

WORCESTER DIOCESAN SYNOD

WORCESTER DIOCESAN BOARD OF FINANCE LTD

Understanding Our 2021 Accounts: FOR INFORMATION

It is not our intention that our accounts can 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 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:

- **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 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 2021 we made a surplus of **£269k**, against a Synod budget deficit of £277k. Although Parish Share was £583k lower than in 2019 (pre-pandemic level used for comparison) due to the pandemic, we were able to reduce expenditure, as well as furlough some diocesan staff, so that this result was better than we had expected.
- **The key numbers:** Using the Statement of Financial Activities (SoFA) on page 18 as the base:

INCOME	£'000	EXPENDITURE	£'000	SURPLUS £'000
Parish Share	£4,244	Parish Ministry	£5,541	
Lowest Income communities funding	£750	To National Church	£398	
Other Donations and Grants (including furlough income £44k)	£792	Support for Ministry	£976	
Fees & Trust Income	£541	Support for Schools	£336	
DBF Rental Income	£387	Pension deficit payments	£195	
Investment Income	£1,015	Other	£15	
Other National Church funding	£65	Cost of raising funds	£64	
TOTAL	£7,794	TOTAL	£7,525	£269

- **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 18, is £9,740k, this differs to the £7,794k as shown above by £1,946k, due to the following adjustments:
 - i) £819k of SDF funding is restricted for our Resourcing Churches, see section B.
 - ii) £1,127k relates to property gains, so forms part of our investments, section C.

- **Expenditure** - The total expenditure per the SOFA on page 18, is £8,812k, this differs from the £7,525k as shown above by £1,287k, due to the net effect of the three following adjustments:
 - i) £1,019k of expenditure for our special projects is not included here, see section B.
 - ii) The £463k cost of the Old Palace dilapidations settlement is treated as exceptional expenditure.
 - iii) The SOFA figure omits the £195k payment 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 £1,019k on these projects during 2021. We received a grant from the Strategic Development Fund (SDF) of £819k, so the cost to the DBF was **£200k**. 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	£149	CYD	£349	(200)
Resourcing Churches	£670	Resourcing Churches	£670	-
TOTAL	£819	TOTAL	£1,019	£(200)

- **Where can I find this in the accounts?** The SDF Grant is the restricted grant shown on the SOFA (page 18). The expenditure is split between Parish Ministry (£670k) and Support for Ministry (£349k) (as shown in notes 9 and 10 on page 27 of the accounts). If you add these figures to the ones above for Core Operations (Parish Ministry: £670k add £5,541k) and (Support for Ministry: £349k add £976k), you'll find the totals respectively of £6,211k and £1,325k 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 saw substantial growth in the year. Please note that these valuations have since fallen due to world events.
- **The key numbers:** On the 31st December 2021, our Glebe investment property portfolio was worth £15,480k, an unrealised gain of £1,260k or 8% during the year. There is also £12,293k of freehold glebe property (houses for team vicars and curates).
- At the start of 2021 our CBF shares had a value of £22,332k and we purchased an additional £3,507k during the year from the sale of surplus properties and from reinvesting cash previously liquidated in 2020 to aid cash flow during the first lockdown. Our CBF shares increased in value by 14%, which produced an unrealised gain of £3,430k. At the year-end they were worth £29,269k.
- **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 Parish Share required. In 2021 we received £1,015k from our investments: £762k from dividends on our equity funds, £251k from rents on our glebe portfolio and £2k of interest.
- We also made gains on the disposal of six properties which totalled **£1,127k**.
- **Where can I find this in the accounts?** The £1,015k is on the SOFA, with details in Note 6, the £1,127k is also on the face of the SOFA.

D Our Property Operation

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

- **The headline:** Two houses were purchased and six houses were sold during the year, along with the completion of the sale of a former church building. These sales resulted in a gain of £1,127k.
- **The key numbers:** At the end of the year, we hold parsonages valued at £19,579k, and £12,293k of team vicarages and curates' houses. £1,522k are unrestricted assets – some homes plus Holland House.
- In terms of operational spending, we spent £651k maintaining and improving parsonage houses. This expenditure is included in Section A as it is a part of our core operations. This was £79k more than 2020, which was exceptionally low due to the impact of the pandemic.
- **Where can I find this in the accounts?** Note 16 and Note 9 shows operational spending.

E Our Pension Schemes

The DBF operate pensions for clergy and lay staff.

- **The key numbers:** In 2021 we contributed £930k to the clergy scheme: £735k was for current service and £195k towards paying off the deficit. The closing liability at the year end was £191k.
- 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 £48.8 million in the Diocesan Stipends Capital Fund. Historically this could not be spent, except in a very limited way on parsonages. However, as allowed by the Charities Act, the Bishops Council have adopted Total Accounting Return approach. This means that, although the value of the original gift increased by inflation, (which totals £26.5m), still cannot be spent and is protected; the amount in excess of this (due to the actual value of the investments increasing by an amount higher than inflation) can be taken to a separate endowed fund which is referred to as the Unapplied Total Return (which totals £22.3m). The Bishops Council can decide to transfer funds from this fund to cover the costs of the stipends and the funds that would normally have been spent on stipends can be designated to other expenditure. Accordingly, the Bishops Council decided to release £3.4 million during the year to help Parishes. 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:** £3.7m of funds are designated for a particular purpose, which is fully explained in note 28. This includes the money we have set aside by adopting Total Return to help fund stipends which in turn has released funds to enable us to set up new designated funds for:
 - a. Healthier Churches Fund: £2.5m;
 - b. Ministry Support Fund: £700k (of which £600k is from unrestricted reserves) to help Parishes transition to Ministry Share. In each of the next six years a further £100k (inflation adjusted) will be added to this fund; and
 - c. Net Carbon Zero: £25k. In each of the next six years, £25k (inflation adjusted) will be added.
- **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:** Although the Balance Sheet shows total funds of £80.5 million, an increase of £5.7 million during the year, only £603k was available cash at the year end. Also, £4.7million of this increase arises from unrealised investment gains, and a further £1.1 million from realised gains on property sales – the majority of which are only for restricted and endowed purposes.

G Financial Summary

The overall results of the DBF for 2021 can be summarised as:

SUMMARY	£'000
Surplus from our Core Operations (section A)	£269
Total cost of Old Palace Dilapidations Settlement	£(463)
Net deficit from operations including final Old Palace costs	£(194)
Deficit from our Special Projects (section B)	£(200)
Realised gains from sale of properties	£1,127
DBF underlying net cash surplus for 2021	£733
Clergy Pension Deficit Contribution payments (not shown in SoFA due to accounting rules)	£195
Net income for the year per the SOFA (page 18)	£928

H Key Points

- Our operational activities recorded a surplus of **£269k** during the year, compared to the budgeted deficit of £277k. This is the first time that our underlying activities produced a surplus for a number of years, and is a significantly better outcome than the deficits of £236k in 2020, £754k in 2019 and £1.1m in 2018. However, the £463k cost of the Old Palace dilapidations results in an actual deficit for the year of £194k.
- Our intention is that Parish Share plus other available income meets the operating costs of the Diocese, however budgeting is never a precise science and especially during a pandemic!
- Parish Share receipts were just over half a million pounds lower than budget. Increased investment income return and continued significant cost savings compensated for that.
- We are expecting 2022 to be another challenging year financially. The increased cost of living, especially with fuel costs, will impact both individuals and churches. Normally PCCs would have reserves to soften the impact of unexpected increased costs such fuel rises, but reserves are likely to be diminished from the pandemic making these impacts harder to absorb.
- Through a new legal power to manage these reserves on a 'Total Return' basis it has enabled a greater proportion of reserves to be available to support both parochial ministry (the Ministry Support Fund) and invest in parish mission (the Healthier Churches Fund).
- We will continue to plan and monitor carefully to navigate us through the challenges ahead.

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