THE CHURCH OF ENGLAND

DIOCESE OF SALISBURY

An Introductory Guide to the Report and Accounts of the PCC

This document provides a simple guide to PCC accounts, the responsibilities of Trustees in reporting the PCC activities, and how to make better use of the information contained within the figures.

Whilst the information contained in the following pages may be of some use to treasurers, it assumes that most people involved with PCCs are not experts in accountancy.

This document is divided into the following ten sections:

1. The charitable status of the PCC
2. The Annual Report
3. The Receipts and Payments account
4. The Statement of Assets and Liabilities
5. Accruals Accounting
6. Notes to the Accounts
7. Funds and Reserves
8. Independent Examination
9. Interim Reporting
10. Resources and Further Reading

1. The PCC and Charity Reporting

The PCC members are the Trustees of a charity, and are bound by charity and church law, whether the PCC is a registered charity or not. This section will look at what reporting is required, and who is responsible for it.

The annual Report and Accounts of the PCC form a public document, required to be published because of its charitable status. This is the case for every PCC in every diocese.
The Report and Accounts consist of four sections, each of which is necessary. These are:

- The Annual Report
- The Receipts and Payments account
- The Statement of Assets and Liabilities
- Notes to the Accounts

The Report and Accounts may sometimes be viewed by those preparing them as a chore, and as a distraction from the life of the church. This approach would lose the opportunity to provide a window into the life of the PCC.
They can demonstrate the good management of financial resources which enables God's mission to be delivered more effectively.

They provide an opportunity to **communicate to the members of the church** and the rest of the community what the church is doing.

They can also be **useful to the PCC itself**, for monitoring and informing the work of the PCC. Some examples of how this can be done are in the shaded boxes in this document.

The Report and Accounts document belongs to the PCC as a whole, which is responsible for its production and accuracy. The PCC should consider who is best to provide the information and wording for each part, and who is best to assemble the whole. The Treasurer is one of the people working within the PCC, but is not in a position to decide all of its policy and mission aims, so should not be left to report on this in isolation. The Treasurer is often the best person to bring together everybody's contributions, and deal with the Independent Examiner.

2. The Annual Report

Although legally a separate document, this is required to be presented with the rest of the Report and Accounts, and so is considered an integral part. This part of the Report and Accounts deals with the activities of the church and new developments planned.

Beyond the statutory requirements regarding administrative information and the structures, this section gives the PCC the ability to explain why it exists, and what it is doing:

- What are the PCC's aims for mission and outreach? Are these being met?
- The PCC is a charity. The PCC members are its Trustees, and so are responsible for delivering public benefit – serving the wider community.
- What is the level of giving in the church? Has any stewardship campaign produced identifiable improvements?
- How well does the church engage its community?

A summary of achievements and performance is required along with a financial summary (see below). The PCC should set out goals against which future success may be measured.

> This is a great opportunity for the PCC to give a feel of the life of the church: its "being" as well as its "doing". The Annual Report should be used to reinforce the message of the mission of the church and support other communication from the PCC.

Objectives and Activities
The Report should demonstrate the PCC's aims within a Mission Statement - a clear and succinct representation of the PCC's purpose for existence.

It should explain how the PCC is achieving its Mission – what has been achieved toward this so far. Also, the PCC sets out its goals in order to deliver that Mission, and what it is intending to do in order to work towards those goals.

Achievements and Performance
This explains the goals achieved within the reporting period, and what the PCC may need in terms of resources to succeed further.
These resources can be either financial or non-financial. Usually, this will involve increased engagement with the church's membership or the wider community to bring in extra skills or effort.

Financial Review
The Report should give an overall impression of the financial position of the church, and should give the highlights of the figures in the accounts statements. This will help those who are not experts in reading accounts to understand the most important aspects of the PCC's finances.

3. Receipts and Payments

Throughout this document, it has been assumed that the PCC is taking advantage of reporting on the receipts and payments basis. Some further requirements exist if the PCC is reporting on the accruals method (see section 5).
The Receipts and Payments account (Statement of Financial Activities for some larger PCCs) is a simple statement that summarises the PCC’s costs and revenues in the year.

Receipts

Voluntary Receipts

Regular Giving. This includes “Planned Giving” as well as “Collections and Other Giving”. Any Gift Aid tax refund relating to this giving is allocated here.
Planned Giving is the money given either in envelopes or through bankers’ order or cheque.
Collections and Other Giving is the amount received where the giving is not planned.
Other Voluntary Receipts. These are legacies and one-off donations (including those received from fundraising activities), and may well be received into Restricted Funds.

Total Giving needs to be looked at in the context of the size of the PCC’s church membership. A simple calculation is to look at the amount of total regular giving to the General Fund *without the Gift Aid recovered* (as explained above) – (T) per Fairer Share member (M):

Annual Giving per member = T/M
Dividing this by 52 will give the average giving per week.

This should be monitored from year-to-year.

Giving Proportion. A simple way of establishing the effectiveness of Giving is to look at the effect on proportion of total Giving funding the PCC’s obligations towards Share, compared to the proportion that funds other items like Fabric repairs.

$$\frac{\text{Total Share Commitment}}{\text{Total Giving}}$$

As the Share calculation is based on numbers and ability to pay, the PCC should be aiming to ensure that the Share commitment does not represent too high a proportion of income – this would suggest that the members’ giving has fallen to a level lower than expected.

Activities for Generating Funds are the work carried out with the specific purpose of raising funds by generating a surplus. This is slightly different to **Receipts from Charitable Activities** – where the PCC may make a surplus from carrying out work in line with its aims (e.g. parish magazine advertising or statutory fees). Neither of these can have Gift Aid recovery, as any money received will have been in exchange for goods or services.

Investment Income is the money received from deposits held at the bank or in shares, etc. If the cash/investment belongs to a restricted fund, then the income must be allocated to that fund.

> **Investment Income** should be reviewed with regard to the level of investments held as Investment Assets, (see section 4 below). Simply dividing the Income by the average value of the Asset will give a figure that will show a yield percentage. This can be monitored throughout the period of owning the asset to make sure that the investment continues to perform as intended.

Gift Aid – when a UK taxpayer gives a gift of money to a charity, they have already paid tax on that money. Because charities are generally exempt from tax, they can claim an amount from HM Revenue & Customs (HMRC) equal to the tax paid on that money by the donor. This repayment from HMRC is known as Gift Aid.
This should be shown separately in the accounts from other receipts in the accounts.
There are various requirements for the recovery of tax, and HMRC provides guidance on how to claim, and which records to keep.

> **Income tax recovered** on Regular Giving ought to be targeted at as high a percentage of the total Regular Giving (excluding Gift Aid) as possible. The *theoretical* maximum income tax recovered is 25% of the rest of the Regular Giving. This is unlikely ever to occur as some givers are not tax payers.
>
> Monitoring the level of tax recovered will demonstrate the effectiveness of the Gift Aid recovery.

<u>Payments</u>

Church Activities/Charitable Activities are amounts paid to deliver of the PCC's objectives. This will include the contribution to the diocese as parish share. Also included here will be overseas mission and relief, other charitable donations, and the running costs of the PCC.

> This is a good place to demonstrate the extent of the PCC's work in the wider community by stating the financial commitments made.

4. Statement of Assets and Liabilities

Cash Funds are the amounts immediately available to the PCC, and the amounts in the Statement of Assets and Liabilities should match the amounts stated on the Receipts and Payments Statement.
Other Monetary Assets are amounts that are due to the PCC at the end of the year, but which are received later. This may include income tax refunds not yet recognised in the Receipts above. These assets are usually received by the time the accounts are published.
Investment Assets include stocks and shares, fixed-term cash deposits, and also interests held in land/buildings.
Fixed Assets are those assets held by the PCC for its own use. These may include buildings or equipment, such as computers.

> The PCC should always look to ensure that its assets are sufficient to service its continued effectiveness. Sometimes a PCC's assets increase beyond its ability to spend them with its current activities. This suggests that the PCC should be looking towards further mission work in order to honour the generosity of its members' Giving.

Liabilities are amounts that are owed to other organisations, suppliers, or individuals. This may include loans, utilities, and unpaid invoices for goods/services.

5. Accruals Accounting - PCCs not using the Receipts and Payments Basis

Larger PCCs (those with income over £250,000) have to use Accruals accounting. Some smaller PCCs also use this method. Put simply, the accruals method takes into account items which relate to the reporting year, but which may have been paid for in another year (either earlier or later). This means that there may be income or expenditure that has not yet been shown in the bank account – for example, electricity for which a quarterly bill is not due until February will relate to supplies within two different years.

If the PCC uses the Accruals basis, there are some more detailed requirements, and the accounts need to be shown in a Statement of Financial Activity (instead of a Receipts and Payments account) and a Balance Sheet (replacing the Statement of Assets and Liabilities).
There are some further requirements, but the fundamental need to report on the activities of the PCC remains the same.

6. Notes

This is where further explanations of the figures in the financial statements are given. If items are grouped together on the Receipts and Payments Account or the Statement of Assets and Liabilities, then clarification should occur here. The Notes to the accounts are an important element of the Report and Accounts, and contain information that helps the reader to understand the position of the PCC.
Most PCCs report on the Receipts and Payments basis (i.e. they are cash-accounting). If they do take advantage of this simplified method of reporting, they need to say so in the notes.
The notes are also a useful place to put a record of the different types of funds operated by the PCC, including whether they are restricted or unrestricted (see section 7).

7. Funds and Reserves

The funds held by the PCC should be defined in its Report and Accounts, and each type of fund (if held) should be shown separately. There are four main types of funds:

Unrestricted Funds are available for the PCC to use as it sees fit within its objects, which are defined within its purposes as a charity.

Designated Funds are allocated to specific purposes (e.g. a special project) by the PCC. The PCC can also reverse the allocation, and transfer the funds back to Unrestricted Funds.

Restricted Funds arise from a specific appeal or fundraising, or if there is a specified use for funds. They cannot be used for other purposes. A restricted fund is created by the donor. The documentation from the donor (e.g. an extract from a will, a letter, or the details from a fundraising activity) should be retained for future reference. The PCC cannot restrict funds it already holds

Endowment Funds are either permanent or expendable. A permanent endowment is where money is given to the church with the specific instruction that it be retained as capital (or spent on an asset) for continuing use by the church. The PCC cannot convert the asset/investment into income and spend it as it would other income. An expendable endowment is similar, but may be spent in special circumstances. Where this happens, the PCC may convert a part of the capital into income.

> All Funds must be disclosed in the Report and Accounts. The PCC should also explain the aims and reserves-holding policy of each Fund.
> The PCC should also retain any documents that relate to the creation of each fund. This provides a legal justification for creating the fund, and makes the life of future PCC members easier.

Income tax recovered via Gift Aid should be allocated to the fund to which the original gift (on which it has been claimed) was allocated.

8. Independent Examination

All PCCs must have their Report and Accounts reviewed by an Independent Examiner or Auditor, who reports on his/her findings. The layout for the report is standard, and is given in “PCC Accountability - The Charities Act and The PCC” (see “Resources and Further Reading”, below).

PCCs with income above £250,000 must use an Independent Examiner with a recognised accountancy qualification, and those with income over £500,000 will be subject to an audit instead of an Independent Examination.

An Independent Examiner/Auditor in all cases must not be a member of the PCC, or the spouse of a member. They must also be considered to be reasonably competent in the opinion of the PCC. The PCC is responsible for the appointment of the examiner.

9. Interim Reporting

The annual Report and Accounts is not the sole document that the PCC has at its disposal to communicate its activities and achievements. There should be regular communication with the membership, and with the wider community, in order to encourage engagement. Likewise, the PCC Trustees should ensure that the financial performance of the PCC is not just reviewed on an annual basis, but at each PCC meeting at the least. The Trustees should agree with their Treasurer that any financial issues arising should be raised in a timely fashion, and that financial performance should be reviewed on a regular basis (quarterly, monthly or otherwise, as considered appropriate).

10. **Resources and Further Reading**

For further reading, and more detail on aspects of the life of the PCC, The Archbishops' Council has provided a useful website:
http://www.parishresources.org.uk
Some detailed guidance on preparing the accounts is on the page:
http://www.parishresources.org.uk/acc/top.htm

Other resources and information, including forms for use by the PCC, can be found on the website of The Diocese of Salisbury:
http://www.salisbury.anglican.org/parishes/finance

Gift Aid Tax Recovery is dealt with by HMRC, and can be seen at:
https://www.gov.uk/claim-gift-aid

"PCC Accountability - The Charities Act and The PCC" is an effective guide to the Statement of Recommended Practice (SORP) and the Charities Act. This has been produced by Church House Publishing, and a small stock is held at the offices of Salisbury DBF.

The Head of Finance (Liz Ashmead) and Accounts Officer (Angie Wheeler) of Salisbury DBF at Church House are also available to offer assistance with queries. They can be reached by telephone on 01722 411955 or by email accounts@salisbury.anglican.org.