

**WORCESTER DIOCESAN SYNOD**  
**WORCESTER DIOCESAN BOARD OF FINANCE LTD**

## Understanding Our Accounts: FOR INFORMATION

It is not our intention that our accounts can be difficult to read, but the Diocesan Board of Finance has a number of strands, and the rules of charity accounting (the “SORP”), along with the additional complexities that comes with Church of England accounts, don’t make it easy to decipher what’s going on underneath. This paper seeks to bring clarity, but is no substitute for reading the full document.

Our accounts amalgamate the finances of five different strands of our activities:

- Our **core operation** of funding the mission and ministry of parishes around the diocese
- Our **special projects**: Calling Young Disciples and our two Resourcing Churches
- **“Glebe” investments** – growing our investments, so that their income stream will increase
- A **property** operation: buying, selling and maintaining homes for those in ministry
- And finally, two **pension schemes** – one for our clergy, the other for DBF employees.

These five activities have very different stories to tell – and this paper seeks to help you understand each of these narratives. It then explains our reserves, before concluding with key points.

### A. Our Core Operations

This area reports on our year in, year out operational activities – receiving income from parish share, investments, the National Church and spending it on the provision of parochial ministry, support and administration and making a contribution back to the National Church.

- **The headline:** In 2019 we spent **£754k** more than we received in income.
- **The key numbers:** Using the Statement of Financial Activities (SoFA) on page 16 as the base:

<b>INCOME</b>	<b>£'000</b>	<b>EXPENDITURE</b>	<b>£'000</b>	<b>DEFICIT £'000</b>
Parish Share	£4,827	To National Church	£519	
Lowest Income communities funding	£734	Parish Ministry	£6,340	
Other Donations	£769	Support for Ministry	£1,093	
Fees & Trust Income	£527	Support for Schools	£422	
DBF Rental Income	£413	Pension deficit payments	£322	
Investment Income	£976	Other	£214	
		Cost of raising funds	£90	
<b>TOTAL</b>	<b>£8,246</b>	<b>TOTAL</b>	<b>£9,000</b>	<b>£754</b>

- **Where can I find this in the accounts?** Most of this is on the SOFA and in Notes 2 to 12 – which explain what is included in each of these headings.
- **Income** - The total income per the SOFA on page 16, is £9,164k, this differs to the £8,246k as shown above by £918k, due to the following adjustments:
  - i) £716k of SDF funding is restricted for our Resourcing Churches, see section B.
  - ii) £202k relates to property gains, so forms part of our investments, section C.
- **Expenditure** - The total expenditure per the SOFA on page 16, is £9,558k, this differs from the £9,000k as shown above by £558k, because of the two following adjustments:
  - i) £880k of expenditure for our special projects, see section B.

ii) The £322k Pensions figure is the annual payment to contribute towards the deficit in the clergy pensions scheme. (found in Notes 14 and 24).

## B. Our Special Projects

We have three special projects for which we've received grant support from the National Church.

- **The headline:** These special projects are Calling Young Disciples and the two Resourcing Churches.
- **The key numbers:** We spent £880k on these projects during 2019. We received a grant from the Strategic Development Fund of £716k, so the cost to the DBF was **£164k**.

INCOME	£'000	EXPENDITURE	£'000	DEFICIT £'000
Restricted SDF Grant	£716	CYD	£303	
		Resourcing Churches	£577	
<b>TOTAL</b>	<b>£716</b>	<b>TOTAL</b>	<b>£880</b>	<b>£164</b>

- **Where can I find this in the accounts?** The SDF Grant is the restricted grant shown on the SOFA (page 16). The expenditure is split between Parish Ministry (£577k) and Support for Ministry (£303k) (as shown in notes 9 and 10 on page 24 of the accounts), and if you add these figures to the ones above for Core Operations (Parish Ministry - £577k add £6,340k) and (Support for Ministry add £303k add £1,093), you'll find the totals respectively of £6,917k and £1,396k on the SOFA.

## C. Our Investment Operations

We are blessed with significant endowment reserves originating in the generosity of past generations of churchgoers. The investment operation seeks to grow these by careful stewardship. Most of our investments are "Glebe" (the Church's historic land portfolio and invested proceeds from sales of it). The income from glebe investments can only be spent on clergy stipends.

- **The headline:** We had another great year in 2019! The value of our investments was up, and we were able to gain more income from it. It is important to remember that the investments value is a snapshot at 31 December 2019.
- **The key numbers: Growth in Investments:** Our Glebe investment property portfolio is worth £14,405k. With regards to our CBF shares, we added a net £641k to our brought forward holding of £18,660k during the year, these additions were financed from the proceeds of land sales. These funds increased significantly during the year, by £2,521k, and at the year-end they were worth £21,822k. There is also £13.1 million of freehold glebe property (houses for team vicars and curates).
- **Where can I find this in the accounts?** Note 17 shows the glebe property and CBF shares, and Note 16 shows the team vicar and curate houses.
- **Note:** The **Income from investments** is included in Section A as this supports our operational budget, reducing the share required. In 2019 we obtained £976k from our investments: £732k was from dividends on our equity funds, £235k from rents on our glebe portfolio and £9k of interest was received on our deposit accounts.
- We also made a realised gain on disposal on some of our properties of **£202k**.
- **Where can I find this in the accounts?** The £976k is on the SOFA, with details in Note 6, the £202k is also on the face of the SOFA.

## D Housing & Parsonages

With over 100 stipendiary clergy to house, the DBF runs a sizeable property operation – buying, selling and maintaining a portfolio of homes.

- **The headline:** As part of the deficit reduction plan in 2019 costs were reduced by £205k which is 16%.
- **The key numbers:** At the end of the year we have £19,812k of parsonages, and £13,114k of team vicarages and curates houses in the glebe account. £1,488k is in unrestricted assets – some homes plus Holland House.
- In terms of operational spending, we spent £1,072k (16% reduction on 2018) maintaining and improving parsonage houses. This expenditure is included in Section A as it is a part of our core operations. This cost reduction was achieved by the issue of a new Parsonage handbook, which although still provides a very good service it does pass some basic maintenance onto the occupier of the property
- **Where can I find this in the accounts?** Notes 16 and 26 show transfers. Note 9 shows operational spending.

## E Pensions

The DBF operate pensions for clergy and lay staff.

- **The key numbers:** During the year we contributed £998k to the clergy scheme: £676k was for current service and £322k towards paying off the deficit, which reduced by £1,388 million overall to a closing liability at the end year of £695k. However, due to COVID-19 and the volatile investment market is expected to have an impact on the pension scheme in terms of asset values and the measure of liabilities. The impact of this has not been quantified, accordingly to date no changes to the deficit repayments have been received. There is no deficit on the Church Workers scheme for lay staff.
- **Where can I find this in the accounts?** Our in-year payments are shown in Note 14, and the full disclosure on pensions is Note 24.

## F What reserves have we got?

Note 25 shows that our reserves fall into a number of ‘buckets’.

- **Endowment - Glebe:** a total of £44 million in the Diocesan Stipends Capital Fund. This cannot be spent, other than in a very limited way on parsonages. Its income pays for stipends reducing the call on Parish Share.
- **Endowment – Parsonages:** a total of £19 million of parsonages plus the other DBF property outlined in Section D. These reserves are our clergy houses so also can't be spent, although if a parsonage becomes redundant, sale proceeds can be used for certain diocesan expenditure.
- **Restricted Funds:** We have £2.4 million in restricted funds as detailed in Note 25. These funds can only be used in accordance with the various restrictions placed upon them.
- **Designated Funds:** £683k of funds are designated for a particular purpose, which is fully explained in note 28.
- **Unrestricted General Funds:** of £6 million at the end of the year, however these include our unrestricted property fixed assets such as Holland House and some clergy houses.
- **In summary:** Although the Balance Sheet shows total funds of £72.6 million, an increase of £4 million during the year, only £833k was available in total cash at the year end. At first glance this may seem a lot, but when you consider the DBF's monthly cash expenditure circa £725k, of which £500k is spent on stipend, wages, NI and pensions for both clergy and staff, you can see that we only had just over one month expenditure held in cash.

## G Financial Summary

The overall results of the DBF for 2019 can be summarised as:

<b>SUMMARY</b>	<b>£'000</b>
Deficit from our Core Operations (section A)	£754
Deficit from our Special Projects (section B)	£164
Realised gains from sale of properties	<u>£ (202)</u>
<b>Underlying cash deficit impact of the DBF for 2019</b>	<b>£716</b>
Clergy Pension Deficit Contribution payments (not shown in SoFA due to accounting rules)	<u>£ (322)</u>
Net expenditure for the year per the SOFA (page 16)	<u>£394</u>

## H Key Points

- Our operational activities recorded a deficit of **£754k** during the year, a better outcome than the £1.1m deficit in 2018, in line with our deficit reduction plan.
- The financial impact of COVID-19 will result in a larger than planned deficit in 2020 and also brings fresh financial challenges.
- We also have a pension deficit on the clergy scheme of £675k, which is likely to have increased since 31 December 2019 again due to COVID-19.
- The combination of the above requires us to take urgent, but not short-sighted action, to navigate through these unprecedented times.

Helen Archer-Smith  
Director of Finance  
1<sup>st</sup> June 2020