ANNEX 1

THE CHURCH OF ENGLAND

REVIEW OF DIOCESAN FINANCES
FINDINGS SUMMARY

March 2024

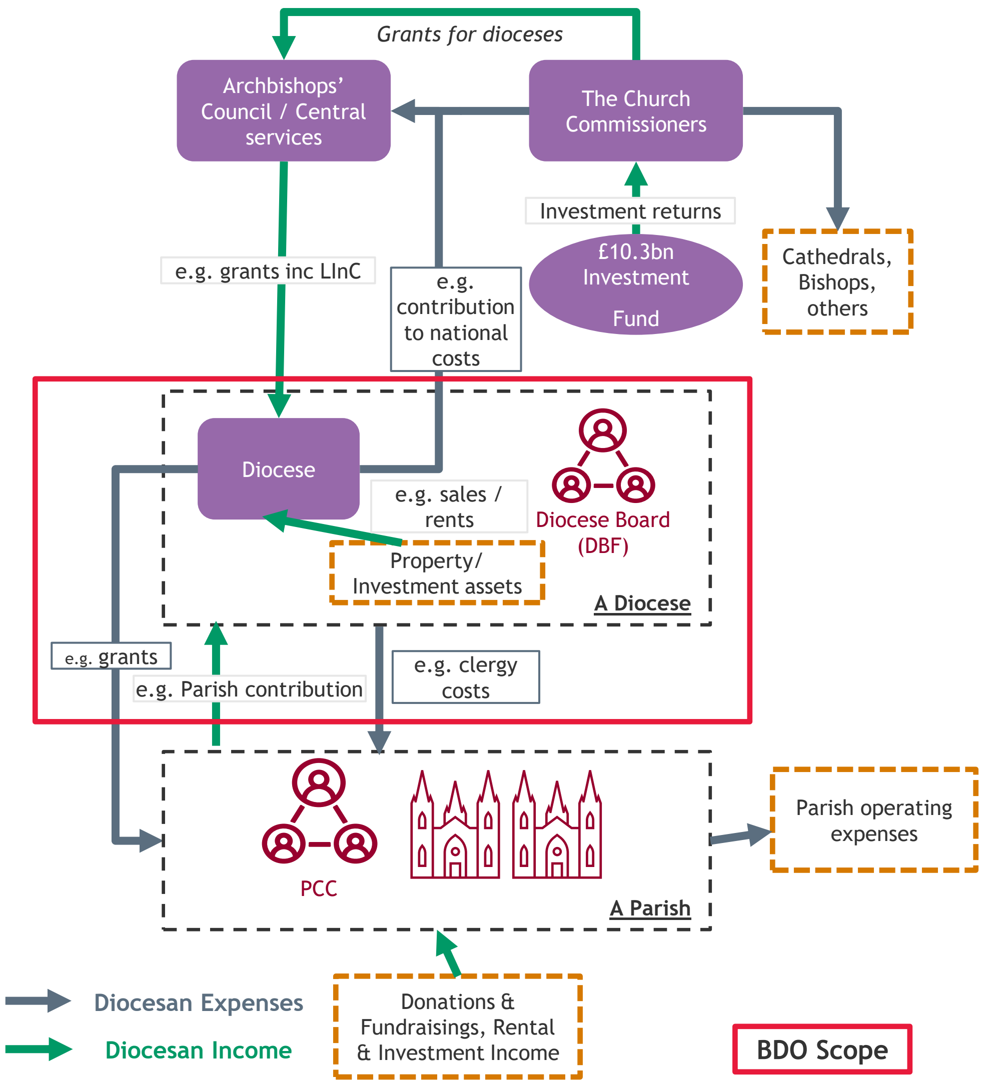
CONFIDENTIAL

Introduction

The creation of an operational and financial baseline at a diocesan level will form the basis of the AC's review of the Church's 'financial system'

- The current funding model is **complex**, with many **different financial flows** between dioceses and the National Church Institutions
- There are many different grants available, and dioceses report a lack of clarity around how these are awarded
- The Archbishops' Council ('AC') agreed to **review the Church's 'financial system'**, including **Diocesan apportionment** and **Lowest Income Communities Funding**
- BDO were engaged to support the creation of a Diocesan **financial** and **operational** baseline on a **consistent** basis, using a **repeatable** approach
- The data captured includes detailed P&L and Balance Sheet data from FY22, FY19 & FY15, forecast data for FY23,FY24 & FY25, and selected KPI data for FY22
- The information captured provides a clear, consistent and transparent view of the financial position, performance and sustainability of each diocese
- This will form the basis of a **review of future funding arrangements** to ensure any proposed funding arrangements are based on a **transparent** and **accurate** understanding of the financial situation of each diocese
- This will support the **sharing of good practice**, **informs strategic planning and decision making** at diocesan and national level, and offers **insight into how resources are allocated** and used

Summary structure showing selected income and expenditure streams



Creating a Diocesan financial and operational baseline

Strong and constructive engagement was received from the dioceses throughout the process. This supported a single, consistent and repeatable data baseline being created

Conducted pilot exercise

- Ran pilot exercise with six dioceses to understand diocesan finances and funding model intricacies
- Tested ideas and gained helpful guidance and input from pilot dioceses to build a data capture template

Created data template

- Built the Financial and Operational data template
- Liaised with pilot dioceses to complete and test the template
- Gained sign-off of the template from the Steering Committee

Worked with all 42 dioceses to populate

- Held one-to-one briefing sessions with all dioceses
- Working with the diocesan finance teams to build the data set
- Validated and tested all 42 completed templates for accuracy and consistency

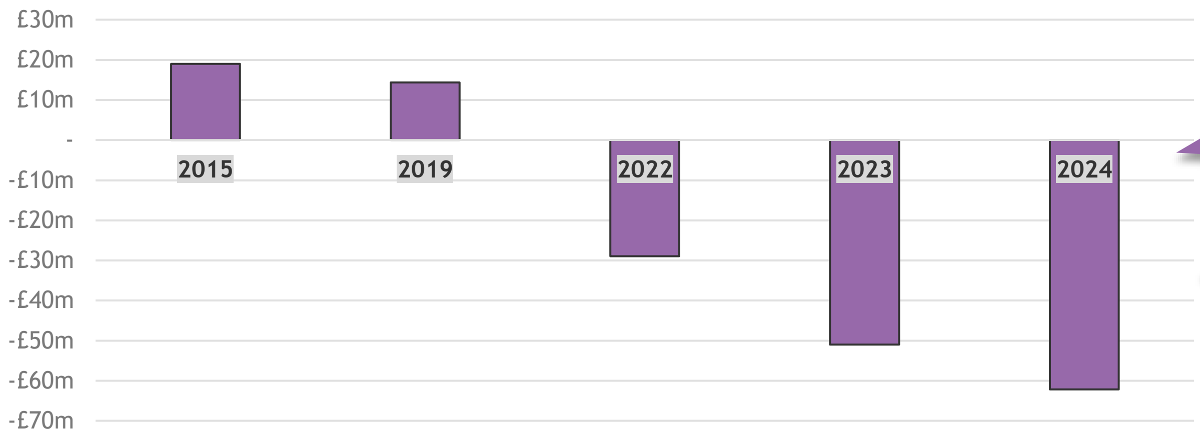
Consolidated output and created baseline

- Consolidated the data templates to provide a single, consistent and repeatable Financial and Operational data baseline
- Highlighted areas of good practice that could be shared across the Church finance community

Financial sustainability is becoming increasingly difficult

Although the picture is varied, declining financial sustainability is becoming a common trend across all dioceses, which has worsened since Covid

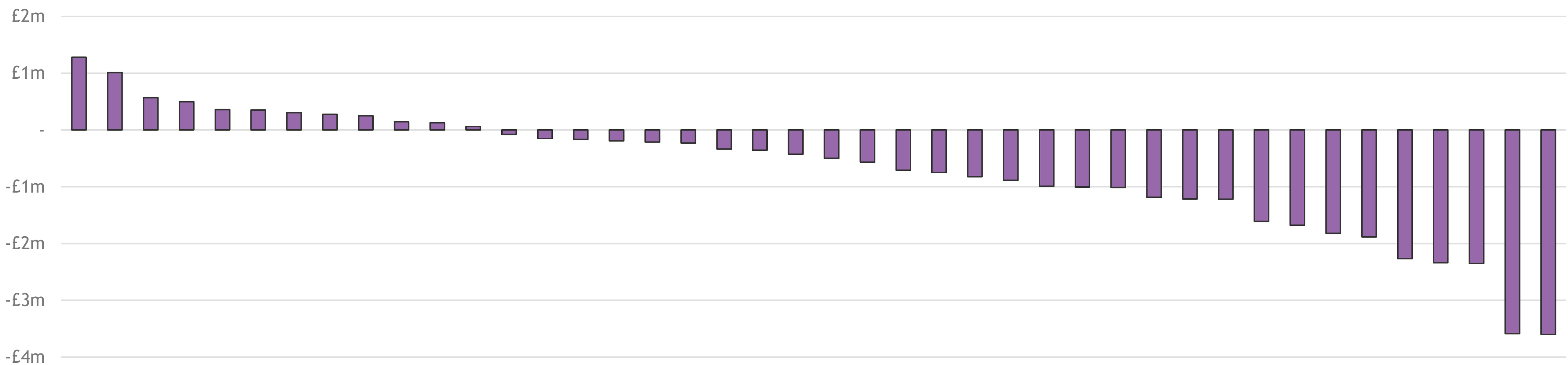
Consolidated Underlying Operating Surplus/ Deficit* Movement



The forecast indicates a significant deficit; however, this may be skewed by the absence of forecast grant income and some dioceses only forecasting unrestricted income

Figures from the annual financial statements have been included for dioceses who were unable to input historic years

Underlying Operating Surplus / Deficit by diocese (2022)

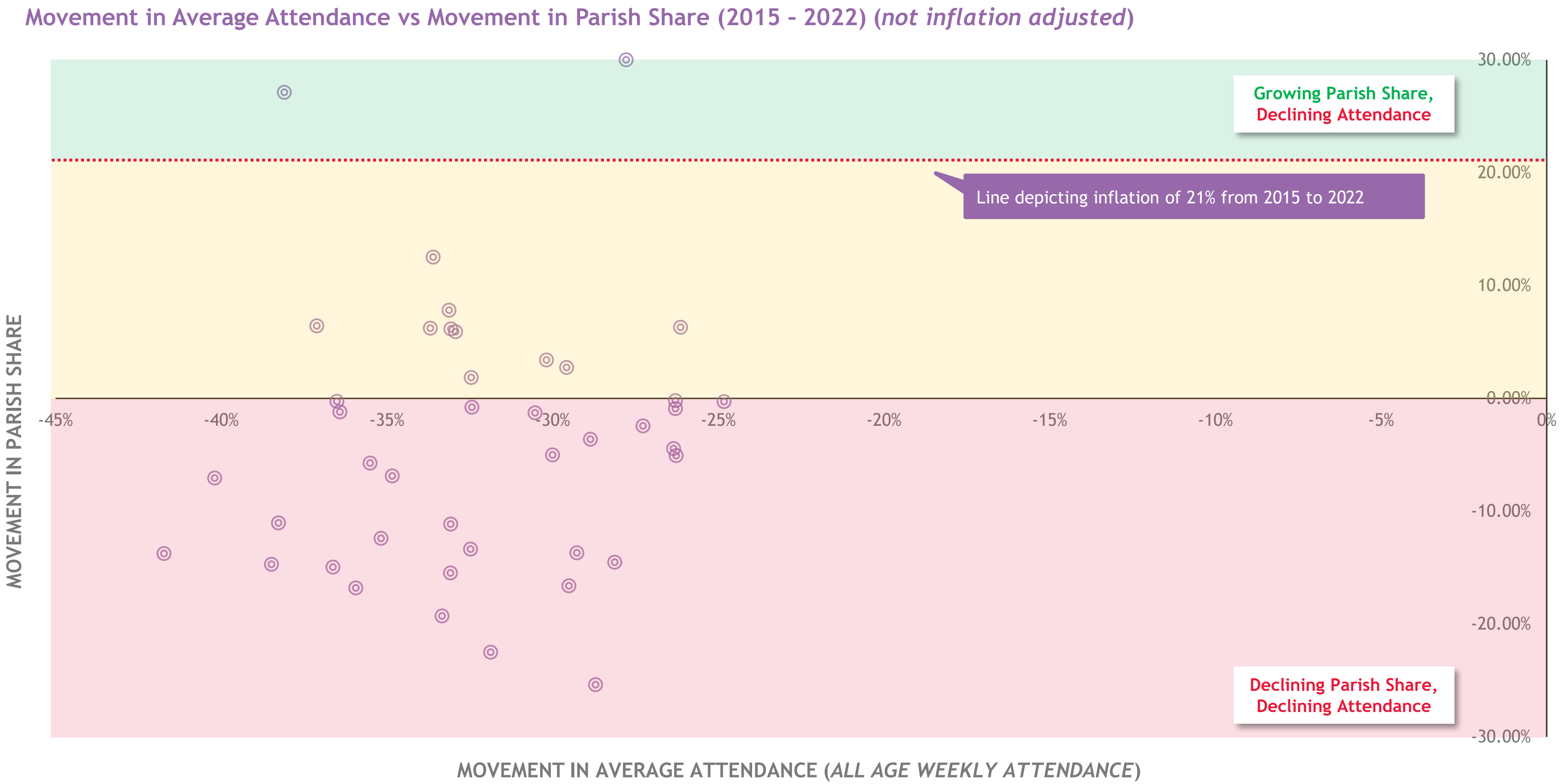


In 2022, 30 dioceses made an underlying operating deficit up from 18 in 2019

** Underlying Operating Surplus / Deficit is calculated before transfers and after removing one off income / expenditure items (e.g. gains or losses on sale of fixed assets)*

Financial sustainability has been impacted by several key variables (1/2)

All dioceses have been impacted by declining congregations between 2015 and 2022 of at least 25%. This is a key driver of weakened financial sustainability

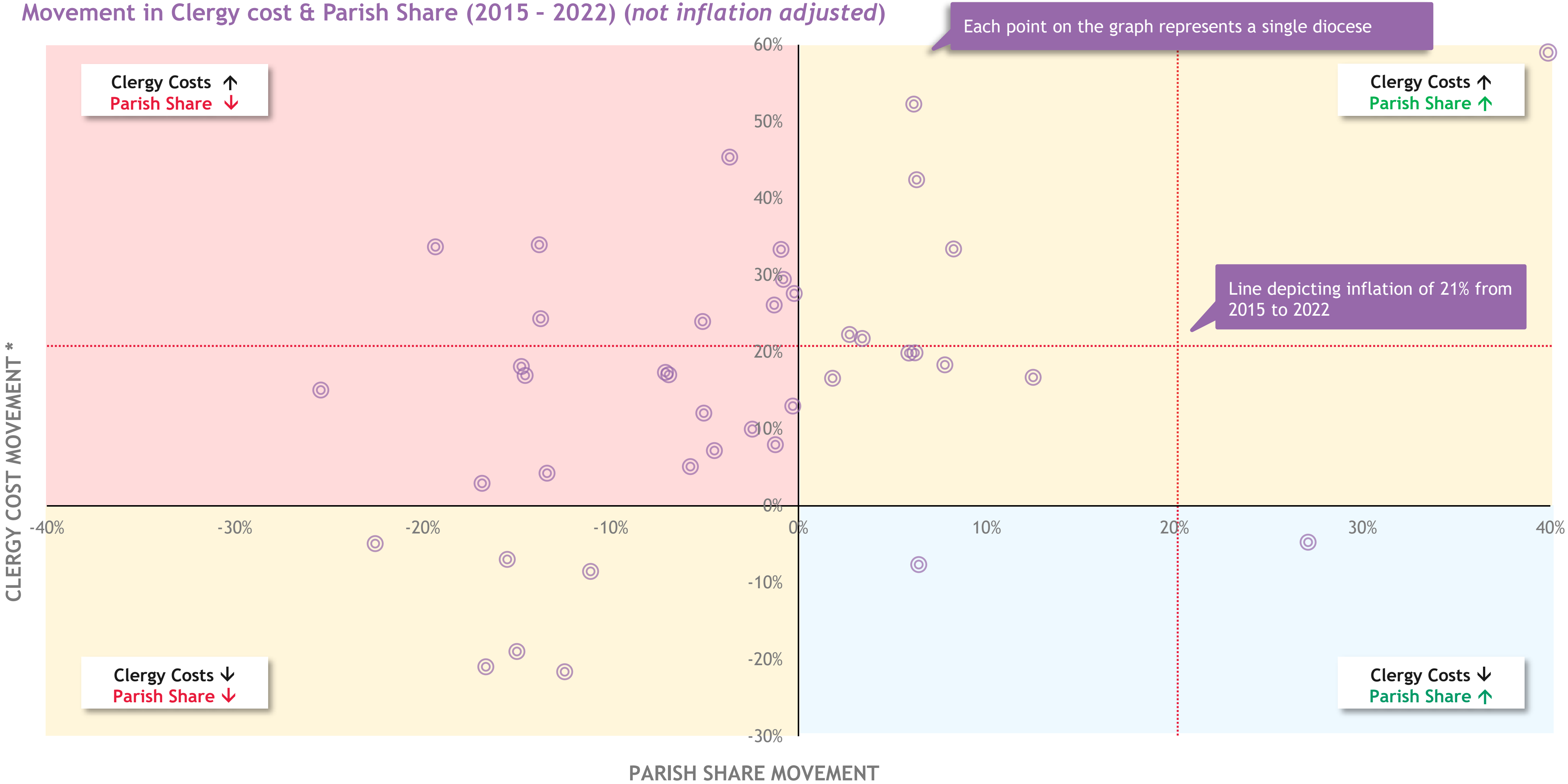


Despite the overall outlook being challenging, 12 dioceses were able to increase their Parish Share since 2015 due to 'Giving' initiatives and Common Fund model changes. Though only 2 were able to increase parish share in real terms

Financial sustainability has been impacted by several key variables (2/2)

Reduced Parish Share and increased clergy costs have significantly impacted Diocesan finances over the past seven years

Movement in Clergy cost & Parish Share (2015 - 2022) (*not inflation adjusted*)

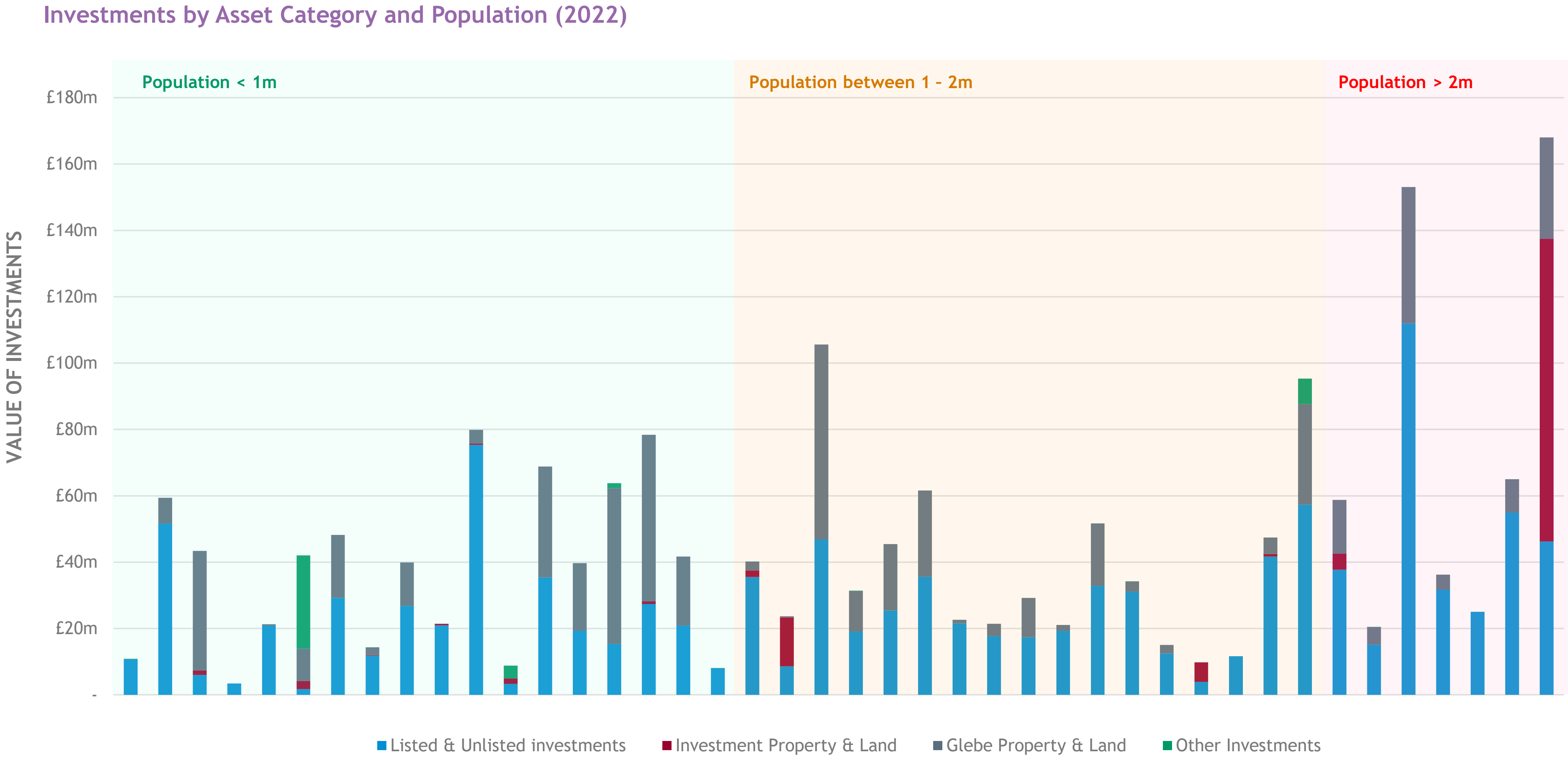


Just 2 dioceses have increased Parish Share above inflation since 2015, with 1 of the 2 reducing Clergy costs over the same period. Overall, 8 dioceses have decreased Clergy related spend since 2015

** Clergy costs = Clergy Remuneration + Clergy Housing + Clergy Support + Chaplain costs + Ordinand maintenance costs + Other Resourcing Ministry and Mission costs*

The asset position of dioceses varies considerably

The level of assets that dioceses hold for investment purposes significantly varies and is not correlated to the population they serve

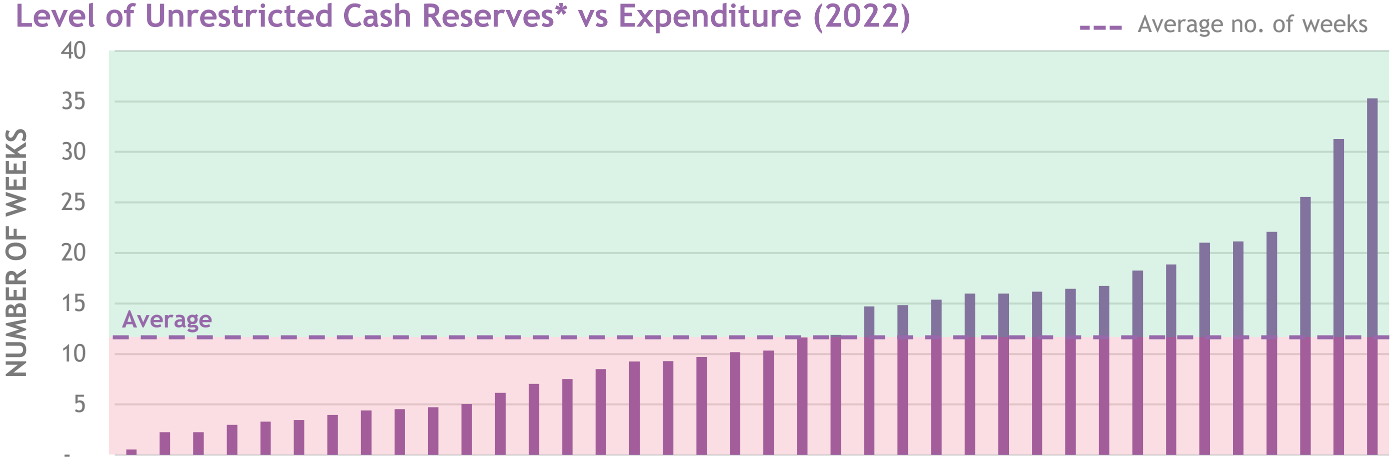


Investment levels range from £3.5m to £168m. Listed and Unlisted Investments make up the majority with dioceses owning a consolidated amount of £1.2bn. Investment Glebe accounts for 570m and Investment Property & Land 126m

Dioceses may struggle to cope with unexpected short term cash demands

Many dioceses with a low number of weeks expenditure cover, have few easily disposable unrestricted assets that could be liquidated

Level of Unrestricted Cash Reserves* vs Expenditure (2022)



16 dioceses have unrestricted cash that would exceed 12 weeks expenditure. This is best practice based on our experience in the non-profit and commercial environments

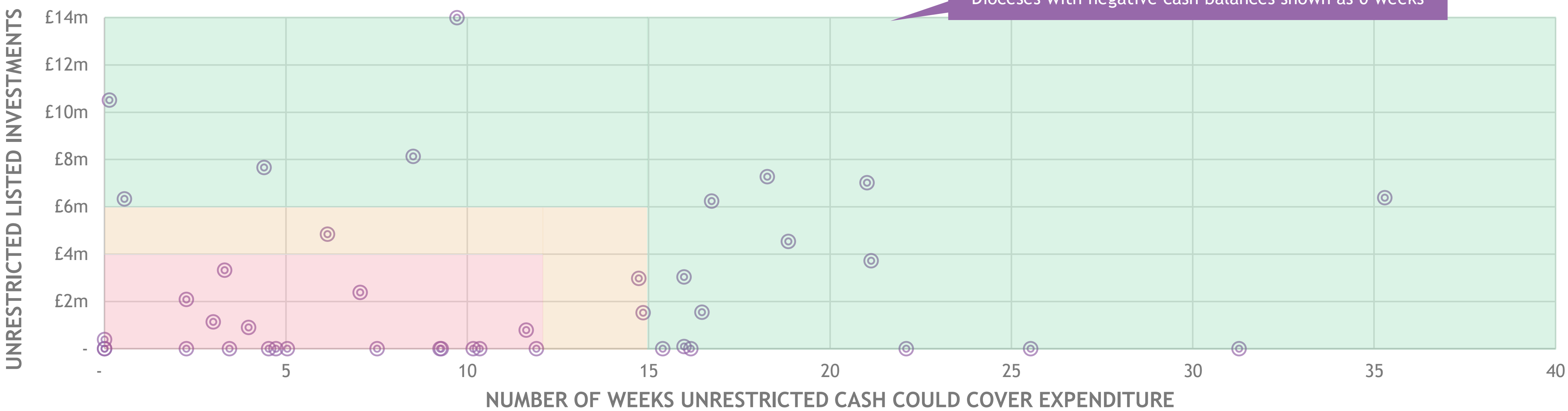
In line with best practice, 12 weeks is also the average number of weeks a diocese's unrestricted cash reserves can cover their expenditure

23 dioceses have unrestricted cash that is less than 12 weeks expenditure. This presents a liquidity risk where a diocese may struggle to meet its short-term financial obligations or any unexpected expenses that arise

3 dioceses with negative Cash and Cash equivalents balances were excluded from the analysis

Unrestricted Listed Investments vs Number of Weeks Expenditure Cover (2022)

Dioceses with negative cash balances shown as 0 weeks



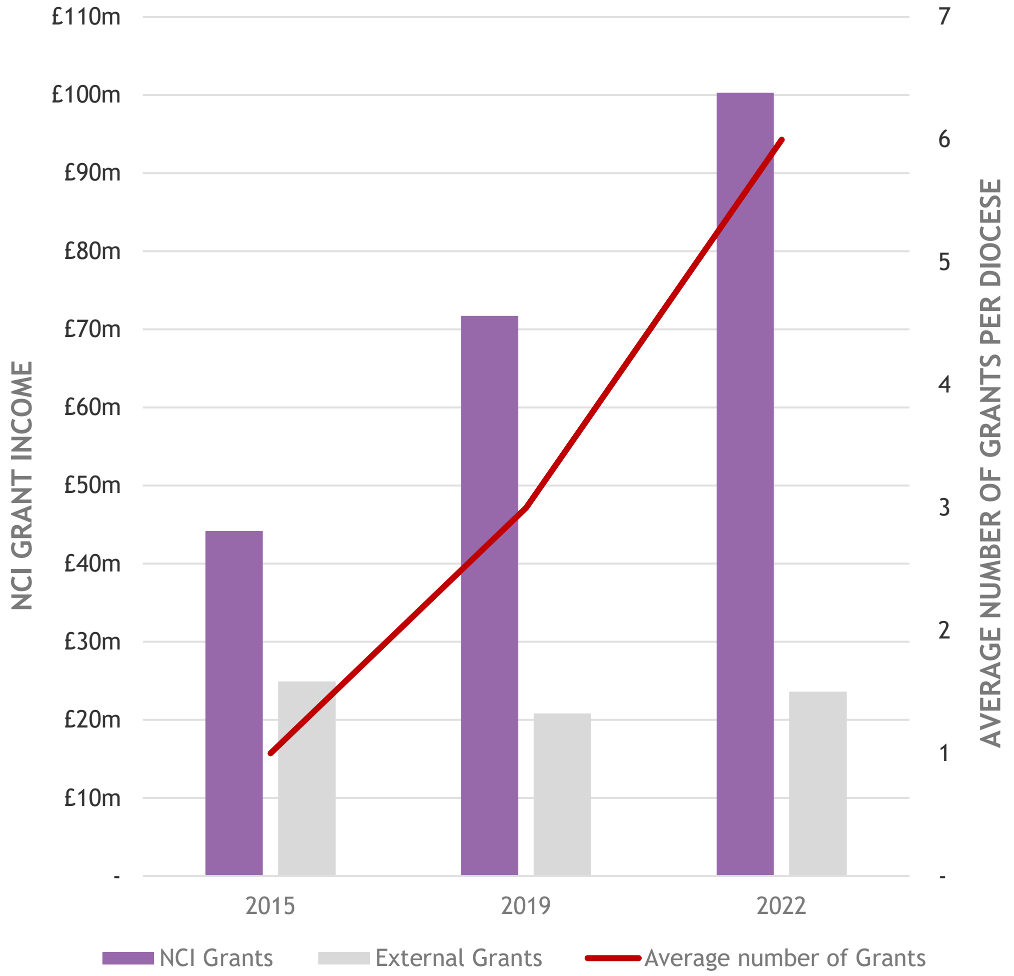
18 dioceses have no unrestricted listed investment assets. Of these, 13 have less than 12 weeks expenditure cover in cash reserves and are therefore more at risk were an unexpected event to occur

** Calculated by dividing Unrestricted Cash and Cash Equivalent by (Total Expenditure / 52)*

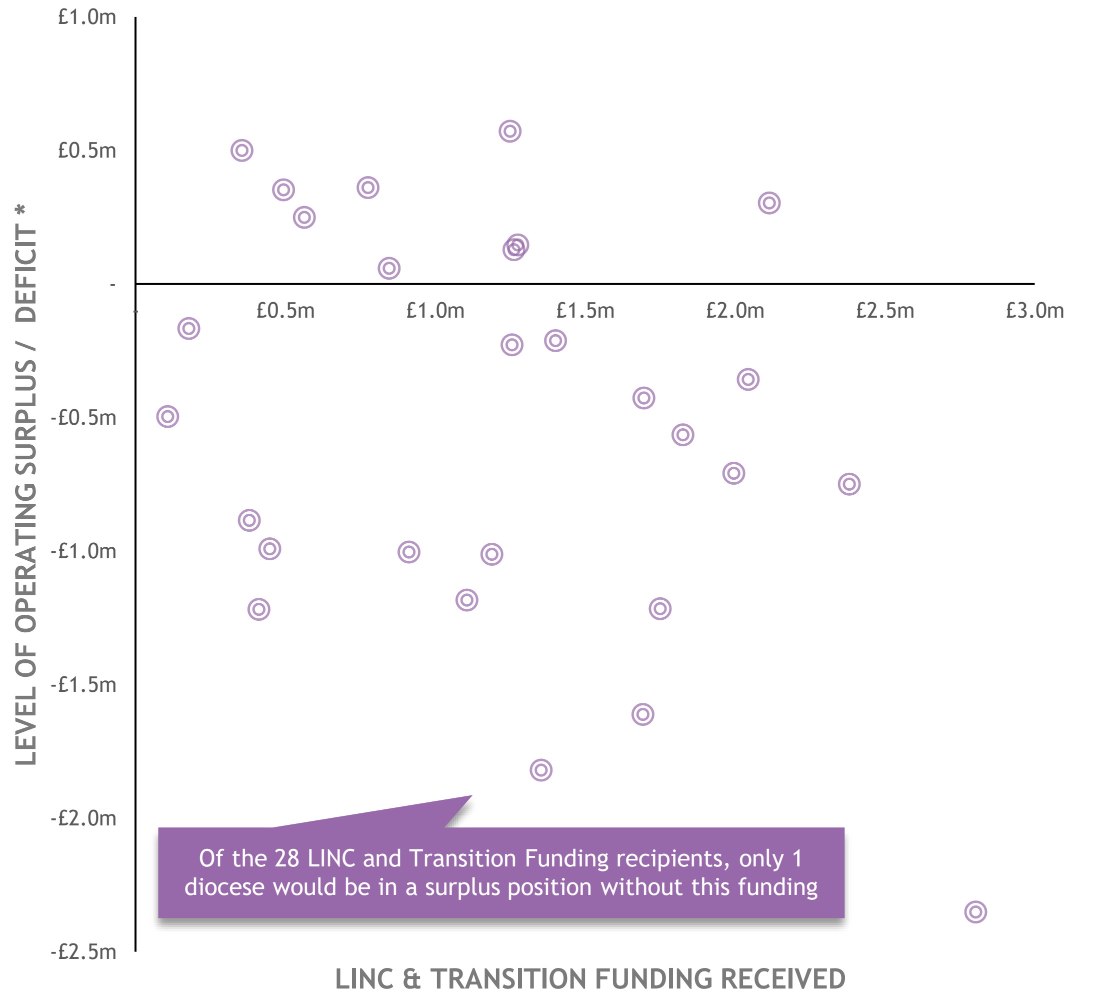
The existing funding structure is complex

Funding flows have become more complex, and funding may not always correlate with the current financial position and circumstances of each diocese

Movement in Grant Income (2015 - 2022)



Underlying Operating Surplus/ Deficit vs LINC & Transition Funding (2022)



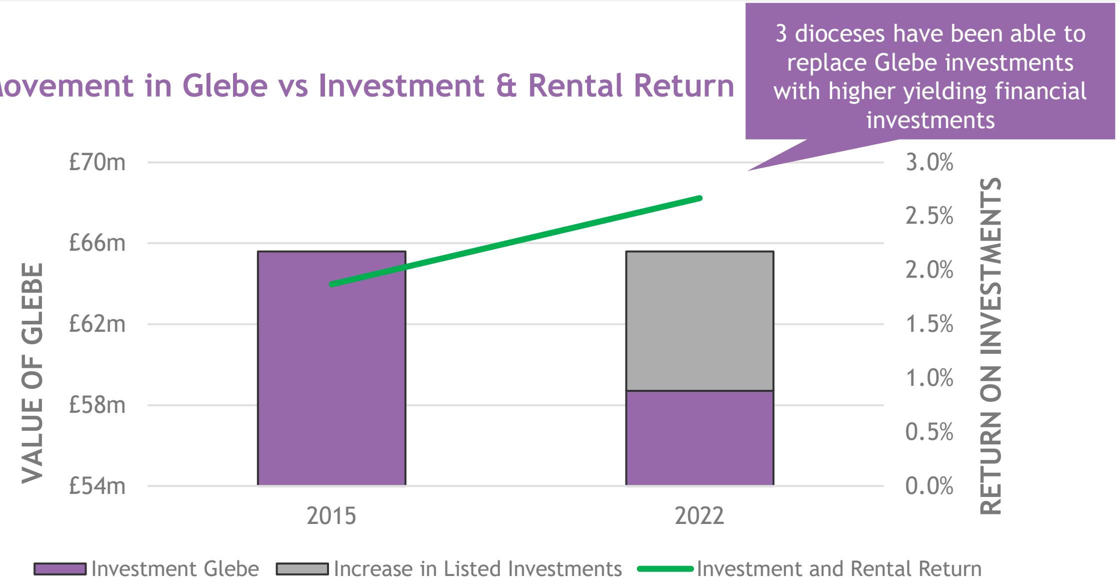
The value and number of NCI grant streams has increased year-on-year, indicating an increased dependency on the NCIs, with many dioceses still running a deficit. More NCI grant funding streams likely contributes to added funding complexity

** Operating Surplus / Deficit = Surplus/deficit pre-transfer, removing any gains / loss on sale of assets and other exceptional one-off items*

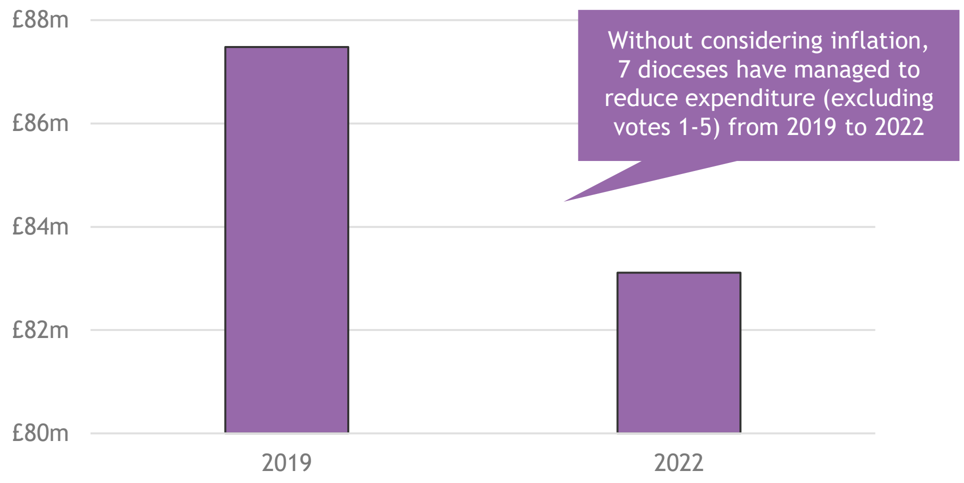
Dioceses have implemented initiatives to improve financial sustainability

There are many examples of positive changes individual dioceses have made, however this ‘best practice’ is not fully shared around all dioceses

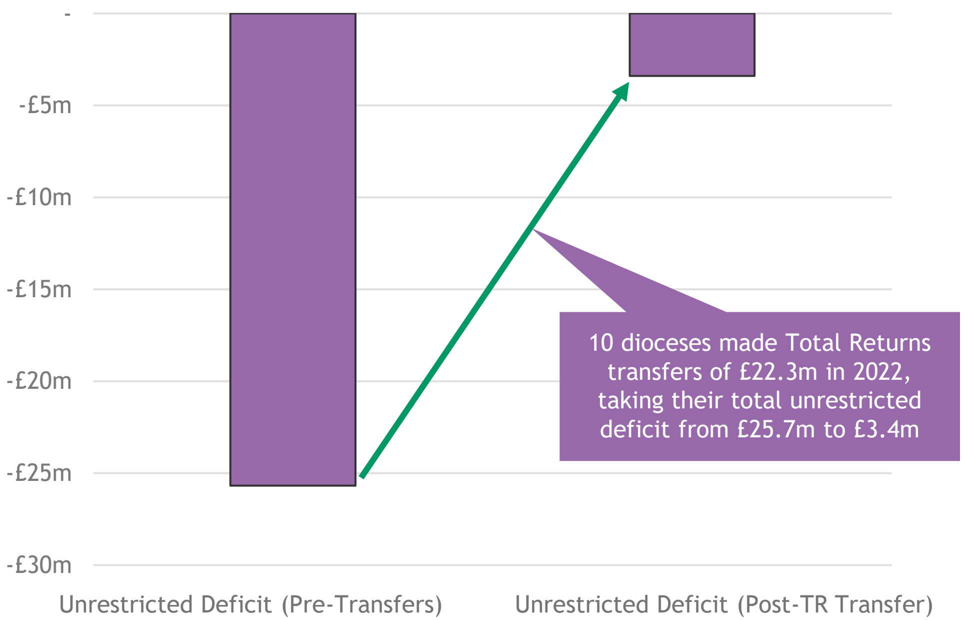
Movement in Glebe vs Investment & Rental Return



Total expenditure (excluding votes 1-5) *(not inflation adjusted)*



Total Unrestricted Deficit Pre- and Post- Total Return Transfer



Sustainability initiatives undertaken by dioceses


ANNEX 1
THE CHURCH OF ENGLAND
END OF PRESENTATION