

WORCESTER DIOCESAN SYNOD

WORCESTER DIOCESAN BOARD OF FINANCE LIMITED

Understanding Our 2022 Accounts

We don't intend our accounts to be difficult to read, but the Diocesan Board of Finance (DBF) has a number of strands, and the rules of charity accounting (the "SORP"), along with the additional complexities of the Church of England, 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:

- **Core operations:** funding the mission and ministry of parishes around the diocese
- **Special projects:** Calling Young Disciples and our two Resourcing Churches
- **"Glebe" investments** – growing our investments which should increase future income
- **Property operation:** buying, selling and maintaining homes for those in ministry
- **Pension schemes** –for our clergy and lay 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 Ministry Share, investments and the National Church, and spending it on the provision of parish ministry, support and administration and making a contribution back to the National Church.

- **The headline:** In 2022 we made a surplus of **£360k**, (against a Synod budget deficit of £262k), which has been invested in the Ministry Support Fund to increase our support for Ministry in 2023 given high energy prices.
- **The key numbers:** Using the Statement of Financial Activities (SoFA) on page 20 as the base:

INCOME	£'000	EXPENDITURE	£'000	SURPLUS £'000
Ministry Share & Ministry Support Fund Donations	£4,227	Parish Ministry	£6,042	
Lowest Income communities funding	£776	To National Church	£415	
Other Grants from National Church	£587	Support for Ministry	£929	
Other Donations and Grants	£490	Support for Schools	£398	
Fees & Trust Income	£712	Pension deficit payments	£191	
Rental Income	£466	Cost of raising funds	£59	
Investment Income	£1,098	Reduction of costs due to transfers and SORP adjustments *	(£38)	
TOTAL	£8,356	TOTAL	£7,996	£360

*due to the complexity of DBF finances some of the costs incurred have been funded from other funds – which effectively reduces the core operation costs of the charity.

- **Where can I find this in the accounts?** Most of this is on the SOFA and in Notes 2 to 13 – which explain what is included in each of these headings. The £360k transfer of the operating surplus back into the Ministry Support Fund is shown in note 26 to the accounts on page 41.

- **Income** - The total income per the SOFA on page 20, is £10,040k, this differs to the £8,356k as shown above by £1,684k, due to the following adjustments:
 - £828k of SDF funding is restricted for our Resourcing Churches, see section B.
 - £856k relates to property gains, so forms part of our investments, section C.
- **Expenditure** - The total expenditure per the SOFA on page 20, is £8,824k, this differs from the £7,996k as shown above by £828k, due to the net effect of the three following adjustments:
 - £981k of expenditure for our special projects is not included here, see section B.
 - The £38k reduction of cots due to transfers and SORP adjustments
 - The SOFA figure omits the £191k payment towards the deficit in the clergy pension 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 £981k on these projects during 2022. We received a grant from the Strategic Development Fund (SDF) of £828k, so the cost to the DBF was **£153k**. This is funded from money that had already been set aside for this project (a "designated fund").

INCOME	£'000	EXPENDITURE	£'000	DEFICIT £'000
Calling Young Disciples	£101	CYD	£232	(131)
Resourcing Churches	£727	Resourcing Churches	£749	(22)
TOTAL	£828	TOTAL	£981	£(153)

- **Where can I find this in the accounts?** The SDF Grant is the restricted grant shown on the SOFA (page 20). The expenditure is split between Parish Ministry (£749k) and Support for Ministry (£232k) (as shown in notes 9 and 10 on page 29 of the accounts). If you add these figures to the ones above for Core Operations (Parish Ministry: £749k add £6,042k) and (Support for Ministry: £232k add £929k), you'll find the totals respectively of £6,791k and £1,161k 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:** Our investments reduced in value during the year as did global equity markets.
- **The key numbers:** On the 31st December 2022, our Glebe portfolio of agricultural land and investment property portfolio was worth £15,460k – stable compared to last year. There is also £12,821k of freehold glebe property (houses for team vicars and curates).
- At the start of 2022 our CBF shares had a value of £29,267k and we purchased an additional £497k during the year from the sale of surplus properties and from reinvesting cash. Our CBF shares decreased in value by 12%, which produced an unrealised loss of £3,476k. At the year-end they were worth £26,290k. This is against a gain for the year ended 31 December 2021 of 14%.
- **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 Ministry Share required. In 2022 we received £1,098k from our investments: £878k from dividends on our equity funds, £219k from rents on our glebe portfolio.
- We also made gains on the disposal of four properties which totalled **£856k**.

- **Where can I find this in the accounts?** The £1,098k is on the SOFA, with details in Note 6, the £856k is also on the face of the SOFA.

D Our Property Operation

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

- **The headline:** Four houses were purchased, and four houses were sold during the year. These sales resulted in a gain of £856k compared with the values in the accounts.
- **The key numbers:** At the end of the year, we hold parsonages valued at £20,229k, and £12,821k of team vicarages and curates' houses. £1,522k are unrestricted assets – some homes plus Holland House.
- In terms of operational spending, we spent £899k maintaining and improving parsonage houses. This expenditure is included in Section A as it is a part of our core operations. This was £248k more than 2021 as budgeted, as the 2021 figure was exceptionally low due to the impact of the pandemic.
- **Where can I find this in the accounts?** Note 16 and Note 9 show operational spending.

E Our Pension Schemes

The DBF operate pensions for clergy and lay staff.

- **The key numbers:** In 2022 we contributed £835k to the clergy scheme: £644k was for current service and £191k towards paying off the deficit. The historic deficit is now fully paid.
- There is no deficit on the Church Workers scheme for lay staff, as it is a defined contribution scheme.
- **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 £46.9 million in the Diocesan Stipends Capital Fund. Historically this could not be spent, except in a very limited way on parsonages. Bishops Council have now adopted the Total Return approach, which requires the inflation-adjusted value of the original gift to be maintained, (which at end 2022 is £29m), but allows the amount in excess of this to be taken to a separate endowed fund which is referred to as the Unapplied Total Return (which totals £17.9m). Money transferred from this fund will cover the costs of stipends and the funds that would normally have been spent on stipends can be designated to other expenditure. See Designated Funds for the details.
- **Endowment – Parsonages:** a total of £19.4 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 £2.8 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:** £3.5m of funds are designated for a particular purpose, which is fully explained in notes 25 and 28. This includes the money we have set aside by adopting Total Return to help fund stipends which in turn has released funds set aside as follows:
 1. Healthier Churches Fund: £2.2m – from which grants totalling £280k has been awarded during the year to help support Benefices in their transition to becoming healthier and more sustainable;
 2. Ministry Support Fund: £722k.
 - i. Incoming resources into this fund during 2022 relate to:
 - I. £209k - Donations from Benefices to support Ministry in other areas of the Diocese

2. £360k – The operating surplus which Bishop Council has designated to enable additional transitional support to Ministry Share.
 3. £109k – an annual transfer¹ of £100k from Unapplied Total Return.
- ii. Outgoing expenditure from this fund of £656k is the support to Benefices in the form of grants awarded (see note 2 on page 27).
3. Net Carbon Zero: £35k. £25k (inflation adjusted) will be added each year 2021-26 to help fund the Diocesan Net Carbon Zero project.
- **Unrestricted General Funds:** of £5.6million at the end of the year, however these include our unrestricted property fixed assets such as Holland House and some clergy houses.
 - **In summary:** The Balance Sheet shows total funds of £78.3 million, down £2.3 million during the year (of which £3.5m is an unrealised loss on investments). Only £606k was available cash at the year end.

G Financial Summary

The overall results of the DBF for 2022 can be summarised as:

SUMMARY	£'000
Surplus from our Core Operations (section A)	£360
Deficit from our Special Projects (section B)	£(153)
Reduction of costs due to transfers and SORP adjustments	(£38)
Realised gains from sale of properties	£856
DBF underlying net cash surplus for 2022	£1,025
Clergy Pension Deficit Contribution payments (not shown in SoFA due to accounting rules)	£191
Net income for the year shown in the SOFA (page 20)	<u>£1,216</u>

H Key Points

- Our operational activities recorded a surplus of **£360k** during the year, compared to a budgeted deficit of £262k. This is the second year in succession of an operating surplus, (2021: £269k), as previous years showed deficits of £236k in 2020, £754k in 2019 and £1.1m in 2018.
- Our intention is that Ministry Share plus other available income meets the operating costs of the Diocese, however budgeting is never a precise science. Bishop's Council has decided on this occasion to re-invest the operating surplus back into the Ministry Support Fund in order to continue to support Benefices transition to a more sustainable position in the face of the cost of living crisis and high energy costs
- The use of 'Total Return' has enabled us to increase support for both parochial ministry (the Ministry Support Fund) and invest in parish mission (the Healthier Churches Fund) in 2022.
- We will continue to plan and monitor carefully to navigate us through the challenges ahead.

Helen Archer-Smith, Director of Finance
29th March 2023

¹ In setting up a Total Return policy, Bishops Council agreed to transfer £100 at 2021 prices for 2021 to 2026 inclusive.