses</p> <ul style="list-style-type: none"> ✳ Implementation of Smartlog system at all properties with quarterly reporting to the NCIs' Health and Safety Committee ✳ Statutory checks are completed by a third-party provider <p>Investment Assets</p> <ul style="list-style-type: none"> ✳ Robust contractual arrangements in place with third-party providers, including compliance with health and safety (H&S) legal requirements and insurance cover. Area of significant focus throughout pandemic ✳ Quarterly reporting and monitoring of H&S actions, reviews and issues with agents ✳ Regular site visits to help identify H&S issues
<p>Climate Change Failure to understand and respond to the paradigm shifts caused by climate change.</p> <p>Heightened exposure and cost in relation to the Church Commissioners' property portfolio, with assets potentially damaged as a result of a major weather event.</p>	<ul style="list-style-type: none"> ✳ Implementation of a comprehensive Responsible Investment Framework ✳ Market-leading approach to climate change risks incorporating assertive engagement and assessment of companies through the Transition Pathway Initiative ✳ Assets Committee has a strong focus on Environmental, Social & Governance matters and reviewed independent climate impact scenarios during the year ✳ Member of Asset Owner Alliance committed to net zero portfolio emissions ✳ Periodic assessment of the investment portfolio's resilience to different climate scenarios ✳ All Real Assets within the investment portfolio are being evaluated (or baselined) to support the strategy for transitioning the fund to net zero ✳ Pilot underway in relation to increasing the sustainability of See houses

GOVERNANCE

Working with the other National Church Institutions (NCIs), the Church Commissioners serve and support the wider Church, ensuring effective use of the Church's money.



HOW THE CHARITY IS CONSTITUTED

STRUCTURE AND SUBSIDIARIES

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

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

PUBLIC BENEFIT

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

We are confident that the financial resources provided to parishes, bishops and cathedrals help to promote the Church's whole mission (pastoral, evangelistic, social and ecumenical) more effectively, at a national level, in the dioceses and in individual parishes. In doing so, the Church provides a benefit to the public by:

- ✳ providing facilities for public worship, pastoral care and spiritual, moral and intellectual development both for its members and for anyone who wishes to benefit from the Church's offering;
- ✳ promoting Christian values, and service by members of the Church in and to their communities, to individuals and society as a whole. The report outlines examples of this public benefit in action.

ORGANISATIONAL STRUCTURE AND STAFFING

We are proud of our wonderful staff, and their expertise and commitment in enabling the support given to the Church.

Working with the other NCIs, the Church Commissioners serve and support the wider Church, ensuring effective use of the Church's money.

OUR PEOPLE

The day-to-day management of the Commissioners is delegated to Gareth Mostyn. He is supported in his role by a senior management group and the wider staff team:

Chief Executive and Secretary:
Gareth Mostyn

Chief Investment Officer:
Tom Joy

Chief Operating Officer (Investments):
Nicola Dymond

Head of Bishoprics and Cathedrals:
Michael Minta

Head of Mission, Pastoral and Church Property:
Wendy Matthews

Director of Churches and Cathedrals:
Becky Clark

Chief Operating Officer:
Rosie Slater-Carr

Director of Libraries and Archives:
Declan Kelly (left 31 December 2021)

Director of Finance:
Joanna Woolcock

People Director:
Christine Hewitt-Dyer

Head of Financial Communications:
Juliana Wheeler

Official Solicitor:
Alexander McGregor

Deputy Official Solicitor to the Church Commissioners:
Paul Stevenson

TRANSITIONING TO HYBRID WORKING

Our commitment to the successful achievement of organisational objectives, good stewardship, transparency, and equality requires us to ensure that all our people deliver work of real value. Our new working arrangements support this commitment, while embracing our learning from 2020 that the key ingredient in securing this organisational value is trust in our people.

Our Working Without Walls initiative brought together training, policy and some of the practical changes we needed to make to support the transition to hybrid working, such as the roll-out of a device strategy and the switch to virtual phones using Microsoft Teams. New hybrid working and home-working policies underpinned a shift to more flexible working arrangements and drew on extensive consultation with staff.

Using a principles-based approach, the policies provide a framework that gives people more control over how and where they work and, in doing so, realise the well-publicised benefits this approach brings, including: attracting and retaining experienced, diverse, and valued people; enabling staff to balance work and caring commitments; and a reduction in travel time, travel expenditure, and travel emissions. Workshops for line managers and teams focused on the practical and personal skills that would help prepare colleagues for the decisions they would be making in the second half of 2021 and the first half of 2022 as part of our transitional year to hybrid working.

HEALTH AND WELLBEING

The health and wellbeing of staff is the number one priority when making decisions about how we continue to work through the pandemic, including access to our buildings and support during prolonged periods of working from home. Staff can draw on a range of resources, including advice about how to maintain habits that support wellbeing and resilience and how to create effective boundaries between work and home lives. Colleagues also have access to a team of chaplains and 30 mental health first aiders spread across the NCIs.

Our buildings remained open for those colleagues who needed to use them – whether for work or wellbeing reasons – with access carefully managed to minimise

the risk to staff prior to the easing of the government's restrictions about working from home in July. For colleagues from the Lambeth Palace Library and the former Record Centre in Bermondsey, South East London, 2021 marked the year when they were physically able to come together as one team to prepare for the opening of the new library building in the grounds of Lambeth Palace.

EMPLOYEE ENGAGEMENT

Over the course of the year, we held ten virtual town hall events, which formed the backbone of our employee engagement activity. Open to all staff, these sessions are designed to keep staff up to date on news and initiatives from across the NCIs and the wider Church and offer an opportunity to put questions to senior leaders and subject matter experts.

Example of feedback received from staff on our virtual town-hall communication events: "I think the webinars and the email communications have been detailed and timely – hearing chief officers speaking about the various issues and providing updates has been done with utter sincerity and thoughtfulness for all."

In March, we carried out an in-depth employee survey which focused on questions that would elicit actionable feedback. The survey was completed by 85% of staff and returned an engagement index score – the average positive response to questions measuring advocacy, motivation, and commitment – of 81%. The results highlighted the key drivers of engagement at the NCIs and formed the basis of our 2021 employee engagement.

CREATING A SENSE OF BELONGING AND INCLUSION

Our aim is for everyone in the NCIs to feel that they belong and are valued for who they are and what they contribute. To achieve this, we are focusing our efforts in four areas: mentoring and learning, leading and signalling, generous behaviours, and celebrating and storytelling. As part of our generous behaviours work, we opened a conversation across the NCIs, in which around 100 staff participated, on how we can expand our values, with the aim of agreeing values and behaviours that are shared between NCI staff and trustees.

We also launched a second mentoring scheme – a reciprocal mentoring/co-mentoring scheme. The development goals of the mentee may still be part of the partnership, while there is greater emphasis on creating and supporting relationships across gender, ethnic background, disability status, identity and generational divides and more broadly between people who bring different skills, experiences and perspectives. There are 23 mentoring partnerships under this scheme, building on the 33 partnerships under the 2020 developmental mentoring scheme.

We have continued to support our staff networks to bring forward a rolling programme of events and stories that celebrate our common purpose and successes and honour our differences. Each month at least one belonging and inclusion related event/story/blog has taken place or been published.

Our Coffee Connect initiative, in which around 60 people participate, continues to run regularly and supported new and longer-standing colleagues to develop professional and personal relationships across different NCIs.

To support our people in adapting to evolving ways of working, we rolled out training to line managers, with a strong emphasis on inclusion and wellbeing, which reached around 70% of NCI line managers.

The NCI Mental Health First Aiders have regularly hosted open and confidential forums on different themes such as "Getting back to normal" and "How can we make the most of time off if we can't get away?" and we also ran a number of resilience webinars and workshops to continue to support staff across the organisation who may be dealing with everyday difficulties, obstacles and setbacks.

We are evaluating our programme of work on belonging and inclusion through a range of quantitative and qualitative data and insights, which will inform our next steps in this area.

TRANSFORMING EFFECTIVENESS

A key aspect of the Emerging Church of England programme is the realignment of the operating model of the NCIs to enable the Church of England to better serve God's mission.

The senior leadership structure for six functional areas (vision and strategy, ministry development, education and growing faith, faith and public life, data services, and buildings) was the focus of the first stage to create "Simpler NCIs" and was completed in September, followed by team structures and roles in early 2022.

Within the Church Commissioners, the Cathedrals and Church Buildings team joined the Bishoprics and Cathedrals, Pastoral and Closed Churches, and the Lambeth Palace Library teams that will form a new Buildings Unit.

SUMMARY OF OUR PEOPLE

At the end of 2021, a total of 141 staff were employed or funded directly by the Commissioners, a 32% increase from 2020 (107 staff). This increase was largely due to the movement of the Cathedral and Church Buildings team from the Archbishops' Council. The Commissioners make up 23% of the overall staff at the NCIs.

The Church Commissioners is a joint employer with the other NCIs. It receives services from ChECS, which is also a joint employer. The NCIs ended 2021 with 612 employed staff, an increase of 2% in the headcount compared to 2020.

Overall, 103 staff joined the NCIs in 2021, a 7% increase from 2020, with recruitment activity increasing slightly from the low activity caused by the Covid-19 pandemic.

Overall turnover in 2021 was 16% compared to 9% in 2020, however this was still below the average prior to the pandemic (2019: 19%). Nearly half of all new joiners in the Church Commissioners (47%) were employed on fixed-term contracts to undertake specific project-based work. This is similar to the NCI average (55%).

The percentage of people who classed themselves as black or minority ethnic within the Commissioners was 11.2% (2020: 10.9%) compared with overall representation of 15.6% (2020: 15.7%) across the NCIs.

Across the NCIs, the ratio of female to male employees remained static (56% to 44% respectively). The percentage of women in senior positions rose from 41% in 2020 to 42% in 2021. The percentage of people who classed themselves as having a disability was 3.5%, slightly higher than in 2020 (3.3%).

STAFF REMUNERATION AND EXECUTIVE PAY

The staff of the Church Commissioners, excluding asset management staff, are covered by a unified pay policy that operates across all the NCIs. The policy is designed to ensure the same level of pay for all staff in posts with work of equal value based on eight bands.

For certain staff with specialist skills, typically those whose role requires them to hold a professional qualification, a market adjustment may be applied, the value of which is determined by reference to the lower quartile and median of market-related salaries and is subject to annual review.

Staff pay is reviewed annually and any increases as a result of the annual pay negotiations are awarded with effect from 1 January. The NCIs are an accredited Living Wage employer and ensure all staff including apprentices, interns and those on training schemes receive the appropriate living wage for their location.

A number of senior roles, including those of the Chief Executives, sit outside the banding system, as the skill sets required to fulfil the roles are not readily measured within the NCIs' standard job evaluation system. Salaries for these roles are set individually with reference to the wider marketplace. This process is overseen by the Remuneration Committee (JECBS), comprising senior trustees from

each of the main NCIs. In general, these staff can expect the same percentage annual uplift for cost of living as those on the NCI bands.

ASSET MANAGEMENT STAFF

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

Accordingly, salaries are designed to reflect the market for investment specialists and incorporate an element of long-term incentive which encourages consistent outperformance of the Commissioners' target investment return over a sustained period of five years.

The level of pay and the value of incentive awards are overseen by a Remuneration Committee, comprising trustees on the Assets Committee supported by independent benchmarking data. The scheme is reviewed for consistency with the executive remuneration policy adopted by the Church's NIBs on the recommendation of the EIAG.

Amounts payable under the incentive scheme are spread over up to five years, and the full amounts are only payable if the recipient remains in post during that time. By this method the Commissioners ensure incentives are directly aligned with their objectives and are also long term in nature. In the year to 31 December 2021, payments under the scheme, including deferred payments that became due, totalled £2,050,400 (2020: £1,102,977).

The highest paid member of staff received a payment of £301,130 (2020: £214,825). The Secretary to the Church Commissioners does not participate in the scheme. During 2021 the total remuneration (salary and incentive payment) for the highest paid member of Commissioners' staff was 24.3 times (2020: 20.8) the total remuneration received by the lowest paid member of Commissioners' staff and 13.7 times (2020: 10.3) the median total remuneration.

This is consistent with the recommendations on company remuneration adopted by the NIBs on the advice of the EIAG in 2013.

STAFF PENSIONS

The staff of the Church Commissioners are either members of the Church Administrators Pension Fund defined benefit section (if employed before July 2006), or a separate defined contribution arrangement if employed subsequently. Employer contribution rates range from 8% to 18% depending on age and additional voluntary contributions made.

TRUSTEES AND THE BOARD OF GOVERNORS

There are 33 Church Commissioners and they have trustee responsibility for meeting our charitable obligations. Six of these hold offices of State and the other 27 constitute the Board of Governors.

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

Since the publication of the 2020 Annual Report, we have said farewell to four Commissioners. Before stepping down in September 2021, Loretta Minghella OBE had served with distinction as the first-ever female First Church Estates Commissioner. Among many other successes, she led the Assets Committee through a period of great volatility in markets to secure excellent returns and enable substantial additional distributions for the Church.

Dr Eve Poole's many achievements as Third Church Estates Commissioner included leading the preparation and passage into law of the new Cathedrals Measure and significant streamlining of our committee structure. Both also contributed invaluable to our efforts to improve our diversity in appointments and to the review of governance structures at national level.

The retirement of Christine Hardman as Bishop of Newcastle in November 2021 and the consecration of the former Dean of Gloucester, Stephen Lake, as the Bishop of Salisbury in April 2022 meant they relinquished their Church Commissioner roles. Christine had also been an exceptionally valuable member of the Mission, Pastoral and Church Property Committee, while Stephen had served with equal distinction on the Bishops and Cathedrals Committee. We express our deep gratitude to Loretta, Eve, Christine and Stephen for all they contributed.

We have also been delighted with existing Commissioner Alan Smith's appointment by the Crown as the new First Church Estates Commissioner and by the Archbishop of Canterbury's appointment of the Revd Canon Flora Winfield as the new Third Church Estates Commissioner. We were also very pleased that the bishops elected Graham Usher, Bishop of Norwich, to succeed the Bishop of Newcastle, and we look forward to the result of an election by the cathedral deans of Stephen Lake's successor. Our new members are making an excellent contribution and we look forward to working with them in the months and years ahead.

We also said farewell to non-Commissioner committee members Ian Ailles (Audit and Risk Committee), the Very Revd Catherine Ogle (Bishops and Cathedrals Committee), the Rt Revd Paul Bayes, the Ven Mark Steadman, the Revd Simon Talbott and Susan Pope (all Mission, Pastoral and Church Property Committee). The Board was pleased to appoint the Ven Simon Fisher and Canon Shane Waddle to succeed Mark and Susan, and is currently working to fill the other two vacancies. We extend our thanks to Ian, Paul, Mark and Susan and very much look forward to working with Simon Fisher, Shane and our other imminent new members.

The Commissioners take trustee recruitment very seriously and invest time and resources in finding, inducting and developing the highest calibre people. Vacancies are advertised in a range of publications depending on the specialisms of the roles and search consultants are often employed to assist us. We place particular emphasis on diversity, at trustee and staff level.

SECOND CHURCH ESTATES COMMISSIONER

The Second Church Estates Commissioner, Andrew Selous MP, maintains the statutory accountability of the Church Commissioners to Parliament, including through the answering of questions in the House of Commons.

TRUSTEES AND THE BOARD OF GOVERNORS

continued

THE CHURCH COMMISSIONERS AND BOARD OF GOVERNORS AT APRIL 2022

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

Archbishop of Canterbury, Justin Welby **Chair**
Archbishop of York, Stephen Cottrell

CHURCH ESTATES COMMISSIONERS APPOINTED BY HER MAJESTY

Loretta Minghella OBE, First Church Estates Commissioner (up to 30 September 2021)
Alan Smith, First Church Estates Commissioner (from 1 October 2021)
Andrew Selous MP, Second Church Estates Commissioner

CHURCH ESTATES COMMISSIONER APPOINTED BY THE ARCHBISHOP OF CANTERBURY

Dr Eve Poole, Third Church Estates Commissioner (until 15 October 2021)
Flora Winfield, Third Church Estates Commissioner (from 1 February 2022)

ELECTED BY THE GENERAL SYNOD

HOUSE OF BISHOPS

Bishop of Manchester, David Walker, Deputy Chair
Bishop of Bristol, Vivienne Faull
Bishop of Birmingham, David Urquhart
Bishop of Newcastle, Christine Hardman (up to 30 November 2021)
Bishop of Norwich, Graham Usher (from 1 December 2021)

HOUSE OF CLERGY

Revd Anne Stevens
Revd Christopher Smith
Revd Stephen Trott

HOUSE OF LAITY

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

Elected by the DEANS

Dean of Ely, Mark Bonney
Dean of Gloucester, Stephen Lake (up to 31 March 2022)

Nominated by HER MAJESTY

Duncan Owen
Suzanne Avery
Nigel Timmins

Nominated by THE ARCHBISHOPS OF CANTERBURY AND YORK

Morag Ellis QC
Busola Sodeinde
Mark Woolley

Nominated by THE ARCHBISHOPS OF CANTERBURY AND YORK

After consultation with others including the Lord Mayors of the Cities of London and York and the Vice-Chancellors of Oxford and Cambridge Universities
Poppy Allonby
Helen Steers
Vacancy

State office-holders

First Lord of the Treasury
Lord President of the Council
Lord Chancellor
Secretary of State for Digital, Culture, Media & Sport
Speaker of the House of Commons
Speaker of the House of Lords

Secretary to the Church Commissioners and Board of Governors

Gareth Mostyn

Assets Committee

Subject to any general rules made by the Board, has an exclusive power and duty to act in all matters relating to the management of the Commissioners’ assets

Loretta Minghella OBE **Chair** (up to 31 September 2021)
Alan Smith **Chair** (from 1 October 2021)
Revd Christopher Smith
Bishop of Birmingham, David Urquhart
Canon Peter Bruinvels
Poppy Allonby
Suzanne Avery
Helen Steers
Duncan Owen
Mark Woolley*
Gareth Mostyn **Committee Secretary**
* Deputy Chair

Audit and Risk Committee

Acts in matters relating to the external auditors, the annual accounts and internal control systems

Hilary Wild **Chair**
Busola Sodeinde
Ian Ailles (up to 31 December 2021)
Jay Greene
Alan Smith (up to 30 September 2021)
Emma Upstone
Stephanie Harrison **Committee Secretary**

Bishoprics and Cathedrals Committee

Acts for the Board in matters relating to episcopal and cathedral support

Eve Poole **Chair** (up to 15 October 2021)
Revd Canon Flora Winfield **Chair** (from 1 February 2022)
Bishop of Bristol, Vivienne Faull
Bishop of Manchester, David Walker
Dean of Ely, Mark Bonney
Dean of Gloucester, Stephen Lake* (up to 31 March 2022)
Dean of Winchester, Catherine Ogle (up to 31 December 2021)
Dean of Guernsey, Tim Barker
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Ruth Mounstephen – Representative of Bishops’ spouses
Kathryn Blacker – Representative for Association of English Cathedrals and Cathedrals Administration and Finance Association
Michael Minta **Committee Secretary**
* Deputy Chair

Mission, Pastoral and Church Property Committee

Acts for the Board in matters relating to pastoral reorganisation, parsonages and diocesan glebe, and matters relating to the future of church buildings closed for regular public worship

Eve Poole **Chair** (up to 15 October 2021)
Revd Canon Flora Winfield **Chair** (from 1 February 2022)
Bishop of Liverpool, Paul Bayes (up to 31 December 2021)
Bishop of Newcastle, Christine Hardman (up to 30 November 2021)
Bishop of Norwich, Graham Usher (from 1 February 2022)
Ven Mark Steadman (up to 8 September 2021)
Ven Simon Fisher (from 1 February 2022)
Revd Canon Clare MacLaren
Revd Christopher Smith
Revd Anne Stevens
Revd Simon Talbott (up to 13 February 2021)
Ven Amatu Christian-Iwuagwu (from 14 February 2021)
Revd Stephen Trott
Canon Peter Bruinvels*
Morag Ellis QC
Jay Greene
Susan Pope (up to 30 September 2021)
Shane Waddle (from 25 November 2021)
Garth Watkins
Wendy Matthews **Committee Secretary**
* Deputy Chair

PROFESSIONAL ADVISERS

Bankers:

Lloyds Bank plc
39 Threadneedle Street
London EC2R 8AU

Custodians:

JP Morgan Chase Bank N.A.
25 Bank Street
Canary Wharf London E14 5JP

Auditor:

Grant Thornton UK LLP
30 Finsbury Square
London EC2A 1AG

Actuaries:

Hymans Robertson LLP
One London Wall
London EC2Y 5EA

ATTENDANCE AT MEETINGS

The table below gives details of the meetings attended by governors and non-Commissioner committee members.

	BOARD	ASSETS	AUDIT AND RISK	BISHOPRICS & CATHEDRALS	MISSION, PASTORAL AND CHURCH PROPERTY
Number of Meetings	5	6	5	9	7
Archbishop of Canterbury, Justin Welby	The Archbishop of Canterbury chairs the Annual General Meeting. By arrangement he does not attend meetings of the Board of Governors. The Bishop of Manchester is the Archbishop's appointed deputy.				
Archbishop of York, Stephen Cottrell	5				
First Church Estates Commissioner, Loretta Minghella (up to 30 September 2021)	4	5			
First Church Estates Commissioner, Alan Smith* (from 1 October 2021)	5	1	4		
Second Church Estates Commissioner, Andrew Selous	5				
Third Church Estates Commissioner, Eve Poole (up to 15 October 2021)	4			7	5
Bishop of Birmingham, David Urquhart	5	6			
Bishop of Bristol, Vivienne Faull	4			8	
Bishop of Liverpool, Paul Bayes**					5
Bishop of Manchester, David Walker	5			7	
Bishop of Newcastle, Christine Hardman (up to 30 November 2021)	3				3
Dean of Gloucester, Stephen Lake (up to 31 March 2022)	5			8	
Dean of Ely, Mark Bonney	5			9	
Dean of Guernsey, Tim Barker				9	
Dean of Winchester, Catherine Ogle				6	
Dean of Manchester, Rogers Govender (from 1 May 2022)					

	BOARD	ASSETS	AUDIT AND RISK	BISHOPRICS AND CATHEDRALS	MISSION, PASTORAL AND CHURCH PROPERTY
Ven Mark Steadman (up to 8 September 2021)					5
Revd Christopher Smith	5	6			4
Revd Simon Talbott (up to 13 February 2021)					1
Revd Stephen Trott	4				3
Lord Best (up to 2 April 2021)	1				
Canon Peter Bruinvels	5	6			7
Canon Elizabeth (Betty) Renshaw	5			7	
Poppy Allonby	5	6			
Suzanne Avery	5	4			
Kathryn Blacker				9	
Mark Beard					7
Ian Ailles (up to 31 December 2021)			4		
Morag Ellis	5				5
Jay Greene	5		4		7
Canon Amatu Christian-Iwuagwu (from 13 February 2021)					3
Revd Canon Clare MacLaren					7
Ruth Mounstephen				7	
Duncan Owen	4	6			
Canon Susan Pope (up to 30 September 2021)					5
Busola Sodeinde	5		5		
Helen Steers	5	6			
Revd Anne Stevens	5				6
Jennifer Thomas				7	
Nigel Timmins (from 3 April 2021)	4				
Emma Upstone			5		
Jacob Vince	5			8	
Canon Shane Waddle (from 25 November 2021)					
Garth Watkins					7
Hilary Wild**	5		5		
Mark Woolley	5	6			

* Alan Smith was a Board member for the duration of 2021, and became First Church Estates Commissioner on 1 October 2021.

**Chair of Audit and Risk Committee; attends Board meetings but is not a member of the Board. A member of the Audit Committee attends every Assets Committee as an observer. Those listed in italics are non-Commissioners.

TRUSTEE RESPONSIBILITIES

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with UK law and accounting practices.

TRUSTEE RESPONSIBILITY STATEMENT

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year, to give a true and fair view of the state of affairs of the charity and of the incoming resources, and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and

explain the charity and its subsidiaries' transactions; disclose with reasonable accuracy at any time the financial position of the charity and the Group; and enable them to ensure that the financial statements comply in all material respects with the Charities Act 2011, the Church Commissioners Measure 1947, and the Charity (Accounts and Reports) Regulations 2008.

The trustees are also responsible for safeguarding the assets of the Church Commissioners for England (the "parent charity") and its subsidiaries ("the Group") and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The trustees are responsible for the maintenance and integrity of the organisational and financial information included in the Commissioners' section of the Church of England website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board by:



Alan Smith
First Church Estates Commissioner
6 May 2022

MONEY AVAILABLE RESOLUTION AND SUMMARY OF REPORT FROM THE INDEPENDENT ACTUARIES

INTRODUCTION

As required by the Church Commissioners Measure 1947 (as amended), at the 2022 Annual General Meeting of the Commissioners, the Board of Governors will recommend that the meeting (i) receives the Annual Report and Financial Statements; (ii) notes an update on the spending plans for 2020–22; (iii) considers the planned allocation of money available for distribution in 2023–25, based on the forecast of sums that can be made available for distribution in each year of that triennium; and (iv) provides a forecast of the sums that it is hoped can be made available in the following two triennia 2026–31, subject to the outcome of future triennial reviews.

MONEY AVAILABLE RESOLUTION

At its meeting on 24 March 2022 the Assets Committee, having received updated advice from its actuarial advisors Hymans Robertson LLP (as required by the Church of England Pensions Measure 2018), which is summarised below, resolved (i) to inform the Board that sufficient funds can be made available in 2022 to meet the Commissioners' expenditure plans for 2022 and (ii) that the Commissioners' expenditure plans can be made on the assumption that the following sums can be made available for distribution in 2023–2025:

- ⊗ Up to £417m for historical distributions.
- ⊗ Up to £426m for core in-perpetuity distributions.
- ⊗ Up to £226m for strategic ongoing distributions.
- ⊗ Up to £140m for transformational time-limited distributions.

SUMMARY OF THE REPORT FROM THE INDEPENDENT ACTUARIES

The Commissioners hold assets ("the assets") from which they pay pensions to retired clergy and other licensed ministers ("the pensions obligation") and staff ("the pensions liability"), and provide money to support the mission and ministry of bishops, cathedrals and parishes and for other purposes ("the distribution"). The distribution is affected by the extent of the pensions

obligation and pensions liability. In order to assist the Commissioners in formulating the distribution policy, we carry out a detailed review from time to time.

Our most recent detailed review was carried out as at 31 December 2021. The review involved calculating the capital value (also known as the present value) of the following areas of future expenditure from the assets, according to their term:

1. Historical distributions mainly comprising an allowance to enable the Commissioners to meet their historical pensions obligation and pensions liability. As the pensions are payable throughout the lifetimes of the pensioners, the term of this area of expenditure is longevity-related and not known in advance. We therefore make assumptions of future life expectancy for the purpose of calculating the capital value of the pensions obligation and pensions liability.
2. Planned core in-perpetuity distributions, for example the grants to support bishops' and cathedrals' ministry, sub-divided into separate elements with appropriate rates of planned annual increases.
3. Planned or previously agreed distributions which have a fixed term.

Having calculated the capital values of the above areas of expenditure, we compare the total with the value of the assets held to assess whether the planned distributions are sustainable. If the level of assets exceeds the aggregate of the above distributions, as was the case in our most recent full review, we also calculate the level of strategic ongoing distributions that could be afforded in perpetuity on our central assumptions. This is reflected in the numbers set out above.

Many occupational pension schemes have actuarial valuations performed using significant margins for prudence. This is done so that the scheme has a funding buffer should future events prove unfavourable, in particular if the pension scheme's sponsoring employer becomes insolvent. In contrast, our calculations for the

Commissioners are made on a “best estimate basis” and do not include such margins of prudence. We consider that such margins are not required, as the assets are significantly larger than the pensions obligation and pensions liability, and no further margin is necessary.

Moreover, if margins were to be included, this would restrict the level of other distributions, with the expectation that they are likely to be increased at some point in the future by more than the planned increases. This would lead to inter-generational inequity, with the future recipients of the distribution receiving more in real terms at the expense of current recipients.

It should be noted that the distribution that the assets can support – and in particular the fund’s capacity for strategic ongoing distributions – is extremely sensitive to a number of factors. These include the actual investment returns on the assets; the assumed average future investment return; actual increases in the national minimum stipend (on which the starting level of clergy pension is based) and inflation (which determines increases in pensions in payment); and the actual and prospective longevity of pensioners.

In summary the overall conclusion of our calculations was that the package of distributions proposed for the 2023–25 triennium are deemed affordable on our best estimate assumptions. The affordability of this package of distributions should be re-examined in detail at the next triennial review as at 31 December 2024 and also on an approximate basis at the interim assessments as at 31 December 2022 and 2023.

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

Alec Day FIA
Peter Carver FIA CERA
 For and on behalf of Hymans Robertson LLP
 April 2022

INDEPENDENT AUDITOR’S REPORT



St Thomas of
Canterbury, Diocese of
Exeter

INDEPENDENT AUDITOR'S REPORT TO THE CHURCH COMMISSIONERS FOR ENGLAND

OPINION

We have audited the financial statements of The Church Commissioners for England (the “parent charity”) and its subsidiaries (the “group”) for the year ended 31 December 2021, which comprise the consolidated and Commissioners statements of financial activities, the consolidated and Commissioners balance sheets, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent charity's affairs as at 31 December 2021 and of the group's and the parent charity's incoming resources and application of resources, including the group's and the parent income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

We are responsible for concluding on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent charity and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the parent charity or group to cease to continue as a going concern.

In our evaluation of the trustees' conclusions, we considered the inherent risks associated with the parent charity's and group's business model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the trustees and the related disclosures and analysed how those risks might affect the parent charity's and group's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the parent charity's and group's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the trustees with respect to going concern are described in the “Responsibilities of trustees for the financial statements” section of this report.

OTHER INFORMATION

The trustees are responsible for the other information. The other information comprises the information included in the Trustees' Annual Report as set out on pages 1–62, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- the parent charity has not kept sufficient and proper accounting records; or
- the parent charity's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF TRUSTEES FOR THE FINANCIAL STATEMENTS

As explained more fully in the Trustees' Responsibilities Statement set out on page 62, the trustees are responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE CHURCH COMMISSIONERS FOR ENGLAND

continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent charity and group and industry in which it operates. We determined that the following laws and regulations were most significant: Charities Act 2011, Charities SORP, and FRS 102.
- We enquired of management and the Audit Committee, concerning the Group's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

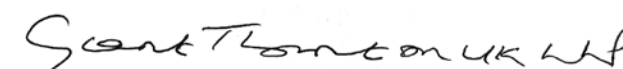
We corroborated the results of our enquiries to relevant supporting documentation such as minutes of the meetings.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the group's operations, including the nature of its revenue sources, and of its objective and strategy to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
 - the group's control environment, including the policies and procedures implemented to comply with annual and financial reporting requirements.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the group engagement team included:
 - Determining completeness of journal entries and identifying and testing high-risk journal entries, in particular manual journal entries processed at the year-end for financial statements preparation;
 - As per International Standard on Auditing (UK) 240 "The auditor's responsibilities relating to fraud in an audit of financial statements", we did not rebut the presumed fraudulent revenue recognition risk for investment income because it is a significant balance in the financial statements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
 - knowledge of the industry in which the group and parent company operates; and
 - understanding of the legal and regulatory requirements specific to the parent charity and group including:
 - the provisions of the applicable legislation;
 - the regulators' rules and related guidance, including guidance issued by relevant authorities that interprets those rules;
 - the applicable statutory provisions.

- The engagement team was not made aware of potential non-compliance with laws and regulations and fraud during internal meetings, which included the potential for fraud in revenue recognition, the potential for fraud in charitable expenditure where grant making is incorrectly captured and the potential for the endowment fund recalculation not complying with the Order of Total Return.

USE OF OUR REPORT

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



Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
6 May 2022

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

For the year ended 31 December 2021

Notes	2021			2020		
	Other funds £m	Endowment £m	Total £m	Other funds £m	Endowment £m	Total £m
Income from:						
Donations and legacies	1.2	–	1.2	1.4	–	1.4
Investments	2	144.8	144.8	–	125.9	125.9
Other income	2.1	–	2.1	1.2	–	1.2
Transfer to income	17	(145.8)	–	160.6	(160.6)	–
Total income	149.1	(1.0)	148.1	163.2	(34.7)	128.5
Expenditure on:						
Raising funds	3	(83.7)	(84.2)	(0.1)	(74.1)	(74.2)
Charitable activities						
Supporting dioceses and the local church	4	(86.8)	–	(86.8)	(99.1)	–
Bishops' and archbishops' ministry	4	(42.2)	–	(42.2)	(37.9)	–
Cathedrals' ministry	4	(12.3)	–	(12.3)	(20.0)	–
Other activities	4	(6.0)	–	(6.0)	(5.5)	–
Pre-1998 clergy pensions	4, 15	(1.3)	6.4	(1.1)	(80.5)	(81.6)
Total charitable expenditure	(148.6)	6.4	(142.2)	(163.6)	(80.5)	(244.1)
Total expenditure	(149.1)	(77.3)	(226.4)	(163.7)	(154.6)	(318.3)
Total net (expenditure) before investment gains	–	(78.3)	(78.3)	(0.5)	(189.3)	(189.8)
Gains on investment assets	2(a)	1,144.6	1,144.6	–	819.7	819.7
(Losses) / gains on derivatives		(1.9)	(1.9)	–	(15.6)	(15.6)
(Losses) on foreign currency		(0.2)	(0.2)	–	(26.1)	(26.1)
Total net income (expenditure) before taxation	–	1,064.2	1,064.2	(0.5)	588.7	588.2
Current taxation	10	–	–	–	(0.1)	(0.1)
Deferred taxation	10	–	(0.5)	–	(0.5)	(0.5)
Total net income (expenditure) after taxation	–	1,063.7	1,063.7	(0.5)	588.1	587.6
Other recognised gains and losses						
Actuarial gains / (losses) on defined benefit pension schemes (staff pre-2000)	16(b)	9.4	9.4	–	(12.2)	(12.2)
Total other recognised gains and losses	–	9.4	9.4	–	(12.2)	(12.2)
Net movement in funds	–	1,073.1	1,073.1	(0.5)	575.9	575.4
Reconciliation of funds:						
Total funds brought forward	0.1	7,572.5	7,572.6	0.6	6,996.6	6,997.2
Total funds carried forward	0.1	8,645.6	8,645.7	0.1	7,572.5	7,572.6

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

The breakdown of other funds is shown in note 17.

COMMISSIONERS' STATEMENT OF FINANCIAL ACTIVITIES

For the year ended 31 December 2021

Notes	2021			2020		
	Other funds £m	Endowment £m	Total £m	Other funds £m	Endowment £m	Total £m
Income from:						
Donations and legacies	1.2	84.1	85.3	1.4	18.0	19.4
Investments	–	130.2	130.2	–	114.4	114.4
Other income	1.6	–	1.6	1.1	–	1.1
Transfer to income	17	(145.8)	–	160.6	(160.6)	–
Total income	148.6	68.5	217.1	163.1	(28.2)	134.9
Expenditure on:						
Raising funds	–	(81.0)	(81.0)	–	(75.6)	(75.6)
Charitable activities						
Supporting dioceses and the local church	(86.8)	–	(86.8)	(99.1)	–	(99.1)
Bishops' and archbishops' ministry	(42.2)	–	(42.2)	(37.9)	–	(37.9)
Cathedrals' ministry	(12.3)	–	(12.3)	(20.0)	–	(20.0)
Other activities	(6.0)	–	(6.0)	(5.5)	–	(5.5)
Pre-1998 clergy pensions	4, 15	(1.3)	6.4	(1.1)	(80.5)	(81.6)
Total charitable expenditure	(148.6)	6.4	(142.2)	(163.6)	(80.5)	(244.1)
Total expenditure	(148.6)	(74.6)	(223.2)	(163.6)	(156.1)	(319.7)
Total net (expenditure) before investment gains	–	(6.1)	(6.1)	(0.5)	(184.3)	(184.8)
Gains on investment assets	2(a)	1,075.3	1,075.3	–	812.4	812.4
(Losses) / gains on derivatives		(1.9)	(1.9)	–	(15.6)	(15.6)
(Losses) on foreign currency		(3.1)	(3.1)	–	(23.9)	(23.9)
Total net income (expenditure) before taxation	–	1,064.2	1,064.2	(0.5)	588.6	588.1
Current taxation	–	–	–	–	–	–
Deferred taxation	–	(0.5)	(0.5)	–	(0.5)	(0.5)
Total net income (expenditure) after taxation	–	1,063.7	1,063.7	(0.5)	588.1	587.6
Other recognised gains and losses						
Actuarial gains / (losses) on defined benefit pension schemes (staff pre-2000)	16(b)	9.4	9.4	–	(12.2)	(12.2)
Total other recognised gains and losses	–	9.4	9.4	–	(12.2)	(12.2)
Net movement in funds	–	1,073.1	1,073.1	(0.5)	575.9	575.4
Reconciliation of funds:						
Total funds brought forward	0.1	7,572.5	7,572.6	0.6	6,996.6	6,997.2
Total funds carried forward	0.1	8,645.6	8,645.7	0.1	7,572.5	7,572.6

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

The breakdown of other funds is shown in note 17.

BALANCE SHEET

As at 31 December 2021

	Notes	Consolidated		Commissioners	
		2021 £m	2020 £m	2021 £m	2020 £m
Fixed assets					
Tangible assets	11	121.6	122.9	120.9	122.1
Heritage assets	12	3.5	3.5	3.5	3.5
Investments	2	9,152.4	8,027.2	8,541.2	7,548.3
Total fixed assets		9,277.5	8,153.6	8,665.6	7,673.9
Current assets					
Debtors	13	84.0	137.7	714.3	640.4
Current asset investments		307.5	126.3	307.5	126.3
Cash at bank and in hand		683.4	995.0	679.3	989.3
Total current assets		1,074.9	1,259.0	1,701.1	1,756.0
Liabilities					
Creditors: amounts falling due within one year	14	(132.7)	(129.1)	(147.0)	(146.4)
Net current assets		942.2	1,129.9	1,554.1	1,609.6
Total assets less current liabilities		10,219.7	9,283.5	10,219.7	9,283.5
Creditors: amounts falling due after one year	14	(98.5)	(98.4)	(98.5)	(98.4)
Provisions					
Deferred tax liability		(2.0)	(1.5)	(2.0)	(1.5)
Clergy pre-1998 pension obligation:					
Expected to fall due within one year		(118.4)	(118.9)	(118.4)	(118.9)
Expected to fall due after one year		(1,236.3)	(1,358.3)	(1,236.3)	(1,358.3)
Total clergy pre-1998 pension obligation	15	(1,354.7)	(1,477.2)	(1,354.7)	(1,477.2)
Net assets excluding pension scheme liabilities		8,764.5	7,706.4	8,764.5	7,706.4
Defined benefit pension scheme liabilities	16	(118.8)	(133.8)	(118.8)	(133.8)
Total net assets		8,645.7	7,572.6	8,645.7	7,572.6
Funds of the charity					
Endowment funds		8,764.4	7,706.3	8,764.4	7,706.3
Pension reserves	16	(118.8)	(133.8)	(118.8)	(133.8)
Unrestricted funds:					
Designated funds		–	–	–	–
General funds		–	–	–	–
Restricted funds		0.1	0.1	0.1	0.1
Total charity funds	17	8,645.7	7,572.6	8,645.7	7,572.6

By order of the Board



Alan Smith
First Church Estates Commissioner

6 May 2022

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

Cash flow statement

	Notes	2021 £m	2020 £m
Cash flows from operating activities		(271.0)	175.4
Cash paid from endowment capital for pre-1998 clergy pensions	15	(116.1)	(118.9)
Net cash (used in) generated by operating activities		(387.1)	56.5
Cash flows from investing activities			
Income from investments		139.6	127.6
Expenditure on raising funds paid from endowment capital	3	(83.7)	(74.1)
Tangible assets: additions	11	–	(4.8)
Tangible assets: proceeds from sale	11	0.4	–
Investments: additions	2	(3,790.5)	(3,553.3)
Investments: sale proceeds	2	3,809.9	4,117.3
Net cash provided by investing activities		75.7	612.7
Change in cash and cash equivalents in the year		(311.4)	669.2
Reconciliation of cash and cash equivalents and analysis of changes in net debt			
Cash at the start of the year		995.0	351.9
Change in cash and cash equivalents in the year		(311.4)	669.2
Change in cash due to exchange rate movements		(0.2)	(26.1)
Cash at the end of the year		683.4	995.0

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

Reconciliation of net income to net cash flows from operating activities

	Notes	2021 £m	2020 £m
Net income for the year		1,063.7	587.6
Adjustments for:			
Depreciation	11	0.9	–
Expenditure on raising funds paid from endowment capital	3	83.7	74.1
Expenditure on charitable activities paid from endowment capital	6	(6.4)	80.5
(Income) from investments	2	(144.8)	(125.9)
(Gains) on investments	2	(1,144.6)	(819.7)
Losses on foreign currency		0.2	26.1
Movement in debtors, excluding accrued investment income	13	58.9	64.6
Movement in current asset investments		(181.2)	258.0
Movement in creditors	14	3.7	35.6
Movement in deferred tax provision	10	0.5	0.5
Pension reserve adjustment to net income	16	(5.6)	(6.0)
Net cash flow from operating activities		(271.0)	175.4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. ACCOUNTING POLICIES

(a) Legal status

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

(b) Basis of preparation

The consolidated and charity financial information has been prepared in accordance with:

- Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102");
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) ("the SORP"); and
- the Charities Act 2011.

The Commissioners meet the definition of a Public Benefit Entity ("PBE") and therefore apply the PBE prefixed paragraphs in FRS 102. The financial information has been prepared on the historical cost basis (except for the revaluation of investments) and on the accruals basis. A summary of the accounting policies, which have been applied consistently across the group, is set out below. The Commissioners adopt a total return approach to investments. Note 17 explains how the unapplied total return and the use thereof is calculated. The Commissioners have presented a consolidated cash flow statement and have taken advantage of the exemption within FRS 102 from presenting a cash flow statement for the Commissioners only.

(c) Significant judgements and estimates

The key judgements and estimations, which have a significant effect on the amounts recognised in the financial statements, are described in the accounting policies and are summarised below:

- Clergy pension obligation – the estimations surrounding the pre-1998 clergy pensions obligation. Further details are disclosed in note 15.
- Pension liabilities – the estimations surrounding the recognition of the Commissioners' defined benefit pension liabilities. Further details are disclosed in note 16.
- Carrying value of investment assets and tangible fixed assets – the judgements around appropriate valuation methods used for the assets of the Commissioners. Further details are disclosed in note 1(j), 1(k), 1(l) and 1(m).
- Value of creditors due after more than one year – judgement in respect of long-term creditor balances being discounted to present value. There is a judgement concerning the appropriate discount rate to use. If the discount rate were to increase by 0.25%, the value of creditors would decrease by £708,000. Further details are disclosed in note 1(g).

(d) Going concern

The Commissioners' role in funding the Church's ministry comprises certain legal obligations and discretionary funding. In assessing the going concern status of the Commissioners, the trustees have considered the Commissioners' role in funding the Church's ministry, the spending strategy, the application of total return and the legislation to allow endowment to be spent for specific pension purposes. In addition, the trustees take account of independent actuarial advice provided by Hymans Robertson LLP on the affordability in perpetuity of their planned distributions. This advice is provided every three years when setting the spending plans for the next three-year period (the "triennium"), and this is updated annually to ensure that the spending plans for the current and next triennia remain affordable. The approach adopted includes a smoothing mechanism which aims to give a full triennium's notice of any reduction in distributions unless there has been a significant deterioration in the balance between the Commissioners' assets and their spending plans. This means that while events such as Covid-19 and the current geopolitical context are factors for consideration, the Commissioners have a clear framework for assessing whether the events are sufficiently significant that they would change the amounts available for distribution to beneficiaries in the short term.

The annual actuarial update for the year ended 31 December 2021 includes stress testing scenario analysis which models the impact on distributions in the event of different levels of reduction in asset values. This includes consideration of the impact of changes in the performance of the asset portfolio, expected future returns or inflation on the affordability of distributions. In light of this analysis there was no reason to consider that any changes were required to the planned distributions for the 2020–22 triennium, and the recommended distributions for the 2023–25 triennium and so the trustees have concluded that the Commissioners are able to sustainably meet both their legal obligations and planned discretionary funding for at least the period to 31 December 2023. In addition the trustees have given consideration to the availability of liquidity in light of market turbulence caused by recent geopolitical events, the continuing impact of Covid-19 and other external factors. Under the Investment Risk Framework the Commissioners seek to hold at least 24 months' planned expenditure in cash and near cash, and are satisfied that they have sufficient cash to meet their obligations in the short term. Therefore, the Commissioners continue to adopt the going concern basis of accounting in the preparation of these financial statements.

(e) Basis of consolidation and subsidiary undertakings

The consolidated statement of financial activities ("SOFA") and balance sheet include the financial statements of the Commissioners and all their subsidiary undertakings made up to 31 December each year. The subsidiaries have been consolidated on a line by line basis. Intra-group transactions are eliminated on consolidation. Further details about the Commissioners' significant subsidiaries are given in note 2(b).

The Commissioners, together with the Archbishops' Council and the Church of England Pensions Board are equal partners in Church of England Central Services ("ChECS"), a joint venture. Further details are given in note 2(c) and note 20. This jointly controlled entity is included in the Commissioners' consolidated financial statements using the equity method. The Commissioners' share of profits or losses from ChECS is included in the SOFA and its share of net assets is included in the balance sheet.

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

(f) Income

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

Donations and legacies

Items donated to the Commissioners for the Lambeth Palace Library are recognised at the market value of the gift at the time of donation. Legacies are recognised as receivable once the Commissioners are notified of the gift, probate has been granted, the executors have established that there are sufficient assets in the estate to pay the legacy after settlement of liabilities and there are no conditions outside the control of the Commissioners that are not yet met.

Investment income

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

All other investment income is recognised on the accruals basis.

(g) Expenditure

The SOFA has been presented on an activity basis. Costs have been distinguished between charitable activities and those incurred to raise funds. Expenditure and liabilities are recognised when a legal or constructive obligation exists to make payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1. ACCOUNTING POLICIES continued

(g) Expenditure continued

Direct costs and grants are allocated directly to activities and are described in more detail in notes 5 and 6. Grants are recognised when a firm commitment to provide funding is made and there is evidence of a constructive obligation to the beneficiary. Support costs are apportioned to the activity to which they relate as shown in note 7. The long-term debtor and creditor balances are discounted to present value, where material. The discount rate used is based on the expected future yield on the assets earmarked for making these grant payments.

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

(h) Provisions

Under the Pensions Measure 1997 the Commissioners have an obligation to meet the costs of clergy pensions for service up to 31 December 2017. Since the beneficiaries of the past service are not employees of the Church Commissioners this obligation does not fall within scope of section 28 of FRS 102 "Employee Benefits" and is therefore accounted for under section 21 – "Provisions & Contingencies". The liability for the pre-1998 pension obligation for Church of England clergy under the Church of England Pensions Scheme is recognised at the actuarial valuation provided by Hymans Robertson LLP. This is the best estimate of the total value of future discounted cash flows. The assumptions and methodology behind the cash flow projections are disclosed in note 15.

(i) Pensions

Pensions are described in note 16.

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

The other defined benefit schemes of which the Commissioners are an employer or a "responsible body" are considered to be multi-employer schemes, but the Commissioners are unable to identify its share of assets and liabilities of the schemes. Consequently, the contributions to these schemes are accounted for as if they were defined contribution schemes, where employer contributions payable in the year are charged to expenditure.

Where schemes have deficit recovery contribution plans in place, the present value of these agreed payments are recognised as a liability at each balance sheet date. Amounts paid during the year are charged against this liability.

(j) Fixed assets: tangible assets

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

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

Operational see house properties are recognised at their market value at 1 January 2014, being the date of transition to FRS 102. This was deemed to be their cost under the transitional provisions of FRS 102. An impairment review is carried out annually and where the recoverable amount is materially less than the historic cost, the assets are impaired to the lower amount.

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

Fixed asset	Estimated useful life
Buildings and improvements	50 years
Structural glazing	25 years
Internal plant and equipment	20 years
Leasehold office improvements	10 years
Audio-visual equipment and IT systems	5 years

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

(k) Fixed assets: heritage assets

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

Lambeth Palace

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

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

Historic contents of Lambeth Palace

Historic items are recognised at cost. On transition to FRS 102, the Commissioners deemed the cost of these assets to be their carrying value at 1 January 2014, based on the value attributed to them in a valuation carried out in 2007. The collection is not depreciated as the amount of depreciation is regarded as immaterial due to the high residual value, however the collection is reviewed for impairment at each accounting date.

Any additional items purchased or donated since 1 January 2015 are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred.

Contents of Lambeth Palace Library

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1. ACCOUNTING POLICIES continued

(k) Fixed assets: Heritage assets continued

Historic contents of former see houses

Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost. On transition to FRS 102, the Commissioners deemed the cost of these assets to be their carrying value at 1 January 2014, based on the value attributed to them in a valuation carried out in 2007. The collection is not depreciated as the amount of depreciation is regarded as immaterial due to the high residual value, however the collection is reviewed for impairment at each accounting date.

Any additional items purchased or donated since 1 January 2015 are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred.

(l) Fixed assets: non-financial instrument investments

Investment properties

All directly owned properties are located in the United Kingdom. The portfolio consists of rural and strategic land, residential and commercial properties. Rural land also includes mineral interests. Investment properties are recognised at cost upon acquisition and then recognised at fair value at each balance sheet date. Changes in fair value are recognised in the SOFA. Fair value is determined through reference to each property's market value in accordance with the Appraisal & Valuation Manual issued by the Royal Institution of Chartered Surveyors ("RICS"). All properties are valued by an external valuer with recognised and relevant skills and experience. The valuation methods adopted take into account appropriate comparable evidence and market indices. The most appropriate method of valuation is selected for each property type.

The valuers of the properties are shown below.

Rural: Savills (UK) Limited

Strategic land: Savills (UK) Limited

Commercial: C&W (U.K.) LLP

Residential: Jones Lang LaSalle Limited

Minerals: Wardell Armstrong LLP

Timberland (including biological assets)

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

Timberland is valued annually by an external valuer at market value in line with International Valuation Standards, which is calculated on the timber maturity profile, the species, the geographic location and other environmental considerations. Changes in fair value in the year resulting from both net growth and change in the market value of standing timber are reported in the gains and losses on investments in the SOFA. At point of harvesting, the carrying value of forestry assets is valued at fair value less estimated point-of-sale costs. The revenue from the sale of standing timber is recognised as income.

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

Subsidiary undertakings

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

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

(m) Financial instruments

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

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

Basic financial instruments

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

Cash at bank and in hand includes cash at bank and cash equivalents. Cash equivalents include money market funds which are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Current asset investments

Current asset investments include treasury bills, gilts and supranational bonds. Movements in the value of these instruments are recognised in income under the effective interest method. Together with the **cash at bank and in hand**, these holdings make up the cash and near cash fund allocation which is available for investment, short-term commitment and for distribution purposes.

Listed and unlisted securities are a form of basic financial instrument and are initially measured at fair value. Such assets are subsequently held at fair value at each balance sheet date, with changes in fair value recognised in the SOFA. Listed securities comprise listed public equities and fixed income instruments. The fair value of these investments is determined using bid price in accordance with the practice of the appropriate stock exchange.

Unlisted securities comprise a) closed-end unlisted funds which are invested in private equity, private credit and venture capital assets, and b) open-end unlisted funds invested in listed securities of various types. These funds are valued by reference to the estimated net asset values or final net asset values received from the fund managers at year-end.

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

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

Non-basic financial instruments

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

Value linked loans

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

1. ACCOUNTING POLICIES continued

(m) Financial Instruments continued

Indirect property, Timberland and Infrastructure funds

Indirect property, timberland and infrastructure funds are closed end unlisted funds where the Commissioners and its subsidiaries hold minority interests in partnerships managed by a third party investing in properties, timberland or infrastructure projects.

These funds are fair valued annually using the estimated net asset value or final asset value provided by the fund manager.

Stock lending programme

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

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

Where securities are loaned at the balance sheet date, the securities loaned are included in the balance sheet as the Commissioners retain the risks and rewards of ownership of the securities and also retain the contractual rights to any cash flows relating to the securities. The market value of listed investments includes stock on loan of £93.5m (2020: £86.6m).

Derivatives

The Commissioners use foreign currency forwards and options contracts and equity and interest rate derivatives to facilitate portfolio hedging, risk management and efficient portfolio management. The currency derivatives reduce the impact of changes in foreign currency rates in relation to investments priced in certain currencies other than sterling. The equity and interest rate derivatives are used to manage equity market risks, hedge portfolio biases and to provide efficient implementation for certain allocation decisions. In accordance with the Commissioners' investment policy, derivatives are not entered into for trading purposes. Derivatives are also used by some external fund managers to implement their investment strategy.

Derivatives are initially recognised at their fair value, which is equivalent to any transaction price paid. Derivative contracts outstanding at the balance sheet date are stated at fair value at the balance sheet date, which is derived from exchange prices if the derivative is listed or from third-party valuations if unlisted. If the fair value of the derivative is in a gain position, the contract is shown within debtors. If the fair value of the contract is in a loss position, it is shown within creditors. Realised and unrealised gains and losses arising from these contracts are charged to the endowment fund in the SOFA. Cash delivered as collateral for derivative contracts continues to be reflected as an asset within cash at bank and in hand. At 31 December 2021, £nil cash was delivered as collateral (2020: £4.7m).

(n) Foreign currencies

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

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

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

(o) Taxation

The Commissioners, as a registered charity, are exempt from taxation on their income and gains falling within Part 11 of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that they are applied to their charitable purposes.

The Commissioners' subsidiary undertakings are non-charitable subsidiaries and are subject to taxation, but do not generally pay UK Corporation Tax because their policy is to pay taxable profits as Gift Aid to the Commissioners. Foreign tax incurred by subsidiaries operating overseas is charged as it is incurred.

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

In common with many other charities, the Commissioners are unable to recover the majority of Value Added Tax ("VAT") incurred on expenditure. The amount of VAT that cannot be recovered is included within the underlying cost to which it relates.

(p) Related parties

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

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

The Commissioners are related to ChECS, as they are a partner in this joint venture. Details are given in note 2(c) and note 20. The Commissioners are also related to the following pension funds, administered by the Church of England Pensions Board: Church of England Funded Pensions Scheme; Church Administrators Pension Fund; and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 4, 8 and 16.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2. INVESTMENTS

(a) Summary of movement on investments

Consolidated

	At 1 January 2021 £m	Additions £m	Sale proceeds £m	Change in market value £m	31 December 2021 £m	2021 investment income £m
Securities portfolio:						
Listed securities*	2,739.3	2,512.9	(2,776.7)	424.2	2,899.7	45.1
Unlisted securities	2,964.7	1,111.3	(769.1)	496.6	3,803.5	23.2
Total securities	5,704.0	3,624.2	(3,545.8)	920.8	6,703.2	68.3
Properties:						
Direct property	1,609.3	59.8	(180.5)	86.2	1,574.8	40.3
Indirect property	105.9	28.5	(17.4)	(6.2)	110.8	3.8
Total properties	1,715.2	88.3	(197.9)	80.0	1,685.6	44.1
Value linked loans	85.6	–	(8.1)	12.0	89.5	2.9
Timberland:						
Land	95.5	9.4	(10.3)	37.6	132.2	–
Standing timber**	285.1	14.3	(31.2)	88.7	356.9	20.4
Indirect timberland	55.1	–	–	(1.0)	54.1	4.3
Total timberland	435.7	23.7	(41.5)	125.3	543.2	24.7
Infrastructure	86.7	54.3	(16.6)	6.5	130.9	4.8
Total	8,027.2	3,790.5	(3,809.9)	1,144.6	9,152.4	144.8

	At 1 January 2020 £m	Additions £m	Sale proceeds £m	Change in market value £m	31 December 2020 £m	2020 investment income £m
Securities portfolio:						
Listed securities*	2,904.1	2,921.6	(3,358.7)	272.3	2,739.3	50.2
Unlisted securities	2,539.1	529.2	(575.5)	471.9	2,964.7	10.7
Total securities	5,443.2	3,450.8	(3,934.2)	744.2	5,704.0	60.9
Properties:						
Direct property	1,682.8	55.6	(109.7)	(19.4)	1,609.3	41.7
Indirect property	122.5	10.4	(15.3)	(11.7)	105.9	0.6
Total properties	1,805.3	66.0	(125.0)	(31.1)	1,715.2	42.3
Value linked loans	91.3	–	(4.5)	(1.2)	85.6	3.0
Timberland:						
Land	83.5	1.2	(12.8)	23.6	95.5	–
Standing timber**	205.5	4.8	(22.4)	97.2	285.1	13.5
Indirect timberland	60.8	–	–	(5.7)	55.1	2.1
Total timberland	349.8	6.0	(35.2)	115.1	435.7	15.6
Infrastructure	81.9	30.5	(18.4)	(7.3)	86.7	4.1
Total	7,771.5	3,553.3	(4,117.3)	819.7	8,027.2	125.9

* Investment income includes £2.2m (2020: £0.8m) of income relating to interest on cash and interest on current asset investments, and £0.04m (2020: £0.4m) stock lending income.

** Change in market value of standing timber comprises revaluation gains of £99.8m (2020: gains of £116.3m) and a reduction of £11.1m (2020: £7.5m) due to harvesting of standing timber. Standing timber represents the biological assets held by the Commissioners.

Commissioners

	At 1 January 2021 £m	Additions £m	Sale proceeds £m	Change in market value £m	31 December 2021 £m
Securities portfolio:					
Listed securities	2,739.3	2,510.6	(2,774.7)	424.4	2,899.6
Unlisted securities	2,594.8	974.8	(684.8)	430.9	3,315.7
Total securities	5,334.1	3,485.4	(3,459.5)	855.3	6,215.3
Properties:					
Direct property	1,458.6	48.6	(146.1)	61.7	1,422.8
Indirect property	75.8	28.5	(17.4)	(5.5)	81.4
Total properties	1,534.4	77.1	(163.5)	56.2	1,504.2
Value linked loans	85.6	–	(8.1)	12.0	89.5
Timberland:					
Land	59.9	0.9	(6.6)	30.3	84.5
Standing timber*	229.1	2.0	(30.0)	94.7	295.8
Total timberland	289.0	2.9	(36.6)	125.0	380.3
Infrastructure	6.4	17.5	–	0.5	24.4
Subsidiaries	298.8	2.4	–	26.3	327.5
Total	7,548.3	3,585.3	(3,667.7)	1,075.3	8,541.2

	At 1 January 2020 £m	Additions £m	Sale proceeds £m	Change in market value £m	31 December 2020 £m
Securities portfolio:					
Listed securities	2,904.1	2,921.6	(3,358.7)	272.3	2,739.3
Unlisted securities	2,264.5	439.8	(537.8)	428.3	2,594.8
Total securities	5,168.6	3,361.4	(3,896.5)	700.6	5,334.1
Properties:					
Direct property	1,529.1	53.6	(104.0)	(20.1)	1,458.6
Indirect property	90.1	10.4	(15.3)	(9.4)	75.8
Total properties	1,619.2	64.0	(119.3)	(29.5)	1,534.4
Value linked loans	91.3	–	(4.5)	(1.2)	85.6
Timberland:					
Land	42.8	–	(3.6)	20.7	59.9
Standing timber*	121.9	1.6	(15.7)	121.3	229.1
Total timberland	164.7	1.6	(19.3)	142.0	289.0
Infrastructure	–	14.9	(7.5)	(1.0)	6.4
Subsidiaries	296.6	0.7	–	1.5	298.8
Total	7,340.4	3,442.6	(4,047.1)	812.4	7,548.3

* Change in market value comprises revaluation gains of £103.6m (2020: £28.7m) and a reduction of £8.9m (2020: £3.8m) due to harvesting of standing timber. Standing timber represents the biological assets held by the Commissioners.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

2. INVESTMENTS continued

(a) Summary of movement on investments continued

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

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

Unlisted securities include £0.2m (2020: £0.2m) invested in shares in the Churches Mutual Credit Union Limited, which is a mixed motive investment.

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

The Commissioners have investments denominated in foreign currencies and are impacted by changes in foreign currency exchange rates. Non-sterling assets exposed to currency risk represented 52.3% (2020: 60.5%) of the investment portfolio. A currency overlay programme is used to hedge back into sterling a proportion of foreign currency exposure. At 31 December 2021, 18.7% (2020: 10.9%) of non-sterling assets were hedged to sterling. The net loss from operating the currency overlay programme was £12.2m before deducting fees of £1.9m (2020: loss of £56.6m after deducting fees of £2.3m). Net additions and sale proceeds during the year exclude the purchase and sale of foreign currency for the purposes of conversion and currency hedging. In addition, some fund managers may enter into foreign currency contracts to hedge the non-sterling assets they manage. The loss on these contracts was £0.5m (2020: profit £7.1m).

The Commissioners also hold equity and interest rate derivatives to manage equity market risk and for efficient portfolio management. The net profit from operating this programme was £10.8m (2020: profit of £33.9m).

(b) Subsidiaries

The Commissioners' principal subsidiary companies are wholly owned and are held to undertake property purchase, development and management and hold certain property, securities, indirect property, infrastructure and timberland investments. The Ashford Great Park Partnership, held through intermediary companies, has its principal offices at 29 Great Smith Street, London SW1P 3PS.

Registered in	Subsidiary (company number)
England and Wales	CC Trading Ltd (2080054), CC Lincoln Ltd (3687102), CC Projects* (1765782), Cedarvale* (2220037), CC Licensing* (2245961), Quivercourt* (1807330), and Weston Tree Ltd (7859221)
US (Delaware)	Cherry Tree Timber LLC (W-115255), Arbol Tree (5423402)
Australia	Jahr Tree Co Pty Ltd (600392667)

* Unlimited companies.

Summary results for the material subsidiaries are shown below. Subsidiaries are material if there is a significant net funds total or if it is expected that revenue or expenditure may be significant.

	CC Licensing		CC Projects		CC Trading Ltd		Cedarvale		Quivercourt	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Revenue	101.6	50.4	20.7	2.7	11.9	2.7	5.7	2.2	–	–
Expenditure*	(81.5)	(20.1)	(16.7)	(2.7)	(11.9)	(2.7)	–	–	(0.6)	(2.3)
Profit / (loss)	20.1	30.3	4.0	–	–	–	5.7	2.2	(0.6)	(2.3)
Assets	648.5	505.7	65.7	63.3	6.1	12.4	38.6	32.9	29.3	30.1
Liabilities	(474.6)	(351.4)	(27.3)	(28.9)	–	(6.3)	–	–	(10.9)	(11.1)
Net funds	173.9	154.3	38.4	34.4	6.1	6.1	38.6	32.9	18.4	19.0

* Includes Gift Aid payments to the Commissioners.

The Commissioners also own 80% interests in Lone Rock Timber Investments MBD–Landco Limited Partnership and Lone Rock Timber Investments MBD–Logco Limited Partnership, both of which are registered in the United States. These entities are joint ventures, however the Commissioners hold them as part of their investment portfolio and so they are held at fair value through profit or loss in the financial statements.

(c) Joint ventures

Church of England Central Services (ChECS) is a charitable company limited by guarantee and is a joint venture between the Commissioners, the Archbishops' Council and the Church of England Pensions Board, who are equal partners. The purpose of ChECS is to enhance the efficiency and effectiveness of the charitable national and diocesan institutions of the Church of England and of other charities with a church ethos, by facilitating the provision of cost-effective shared financial, legal and other services. The Commissioners' share of net assets of ChECS was £nil (2020: £nil). As at 31 December 2021, other than the amounts disclosed in debtors in note 13, £37,000 was owed by the Commissioners to ChECS (2020: £52,000).

The Commissioners have no associated undertakings.

(d) Future commitments

The Commissioners have outstanding commitments to invest in private equity, private credit, venture capital, indirect property and infrastructure funds totalling £1.3bn as at 31 December 2021 (see table below). The drawdown and cash flow impact of these commitments will be over several years and is dependent on the fund managers acquiring underlying assets during the investment periods of the funds. The commitments are offset against distributions received from funds and other cash flows, and are managed as a whole within the total liquidity requirements of the Commissioners' fund.

	Consolidated		Commissioners	
	2021 £m	2020 £m	2021 £m	2020 £m
Securities portfolio	1,057.7	983.3	597.2	478.4
Indirect property	122.8	65.3	120.7	63.2
Infrastructure	129.5	87.6	60.2	33.7
Total capital commitments	1,310.0	1,136.2	778.1	575.3

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

3. EXPENDITURE ON RAISING FUNDS

	Direct costs £m	Internal management costs £m	Support costs (note 7) £m	2021 Total £m	Direct costs £m	Internal management costs £m	Support costs (note 7) £m	2020 Total £m
Securities	46.5	9.2	4.0	59.7	40.0	8.6	3.8	52.4
Properties	13.6	3.0	0.9	17.5	15.2	3.3	1.2	19.7
Indirect property	–	0.2	0.1	0.3	0.1	0.2	0.1	0.4
Value linked loans	–	0.2	0.1	0.3	–	0.2	0.1	0.3
Timberland	4.4	1.0	0.3	5.7	(0.4)	0.7	0.3	0.6
Infrastructure	–	0.1	0.1	0.2	0.5	0.1	0.1	0.7
Total investment management costs	64.5	13.7	5.5	83.7	55.4	13.1	5.6	74.1
Costs of managing events at Lambeth Palace	0.5	–	–	0.5	0.1	–	–	0.1
Total cost of raising funds	65.0	13.7	5.5	84.2	55.5	13.1	5.6	74.2

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

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

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

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

4. EXPENDITURE ON CHARITABLE ACTIVITIES

	Grant funding £m Note 5	Direct funding £m Note 6	Support costs £m Note 7	2021 Total £m	Grant funding £m Note 5	Direct funding £m Note 6	Support costs £m Note 7	2020 Total £m
Supporting dioceses and the local church	85.6	–	1.2	86.8	97.8	–	1.3	99.1
Bishops' and archbishops' ministry	21.5	18.7	2.0	42.2	19.8	15.6	2.5	37.9
Cathedrals' ministry	11.8	0.2	0.3	12.3	19.5	0.2	0.3	20.0
Other activities	2.2	2.4	1.4	6.0	1.7	2.3	1.5	5.5
Total charitable expenditure excluding clergy pensions obligation	121.1	21.3	4.9	147.3	138.8	18.1	5.6	162.5
Pre-1998 clergy pensions	–	(5.2)	0.1	(5.1)	–	81.5	0.1	81.6
Total costs of charitable activities	121.1	16.1	5.0	142.2	138.8	99.6	5.7	244.1

Supporting dioceses and the local church

The Commissioners support dioceses and the local church through providing grants to the Archbishops' Council. A breakdown of grant making activity can be found in note 5.

This support includes Strategic Development Funding, Lowest Income Communities Funding, Transition Funding, Strategic Transformation Funding, Sustainability Funding, Strategic Ministry Funding and Additional Ordinands Funding.

Strategic Development Funding is for new growth opportunities which aim to support major change projects which fit with dioceses' strategic plans.

Lowest Income Communities Funding and Transition Funding are to provide funding for mission in communities with the lowest incomes.

Transition Funding is distributed to dioceses whose funding for the support of the lowest income communities is less than under the previous 'Darlow' grant funding method which ended in 2016.

Strategic Transformation Funding is for those dioceses wishing to undertake major restructuring programmes in order to better align with their strategic plans and make a significant difference to their mission and financial strength, in turn supporting the Church's sustainable growth.

Sustainability Funding provides extra help to dioceses in the face of loss of income caused by the Covid-19 pandemic.

Strategic Ministry Funding provides financial support for growth in the number of clergy, including support for pensions and housing, in a tailored manner so that it is proportionately higher for those dioceses that need it most.

Additional Ordinands Funding is intended to meet costs of training the incremental increase in ordinands, supporting dioceses to deliver the Church-wide goal of providing for future ordained ministry through increasing the number of ordinands by 50%.

Bishops' and archbishops' ministry

The Commissioners are responsible for stipends, providing housing and office space for the diocesan bishops and archbishops and for the maintenance of those buildings including Lambeth Palace. They provide diocesan bishops and archbishops with an annual block grant to cover their stipend and working costs and that of their suffragan bishops. Pension contributions are paid from this grant to the Church of England Funded Pensions Scheme for bishops and their chaplains, and the Church Administrators Pension Fund for bishops' support staff (see note 16).

Cathedrals' ministry

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

Cathedrals Sustainability Funding enables the Commissioners to give discretionary section 23 grants to cathedrals to provide seed funding for projects aiming to help them become more financially sustainable.

Pre-1998 clergy pensions

The Commissioners meet the costs of clergy pensions for service up to 31 December 1997. This amount is the movement in the provision for clergy pensions until 31 December 1997 in the year to 31 December 2021 (with associated administration costs). The cash paid under the pre-1998 scheme was £116.1m (2020: £118.9m). Further details are provided in note 15.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

4. EXPENDITURE ON CHARITABLE ACTIVITIES continued

Other activities

The Commissioners have a legal and advisory role in the reorganisation of parishes, sales and other transactions relating to clergy housing and glebe land, and settling the future of church buildings that have been closed for public worship. The Commissioners also contribute to their share of the liability for chancel repairs arising from their former and current ownership of rectorial property.

The Commissioners make a grant to the Churches Conservation Trust to support its work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality. During the year, the Commissioners paid the statutory grant to the Churches Conservation Trust of £1.6m (2020: £1.6m). The Commissioners also applied income of £0.4m (2020: £0.9m) from its share of proceeds on the sale of closed churches to these grants. Therefore, net expenditure on the annual grant to the Churches Conservation Trust was £1.1m (2020: £0.7m).

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

5. GRANT MAKING

All grants are made to institutions.

	2021 £m	2020 £m
Supporting dioceses and the local church		
Grants to the Archbishops' Council for:		
Strategic Development Funding	14.1	22.6
Lowest Income Communities Funding	27.5	26.4
Transition Funding	6.7	8.3
Strategic Transformation Funding	9.0	11.4
Sustainability Funding	9.3	14.9
Strategic Ministry Funding	11.3	5.4
Additional Ordinands	3.2	2.6
National Giving Strategy	2.5	1.7
Innovation Funding	0.3	–
Other grants	4.8	2.9
Discounting adjustment (see note 14)	(3.1)	1.6
Total grants to support dioceses and the local church	85.6	97.8
Bishops' and archbishops' ministry		
114 (2020: 114) grants to bishops in 42 (2020: 42) dioceses	21.5	20.8
Return of unspent grants from bishops	–	(1.0)
Total grants for bishops' and archbishops' ministry	21.5	19.8
Cathedrals' ministry		
13 (2020: 96) grants to 11 (2020: 41) cathedrals – Cathedral Sustainability Fund	1.9	9.0
83 (2020: 83) grants to 42 (2020: 42) cathedrals – other grants	9.9	10.5
Total grants to pay for cathedrals' ministry	11.8	19.5
Other activities		
Statutory grant to Churches Conservation Trust	1.6	1.6
Other grants	0.6	0.1
Total grants for other activities	2.2	1.7
Total grant funding	121.1	138.8

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

Grant-making creditors can be analysed as follows:

		Consolidated and Commissioners	
	Note	2021 £m	2020 £m
As at 1 January		137.3	114.7
Changes in liability due to:			
New grant commitments in the year		124.2	140.7
Return of unspent grants		–	(1.9)
Grant payments in the year		(116.6)	(117.8)
Changes in discounting adjustment	14	(3.1)	1.6
As at 31 December		141.8	137.3

6. DIRECT FUNDING

	2021 £m	2020 £m
Bishops' and archbishops' ministry		
Bishops' and archbishops' housing and office premises	5.7	5.1
Lambeth Palace Library depreciation	0.9	–
Lambeth Palace Library running costs	1.8	1.1
Lambeth Palace Library project costs	1.2	–
Archbishops' office and working costs and stipends	5.9	5.9
Other national costs	2.3	2.4
Archbishops' advisers	0.5	0.5
Direct costs of administering bishops' and archbishops' ministry	0.4	0.6
Total bishops' ministry costs	18.7	15.6
Cathedrals' ministry		
Direct costs of administering cathedrals' ministry	0.2	0.2
Total cathedrals' ministry	0.2	0.2
Pre- 1998 clergy pensions		
Payments made to clergy	116.1	118.9
Actuarial adjustments	(122.5)	(38.4)
Other pre-1998 clergy pensions expenditure	1.2	1.0
Total clergy pension obligation	(5.2)	81.5
Other activities		
National payroll for clergy	0.6	0.3
Chancel repair liability	0.5	0.8
Managing pastoral reorganisations and closed church buildings	1.3	1.2
Total other activities	2.4	2.3
Total direct costs	16.1	99.6

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

7. SUPPORT COSTS

	Raising funds £m Note 3	Charitable activities £m Note 4	2021 Total £m	Raising funds £m Note 3	Charitable activities £m Note 4	2020 Total £m
Shared services	3.1	2.7	5.8	3.1	3.2	6.3
Accommodation costs	0.5	0.7	1.2	0.5	0.8	1.3
Governance costs	0.9	0.9	1.8	0.7	0.7	1.4
Total support costs before staff pension costs	4.5	4.3	8.8	4.3	4.7	9.0
Staff pension costs (note 16):						
Interest on staff pension scheme liabilities	1.0	0.7	1.7	1.3	1.0	2.3
Other costs	-	-	-	-	-	-
Total support costs	5.5	5.0	10.5	5.6	5.7	11.3

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

Allocation of costs

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

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

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

	2021 £000	2020 £000
Audit of Church Commissioners:		
Current year	185	181
Audit of subsidiary undertakings	44	44
Total audit fees	229	225
Non-audit fees	210	-
Total fees paid to Grant Thornton UK LLP	439	225

Non-audit fees relate to forensic accounting services provided to support a research project into the fund of Queen Anne's Bounty, one of the Commissioners' predecessor bodies.

8. STAFF NUMBERS AND REMUNERATION

The Secretary and staff employed to manage the Commissioners' investment assets are employed directly by the Commissioners.

In addition to staff employed directly, the work of the Commissioners is supported by staff in shared service departments provided by ChECS which provides finance, HR, technology, communications, legal, internal audit and other services to the NCIs. The costs of all ChECS staff are shown in aggregate in the tables below – the Commissioners' share of which was £5,068,000 (2020: £5,066,000).

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2021 Number	2020 Number	2021 Number	2020 Number	2021 Number	2020 Number
Average number employed	56	49	32	33	177	178
	£m	£m	£m	£m	£m	£m
Salaries	7.9	7.4	1.6	1.7	8.5	8.2
National Insurance costs	0.6	0.6	0.2	0.2	0.9	0.9
Pension contributions	0.7	0.6	0.3	0.3	1.1	1.1
Total cost of staff	9.2	8.6	2.1	2.2	10.5	10.2

Salaries of the Commissioners' own staff include £3,000 (2020: £136,000) paid by way of termination costs to 1 person (2020: three people).

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

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

Pensions are described in more detail in note 16.

Asset management and national Church functions

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

8. STAFF NUMBERS AND REMUNERATION continued

Staff emoluments

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

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2021 Number	2020 Number	2021 Number	2020 Number	2021 Number	2020 Number
£60,001 to £70,000	5	7	–	2	17	14
£70,001 to £80,000	9	6	1	1	4	7
£80,001 to £90,000	1	1	3	2	3	2
£90,001 to £100,000	4	3	–	–	2	3
£100,001 to £110,000	3	1	–	–	7	5
£110,001 to £120,000	2	2	–	–	–	–
£120,001 to £130,000	–	–	–	–	1	–
£130,001 to £140,000	–	1	–	–	1	1
£140,001 to £150,000	1	–	–	–	–	–
£150,001 to £160,000	1*	1	–	–	–	–
£160,001 to £170,000	–	1	–	1**	–	–
£170,001 to £180,000	1	–	1**	–	–	–
£180,001 to £190,000	1*	–	–	–	–	–
£190,001 to £200,000	1	2*	–	–	–	–
£200,001 to £210,000	2*	–	–	–	–	–
£210,001 to £220,000	1*	1*	–	–	–	–
£220,001 to £230,000	1*	–	–	–	–	–
£230,001 to £240,000	3*	1*	–	–	–	–
£260,001 to £270,000	–	2*	–	–	–	–
£270,001 to £280,000	1*	1*	–	–	–	–
£320,001 to £330,000	1*	–	–	–	–	–
£330,001 to £340,000	1*	–	–	–	–	–
£380,001 to £390,000	–	1	–	–	–	–
£480,001 to £490,000	1*	–	–	–	–	–
£520,001 to £530,000	–	1*	–	–	–	–
£600,001 to £610,000	1*	–	–	–	–	–

* Including LTIP payment

** Secretary to the Church Commissioners (Chief Executive)

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

Of those staff managed directly by the Commissioners, 40 (2020: 32) accrue benefits under a defined contribution scheme for which contributions for the year were £510,000 (2020: £415,000). The remaining 5 (2020: 5) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, 30 (2020: 28) accrue benefits under a defined contribution scheme for which contributions for the year were £330,000 (2020: £295,000). The remaining 5 (2020: 4) staff accrue benefits under a defined benefit scheme.

The highest-paid member of staff was the Chief Investment Officer who earned £305,000 (2020: £305,000) and an LTIP of £301,000 (2020: £215,000) based on the long-term performance of the fund. Including the Chief Investment Officer, 15 (2020: 10) members of staff received LTIPs in the year totalling £1,673,000 (2020: £753,000). Further details of the Commissioners' remuneration policy are included in the Governance section of the Board's report on page 54.

The Commissioners' senior executive leadership team comprises six posts, four of which are employed directly by the Commissioners and two by ChECS. Their aggregate remuneration, including LTIPs, National Insurance and pension contributions, is £1,433,000 (2020: £1,152,000).

9. TRUSTEES' EMOLUMENTS AND EXPENSES

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

	2021 £000	2020 £000
First Church Estates Commissioner (Loretta Minghella to 30 September 2021)		
Salary	118	79
National Insurance costs	15	10
Pension	8	10
Third Church Estates Commissioner (Eve Poole to 15 October 2021)		
Salary	73	47
National Insurance costs	8	5
Pension	5	7
Total Church Estates Commissioners' costs	227	158

Alan Smith was appointed First Church Estates Commissioner on 1 October 2021 but waived his remuneration for 2021.

Pensions paid to former First and Third Church Estates Commissioners of £27,000 (2020: £27,000) were charged to the staff pension provision.

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 11 (2020: 15) trustees claimed expenses or had their expenses met by the charity totalling £2,702 (2020: £11,000) in respect of travel and subsistence. The Commissioners meet the expenses of committee members in carrying out their duties. During the year, 1 (2020: 6) committee members claimed expenses or had their expenses met by the charity totalling £272 (2020: £1,000) in respect of their travel and subsistence.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

10. TAXATION

	US Withholding Tax £m	Australian Corporate Income Tax £m	Australian Withholding Tax £m	2021 £m
Consolidated				
Current tax	–	–	–	–
Deferred tax	–	–	0.5	0.5
Total taxation charge	–	–	0.5	0.5
Commissioners				
Current tax	–	–	–	–
Deferred tax	–	–	0.5	0.5
Total taxation charge	–	–	0.5	0.5

	US Withholding Tax £m	Australian Corporate Income Tax £m	Australian Withholding Tax £m	2020 £m
Consolidated				
Current tax	0.1	–	–	0.1
Deferred tax	–	–	0.5	0.5
Total taxation charge	0.1	–	0.5	0.6
Commissioners				
Current tax	–	–	–	–
Deferred tax	–	–	0.5	0.5
Total taxation charge	–	–	0.5	0.5

The Church Commissioners are a registered charity. As such, under UK tax law, they are exempt from Corporation Tax on all their Investment Income and Chargeable Gains. The UK resident subsidiaries of the Church Commissioners are, prima facie, subject to Corporation Tax on their income. However, all these subsidiaries have Deeds of Covenants to distribute all taxable profits to the Church Commissioners. As such distributions are tax deductible, no tax liability arises in the subsidiaries.

11. TANGIBLE ASSETS

	Freehold buildings	Green energy generation £m	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	Total £m
Consolidated						
Cost or valuation						
Balance at 1 January	30.5	0.7	1.9	2.1	91.7	126.9
Additions	–	–	–	–	–	–
Transfers/disposal	–	–	–	–	(0.4)	(0.4)
Balance at 31 December	30.5	0.7	1.9	2.1	91.3	126.5
Accumulated depreciation						
Balance at 1 January	–	–	(1.9)	(2.1)	–	(4.0)
Charge for the year	(0.9)	–	–	–	–	(0.9)
Balance at 31 December	(0.9)	–	(1.9)	(2.1)	–	(4.9)
Net book value						
Balance at 1 January	30.5	0.7	–	–	91.7	122.9
Balance at 31 December	29.6	0.7	–	–	91.3	121.6

	Freehold buildings	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	Total £m
Commissioners					
Cost or valuation					
Balance at 1 January	30.5	1.9	2.1	91.6	126.1
Additions	–	–	–	–	–
Transfers/disposal	–	–	–	(0.3)	(0.3)
Balance at 31 December	30.5	1.9	2.1	91.3	125.8
Accumulated depreciation					
Balance at 1 January	–	(1.9)	(2.1)	–	(4.0)
Charge for the year	(0.9)	–	–	–	(0.9)
Balance at 31 December	(0.9)	(1.9)	(2.1)	–	(4.9)
Net book value					
Balance at 1 January	30.5	–	–	91.6	122.1
Balance at 31 December	29.6	–	–	91.3	120.9

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

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

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

All tangible fixed assets are located in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

12. HERITAGE ASSETS

Analysis of heritage assets

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

Lambeth Palace

Lambeth Palace has been the historic London residence of the Archbishops of Canterbury since the 13th Century. It was acquired by the Commissioners as a result of an Order in Council given in 1946 in accordance with the Episcopal Endowments and Stipends Measure 1943 and was transferred to the Commissioners at its original deemed cost. At the time of acquisition, the Commissioners' best estimate of the historic deemed cost was £1. Any developments or improvements to the building are capitalised at cost (within tangible fixed assets, note 11) and depreciated over the improvements' useful economic life. Whilst the building continues to have operational use, being used as the Archbishop's London residence and including a team of staff employed to support him in his work, it continues to be maintained by the Commissioners as a result of its historical and cultural significance as an important exhibit to the public of the history of the work of the Archbishops of Canterbury and the Church of England. The grounds of Lambeth Palace are also home to the Lambeth Palace Library. The Commissioners are responsible for the ongoing upkeep and maintenance of the building. Maintenance costs are charged to the SOFA in the period they are incurred.

Contents of Lambeth Palace Library

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

Historic contents of Lambeth Palace

Included within heritage assets are the historical contents of Lambeth Palace. These items are held primarily for their historical and artistic value. The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents of Lambeth Palace, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2021 and the full professional valuation obtained as at 31 December 2007.

Historic contents of former see houses

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

The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2021 and the full professional valuation obtained as at 31 December 2007.

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Purchases					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace Library	–	–	–	–	0.1
Contents of Lambeth Palace	–	–	–	–	–
Donations					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace library	–	–	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Total additions	–	–	–	–	0.1

13. DEBTORS

	Consolidated		Commissioners	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade debtors	19.7	6.6	6.3	5.4
Subsidiary undertakings	–	–	630.2	490.1
Joint venture (ChECS)	1.7	1.4	1.7	1.4
Dioceses (Clergy Stipends and Diocesan Debtors Accounts)	0.3	10.2	0.3	10.2
Loans	2.7	2.4	2.7	2.4
Other debtors	1.1	2.0	1.0	1.4
Prepayments	2.5	2.3	2.2	2.0
Accrued income	12.0	6.8	25.9	21.5
Outstanding trades receivable	9.1	56.8	9.1	56.8
Derivative open contracts	34.9	49.2	34.9	49.2
Total debtors	84.0	137.7	714.3	640.4

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

Derivative open contracts are used for risk management and efficient portfolio management purposes. The value above represents those derivative contracts that have a positive value at 31 December. There are also derivatives which have a negative value disclosed in creditors within note 14. The total gains or losses on derivatives for the year is shown on the Statement of Financial Activities, which when used for hedging purposes are offset by movements in the fair value of the investment portfolio. For further details on foreign currency hedging, see note 2(a).

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

14. CREDITORS

Falling due within one year

	Consolidated		Commissioners	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade creditors	4.7	5.6	4.5	5.3
Subsidiary undertakings	–	–	26.2	20.8
Dioceses and other Church bodies	4.9	5.4	4.9	5.4
Other creditors	4.8	3.6	4.3	3.4
Taxation and National Insurance contributions	10.3	7.4	7.5	7.4
Accruals and deferred income	49.0	36.6	40.6	33.6
Grants payable	43.3	38.9	43.3	38.9
Outstanding trades payable	4.8	7.2	4.8	7.2
Derivative open contracts	10.9	24.4	10.9	24.4
Total creditors	132.7	129.1	147.0	146.4

Derivative open contracts are used for risk management and efficient portfolio management purposes. The value above represents those derivative contracts that have a negative value at 31 December. There are also derivatives which have a positive value disclosed in debtors within note 13. The total gains or losses on derivatives for the year is shown on the Statement of Financial Activities, which when used for hedging purposes are offset by movements in the fair value of the investment portfolio. For further details on foreign currency hedging, see note 2(a).

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

Falling due after one year

	Consolidated		Commissioners	
	2021 £m	2020 £m	2021 £m	2020 £m
Grants payable	101.7	98.5	101.7	98.5
Discounting adjustment	(3.2)	(0.1)	(3.2)	(0.1)
Total creditors	98.5	98.4	98.5	98.4

15. PROVISIONS

Provision for clergy pre-1998 pension obligation under the Church of England Pensions Scheme

	Consolidated and Commissioners	
	2021 £m	2020 £m
As at 1 January	1,477.2	1,515.6
Release of provision for:		
Pensions to clergy for service prior to 1998	(79.4)	(82.1)
Lump sum payments on retirement for service prior to 1998	(6.2)	(5.6)
Pensions to clergy widows and children for service prior to 1998	(30.3)	(30.4)
Benefits under the Deaconesses and Lay Workers (Pensions) Measure 1980	(0.1)	(0.1)
Transfers out of scheme	(0.1)	(0.7)
	(116.1)	(118.9)
Changes in provision for:		
Interest on provision	57.0	57.6
Changes in assumptions and due to experience	(63.4)	22.9
	6	80.5
As at 31 December	1,354.7	1,477.2

History

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

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

Church of England Pensions Scheme

The Commissioners are obliged to pay pension benefits to clergy who accrued years of pensionable service until 31 December 1997 as members of the Church of England Pensions Scheme. The Scheme is administered by the Church of England Pensions Board on behalf of the Commissioners. The obligation is recognised in full using the actuarial valuation carried out by Hymans Robertson LLP, independent qualified actuaries. A full valuation is carried out every three years and it is rolled forward in other years. A full valuation was carried out as at 31 December 2021.

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

15. PROVISIONS continued

The principal assumptions used in deriving the Commissioners' obligation were:

	2021 %	2020 %	2019 %	2018 %	2017 %
Prospective annual rate of return on investments	4.6	3.8	3.9	4.2	4.4
Rate of increase of future stipend and increases in the starting pension	2.9	3.3	3.2	3.2	3.1
Rate of post-retirement pension increases	3.7	3.3	3.2	3.2	3.1
Retail price inflation	3.7	3.3	3.2	3.2	3.1

The assumptions were made on a best estimate basis over a time period reflecting the long-term nature of the fund and its objectives over 30 years. In their assessments of the pensions obligation, Hymans Robertson LLP have used bespoke Club Vita mortality tables. The life expectancy for beneficiaries aged 65 is 21.4 years (2018 valuation: 22.8 years) for men and 23.7 years (2018 valuation: 26.4 years) for women. In respect of future improvements in mortality rates the projection model from the 2020 Continuous Mortality Investigation has been used.

16. PENSIONS

	Clergy			2021 £m	Staff			2020 £m
	Post-1997 service Note 16(a) £m	Pre-2000 service Note 16(b) £m	Post-1999 service Note 16(c) £m		Post-1997 service Note 16(a) £m	Pre-2000 service Note 16(b) £m	Post-1999 service Note 16(c) £m	
Pension reserves at 1 January	1.1	128.6	4.1	133.8	2.0	119.8	5.8	127.6
Benefits / contributions paid	(0.6)	(5.2)	(1.5)	(7.3)	(0.9)	(5.7)	(1.7)	(8.3)
Interest on liability	-	1.5	-	1.5	-	2.3	-	2.3
Other movement	-	-	0.2	0.2	-	-	-	-
	(0.6)	(3.7)	(1.3)	(5.6)	(0.9)	(3.4)	(1.7)	(6.0)
Actuarial (Gain) / Losses	-	(9.4)	-	(9.4)	-	12.2	-	12.2
Pension reserves at 31 December	0.5	115.5	2.8	118.8	1.1	128.6	4.1	133.8

The reduction in pensions reserves due to cash paid is £7.3m (2020: £8.3m) and the total amount shown in expenditure is £1.5m (2020: £2.3m). Actuarial gain of £9.4m (2020: losses of £12.2m) have been recognised in other gains or losses.

(a) Clergy pensions post-1997: Church of England Funded Pensions Scheme

Pensions in respect of the service of Church of England clergy from 1 January 1998 are provided by the Church of England Funded Pensions Scheme, administered by the Church of England Pensions Board. The Church of England Pensions Board publishes the Scheme's financial statements and is its custodian trustee.

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

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

The most recent valuation of the Scheme was carried out by an independent qualified actuary using the projected unit method as at 31 December 2018. This revealed a deficit of £50 million, based on assets of £1,818 million and a funding target of £1,868 million. A full valuation as at 31 December 2021 is in progress.

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

	From 1 January 2022 %	From 1 April 2022 %	From 1 January 2023 %
Normal contributions	31.3	31.3	31.3
Deficit contributions	7.1	3.5	-
Contributions towards administration expenses	1.2	1.2	1.2
Total contribution	39.6	36.0	32.5

Normal contributions relate to providing benefits in relation to ongoing pensionable service. Deficit contributions relate to recovery of the deficit until 31 December 2022. Following a review of the scheme's funding position a lower interim contribution rate has been set with effect from 1 April 2022. Administration expenses cover the day-to-day expenses of running the scheme.

This liability of £0.5m (2020: £1.1m) in the table above represents the present value of future deficit contributions and has been valued using assumptions set by reference to the duration of the deficit recovery payments.

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

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

This is a multi-employer scheme where each employer is able to ascertain their share of the scheme assets and liabilities. The Commissioners' share is therefore provided for in the balance sheet in full. The liability is estimated each year by Hymans Robertson LLP, independent qualified actuaries.

Using the projected unit method, and assuming all benefits including post-retirement increases in pensions continue to be paid in accordance with current practice, the provision of £115.5m (2020: £128.6m) shown in the table above represents the Commissioners' share of the deficit on the CCSS.

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

	2021 %	2020 %	2019 %	2018 %	2017 %
Discount rate (annual rate of return on AA rated corporate bonds)	1.85	1.20	1.95	2.75	2.45
Rate of salary increases	4.25	3.80	3.70	4.45	4.40
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	3.00	2.50	2.35	2.50	2.40
for service since 1 April 1997 (RPI)	3.55	3.05	3.25	3.45	3.40

In their assessments of the pensions liability, Hymans Robertson LLP used bespoke Club Vita mortality tables. In respect of future improvements in mortality rates, the projection model from the 2020 Continuous Mortality Investigation has been used.

History of experience gains and losses:

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Actuarial loss / (gain)	(9.4)	12.2	6.7	(18.3)	4.7

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

(c) Staff pensions post-1999: Church Administrators Pension Fund

Pensions for staff in respect of service from 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board. The Church of England Pensions Board publishes the Fund's financial statements and is its custodian trustee.

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

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

The most recent valuation of the Fund, completed on 29 January 2021, was carried out by an independent qualified actuary using the projected unit method at as 31 December 2019. This revealed a deficit of £9.1 million.

Following completion of the valuation in 2021, the employers have collectively entered into an agreement with CAPF to pay contributions of 27.6% of pensionable salaries. The employers have also agreed to make deficit payments of £2.4m per annum until December 2023 in respect of the shortfall in the defined benefit section. In addition, the employers have agreed to pay £500,000 per annum towards expenses, plus the full cost of any Pension Protection Fund levies. These contributions are made by each employer in proportion to pensionable salaries of those in the defined benefit section. For comparison, the deficit recovery plan in force at 31 December 2020 was for deficit payments of £2.7m per annum from 1 January 2018 until 30 June 2023 (increasing each 1 January by 3.3%).

17. FUNDS

An Order was made by the Charity Commission on 19 June 2012, at the request of the trustees, to enable them to account and report income and capital returns and charitable expenditure on a total return basis.

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

The total return each year remains part of the endowment fund, until it is transferred to the general fund and becomes "applied total return". The transfer is shown in the table below and on the face of the SOFA. The trustees agreed the base value of the endowment should be recalculated each year to reflect the permanent diminution of the fund as clergy pensions are paid out under the Pensions Measure 1997, and inflated in line with RPI. In 2020, the trustees agreed to change the inflation rate to the CPI, including Housing.

The pre-1998 clergy pension obligation set out in note 15 has been allocated to unapplied total return as the Commissioners do not have indefinite power to spend endowment on clergy pensions, but only for a seven year period ending in 2025. At that point, it is expected, but not presumed, that this power will be extended for a further seven years. As such, the base value of endowment is reduced each year by the clergy pensions paid in that year with movement in the provision being taken against the unapplied total return.

	Notes	Base value of endowment £m	Unapplied total return £m	Total endowment fund £m	Other funds £m	Total funds £m
At 1 January 2021		2,457.0	5,115.5	7,572.5	0.1	7,572.6
Add investment return for the year:						
Income return – gross income		–	144.8	144.8	3.3	148.1
Income return – cost of raising funds	3	–	(83.7)	(83.7)	(0.5)	(84.4)
Capital return and foreign exchange		–	1,142.5	1,142.5	–	1,142.7
Taxation payable	10	–	(0.5)	(0.5)	–	(0.5)
Total investment return during the year		–	1,203.1	1,203.1	2.8	1,205.9
Less						
Clergy pensions paid	15	(116.1)	–	(116.1)	–	(116.1)
Release of clergy pensions paid		–	116.1	116.1	–	116.1
Movement on clergy pensions provision	15	–	6.4	6.4	–	6.4
Gain on defined benefit pension schemes (staff pre-2000)	16	9.4	–	9.4	–	9.4
Charitable expenditure: non-pensions		–	–	–	(148.6)	(148.6)
Total other movements during the year		(106.7)	122.5	15.8	(148.6)	(132.8)
Add indexation on base value of endowment		117.9	(117.9)	–	–	–
Application of non-applied total return		–	(145.8)	(145.8)	145.8	–
At 31 December 2021		2,468.2	6,177.4	8,645.6	0.1	8,645.7

	Notes	Base value of endowment £m	Unapplied total return £m	Total endowment fund £m	Other funds £m	Total funds £m
At 1 January 2020		2,567.6	4,429.0	6,996.6	0.6	6,997.2
Add investment return for the year:						
Income return – gross income		–	125.9	125.9	2.6	128.5
Income return – cost of raising funds	3	–	(74.1)	(74.1)	(0.1)	(74.2)
Capital return and foreign exchange			778.0	778.0	–	778.0
Taxation payable	10	–	(0.6)	(0.6)	–	(0.6)
Total investment return during the year		–	829.2	829.2	2.5	831.7
Less						
Clergy pensions paid	15	(118.9)	–	(118.9)	–	(118.9)
Release of clergy pensions paid		–	118.9	118.9	–	118.9
Movement on clergy pensions provision	15		(80.5)	(80.5)	–	(80.5)
Loss on defined benefit pension schemes (staff pre-2000)	16	(12.2)	–	(12.2)	–	(12.2)
Charitable expenditure: non-pensions	4	–	–	–	(163.6)	(163.6)
Total other movements during the year		(131.1)	38.4	(92.7)	(163.6)	(256.3)
Add indexation on base value of endowment		20.5	(20.5)	–	–	–
Application of non-applied total return		–	(160.6)	(160.6)	160.6	–
At 31 December 2020		2,457.0	5,115.5	7,572.5	0.1	7,572.6

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

17. FUNDS continued

Other funds comprise the following balances:

	At 1 January 2021 £m	Income £m	Expenditure £m	Transfers £m	At 31 December 2021 £m
<i>Restricted funds</i>					
Thy Kingdom Come	-	-	-	-	-
Reconciliation	-	0.2	(0.2)	-	-
Closed churches	-	0.4	(0.4)	-	-
Other restricted funds individually below £0.1m	0.1	0.2	(0.2)	-	0.1
Total restricted funds	0.1	0.8	(0.8)	-	0.1
<i>Unrestricted funds (designated)</i>					
Cathedral Sustainability Fund	-	-	-	-	-
<i>Unrestricted funds (general)</i>					
General fund	-	2.5	(148.3)	145.8	-
Total unrestricted funds	-	2.5	(148.3)	145.8	-
Total other funds	0.1	3.3	(149.1)	145.8	0.1

	At 1 January 2020 £m	Income £m	Expenditure £m	Transfers £m	At 31 December 2020 £m
<i>Restricted funds</i>					
Thy Kingdom Come	0.1	0.1	(0.2)	-	-
Reconciliation	0.1	0.2	(0.3)	-	-
Closed churches	-	0.9	(0.9)	-	-
Other restricted funds individually below £0.1m	0.2	-	(0.1)	-	0.1
Total restricted funds	0.4	1.2	(1.5)	-	0.1
<i>Unrestricted funds (designated)</i>					
Cathedral Sustainability Fund	0.2	-	(0.2)	-	-
<i>Unrestricted funds (general)</i>					
General fund	-	1.4	(162.0)	160.6	-
Total unrestricted funds	0.2	1.4	(162.2)	160.6	-
Total other funds	0.6	2.6	(163.7)	160.6	0.1

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

Thy Kingdom Come

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

Reconciliation

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

Closed churches

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

Cathedral Sustainability Fund

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

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

	General fund £m	Designated fund £m	Restricted £m	Pension reserve £m	Endowment fund £m	2021 £m
Fixed assets	29.6	-	-	-	9,247.9	9,277.5
Current assets	72.5	1.5	0.1	-	1,000.8	1,074.9
Creditors: amounts falling due within one year	(4.2)	(0.9)	-	-	(127.6)	(132.7)
Creditors: amounts falling due after one year	(97.9)	(0.6)	-	-	-	(98.5)
Provisions	-	-	-	-	(1,356.7)	(1,356.7)
Defined benefit pension scheme liabilities	-	-	-	(118.8)	-	(118.8)
Total funds	-	-	0.1	(118.8)	8,764.4	8,645.7

	General fund £m	Designated fund £m	Restricted £m	Pension reserve £m	Endowment fund £m	2020 £m
Fixed assets	30.5	-	-	-	8,123.1	8,153.6
Current assets	123.5	1.5	0.1	-	1,133.9	1,259.0
Creditors: amounts falling due within one year	(56.2)	(0.9)	-	-	(72.0)	(129.1)
Creditors: amounts falling due after one year	(97.8)	(0.6)	-	-	-	(98.4)
Provisions	-	-	-	-	(1,478.7)	(1,478.7)
Defined benefit pension scheme liabilities	-	-	-	(133.8)	-	(133.8)
Total funds	-	-	0.1	(133.8)	7,706.3	7,572.6

18. CONTINGENT LIABILITIES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 2021

19. LEASES

The Commissioners have different types of leases in place for its investment properties, including:

Tenancy	Break terms
Residential	
Assured shorthold tenancies (ASTs)	Minimum 6 months then 2 months' notice
Assured tenancies	1 month's notice
Regulated tenancies	1 month's notice
Ground rents	No break terms
Licence agreement	1 month's notice by either party
Rural	
Farm business tenancies	In general, there are no breaks until lease end date
Agricultural Holdings Act	Minimum 12 months' notice period by the tenant
Licence agreement	Will range from 1 to 3 months' notice by either party
Commercial	
Full repair and insurance	No break term unless specifically requested
Internal repair and insurance	No break term unless specifically requested
Geared rents	No break terms
UK forestry	
Not applicable	

Due to the nature of the Commissioners' leases, the vast majority of residential and rural property leases are cancellable within 12 months. Commercial property leases and residential ground rents are non-cancellable. The consolidated and Commissioners rents receivable under non-cancellable operating leases are:

	2021 £m	2020 £m
Amounts due within one year	8.9	8.1
Amounts due after one year but not more than five years	28.5	25.2
Amounts due after five years	230.2	150.7
Total rents receivable under non-cancellable operating leases	267.6	184.0

20. RELATED PARTY TRANSACTIONS

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

As at 31 December 2021, other than the amounts disclosed in debtors in note 13, £37,000 was owed by the Commissioners to ChECS (2020: £52,000). The Commissioners' share of net assets of ChECS was £nil (2020: £nil). In addition, the Church Commissioners charged ChECS a total of £265,000 during 2021 (2020: £500,000) to rent a building for use in ChECS' charitable activities and (in 2021 only) for staffing costs in respect of information management and governance activities undertaken by staff at Lambeth Palace Library.

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

If taxable profits are generated by the subsidiaries, these are paid to the Commissioners as donations made under gift aid. The Commissioners have recognised income relating to gift aid payments of £84.1m (2020: £18.0m) from its subsidiaries in the year.

During the year, two (2020: none) properties were sold; one from CC Trading to Commissioners (£10.5m) and one from the Commissioners to CC Projects (£8.0m); a total of £18.5m (2020: £nil).

As disclosed in notes 13 and 14, the Commissioners maintain inter-company accounts between themselves and their subsidiaries. The total debtors and creditors relating to subsidiary undertakings, excluding loan notes in Jahr Tree Co Pty Ltd, are debtors of £601.2m (2020: £447.2m) and creditors of £26.2m (2020: £20.8m). The Commissioners use these accounts for efficient cash management across the group and charge or pay interest at 1% above Bank of England Base Rate on these balances. The balances are unsecured with no fixed repayment date. During the year, the Commissioners received £4.3m (2020: £6.4m) and paid £0.3m (2020: £0.3m) interest in the year.

The Commissioners hold loan notes issued by its subsidiary Jahr Tree Co Pty in Australia totalling £29.0m (2020: £24.9m) at year-end. The interest accrued on these loan notes in the year was £5.2m (2020: £4.2m). This transaction was made at open market value.

During the year, Palace Public Occasions Limited was charged less than £0.1m (2020: less than £0.1m) by the Commissioners for costs incurred by the Commissioners on behalf of the company. An additional amount of less than £0.1m (2020: less than £0.1m) was charged to the company by the Commissioners for the use of premises owned by the Commissioners.

21. FUNDS HELD ON BEHALF OF OTHERS

	2021 £m	2020 £m
Residential service charges, sinking funds and tenants' deposits	13.7	15.8
Trust funds	11.0	9.8
Total funds held on behalf of others	24.7	25.6

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

Residential service charges, sinking funds and tenants' deposits

The service charges and sinking funds are paid in advance by tenants of properties owned by the Commissioners in order that property repairs and maintenance works can be carried out.

Trust funds

The Commissioners are trustees of 38 funds, mainly restricted permanent endowment funds. Their income, £0.4m (2020: £0.3m), is applied in accordance with the terms of the trusts.

Certain other trustees are directed to pay some or all of their income to the Commissioners for specified purposes. The total amount received in the year was £0.2m (2020: £0.1m).

