

AGENDA ITEM 6 – APPROVAL OF 2010 REPORT AND ACCOUNTS

AGENDA OVERVIEW

Thank you and good afternoon members of the Diocesan Board of Finance. I trust everyone has had a good lunch - the post-prandial slot is always such a splendid time to talk about accounts!

Despite the problems in financial markets and the UK economy in general, we have navigated our way through relatively unscathed – so far! All Diocesan mission and ministry programmes have been funded - and I am unaware of any initiative that was short of funds last year or indeed is currently.

Naturally it would be good to be able to report on a year in which the national economy was growing strongly, inflation was under control, the Eurozone was vibrant and optimism was high – it would be even better to try and set a budget under those conditions. Sadly we are not there yet, nor are we out of danger – the Eurozone crisis could yet make a terrible mess of the world economy and the UK bank's massive exposure to Ireland is alarming. So we must continue to take care of our finances wisely, whilst ensuring that everything we need to do is resourced correctly.

We shall cover three main items on the agenda this afternoon.

First the Annual Report & Accounts for 2010 – a positive year in many respects in which our financial position strengthened still further.

There was a small, but positive operating variance of £147,419 – so spending was under control.

The disappointing news was that Share payment as a percentage of the total assessment was lower than the previous year.

Consequently we reported a negative Variance to the General Fund of £250,627. We shall look at the detail in a moment.

In the second agenda item, you will be asked to approve the re-appointment of Mazars as auditors to the DBF.

Finally we shall discuss the proposed 2012 Budget, which calls for an overall increase of 0.69%. Actually the spending items we control are budgeted to reduce by 0.26%; some nationally forecast spending, relating to pension costs for clergy and lay staff are the cause of an increase beyond a zero base.

You are going to be asked to approve the Annual Report and Accounts to 31 December 2010 in a moment. Before that I shall attempt to lead you through the main points and so, as usual would have the R&A to hand and be ready to turn some pages?

The Trustees' report, the narrative, is found on pages 3-15. As you look through the pages you will see there that there is a description of some of the activities and highlights that occurred during 2010 and the impact they made. This includes activities by department, area office, major programmes and achievements. Also for those viewing the Diocese through the medium of this public document and for those of us within the Diocese, these pages provide valuable background information to explain the Diocesan organisation and structure, the context in which the DBF operates and its relationships with other church bodies.

Last year I suggested that parishes might regard their Annual Report & Accounts as an important mission document, for it should provide a valuable insight into the health of that parish beyond purely financial considerations. It is good to be able to report that there are more parishes now stating their mission clearly and providing a commentary on what has been achieved against that mission in the past year; many too are outlining their aims and goals planned for the coming year. That is brilliant. Unfortunately not all parishes have taken up this challenge to celebrate the work of the Church and inform their communities through a public document what they are doing inside and outside the Church building and how that is relevant to everyone in that community. No doubt this will happen in time and all our congregations will reflect the excellence of their worship and mission for all to appreciate and join in with.

In the Diocese's case we have included the future goals within the context of the Five Marks of Mission, as part of the budget summary.

The mandatory "public benefit statement" is on page 15.

The auditor's report covers 2 pages this time as a result of new guidelines and can be found on pages 16 & 17. Please notice that Mazars have issued an unqualified audit report.

For those not familiar with the accounts included in this document and what they are for; before we examine the detail of the numbers, please glance at pages 34 & 35 that outline the Unrestricted, Restricted and Endowment funds and what each fund represents. Of course there are transfers between funds during the year. As an example we pay money into the Pastoral and Development Fund in accordance with our policy to ensure that the PDF has a balance of £1.8M at the start of each year - in order to purchase clergy, mainly curate's housing.

Please would you turn now to the back page, page 38? Whilst this page does not form part of the statutory accounts, it is key to being able to understand what seems to become a longer document each year. Page 38 provides the link between the management accounts that the Finance Committee reviews each quarter, and the statutory accounts. Without this page it would be more difficult to make sense of the statutory accounts you have before you. If you look at the bottom of the page, you might be forgiven for thinking the end was nigh, as we shall see that is not the case.

Just over half way down the page – at the net charge on budgeted expenditure line, you will see that there was a small favourable variance of £147,419. Above this line you can see the positive and negative variances by department, which in total meant that spending was within 1.5% of budget. We are getting better at balancing our appetite with our ability to spend wisely.

Next is a line for expenditure approved outside the budget, the bulk of which relates to the annual cost of our pioneer posts. You may remember that we embarked on funding pioneer posts after your approval about 4 years ago and said that this money would remain outside the budget and therefore not included as a charge to Share. We should see a decline in the level of out of budget spending over the next two years, as the pioneer posts become self-funding.

Now to Share, where the percentage paid was lower than in recent years. However there is some good news, the vast majority of parishes continued to pay in full and in addition many that had had trailing arrears for a number of years managed to pay in full during 2010 also. That is tremendous – thank you.

The problems arose, in the main, from 5 parishes that had been paying in the past, but experienced financial problems for a number of reasons; the total effect was to reduce Share received by over £200K. Dealing with the problem has been easier than if there had been some general malaise across the entire Diocese. These few parishes than ran into difficulties are all doing rather better so far this year and believe that they will there or thereabouts by the

end of the year. Currently both Area teams are focussed on a small number of parishes that may require some help and encouragement.

There is another category, those parishes with money that will not pay in full – there are rather strange reasons advanced for not doing so. I am going to keep the number vague, but say that it is below 5, which represents a very large reduction over the past 3 years or so. That is good news, but for these parishes the bad news is that they stick out like a sore thumb now.

To the end of May this year, Share payment is running at 3.5% above this time last year. However what matters is where we are at 31 January 2012!

The combination of a disappointing Share performance and expenditure outside budget, offset by the positive spending variance resulted in a charge to the General Fund of £595,131, which was £250,627 worse than we had budgeted – this is the real negative cash impact of the 2010 results that must be met from reserves. Clearly if income from Share does not match actual expenditure, the result is a negative cash movement. However as we shall see, overall cash flow was healthier than in 2009 for a variety of reasons.

Finally we recorded an impairment charge of £337,125 on the value of Church House. During the process of investigating a possible move into joint premises with the DBE, the best offer we received for Church House was £1.28M – that was below the book value and we have recorded the difference via this impairment charge. You will see later that on the balance of our property holdings, we recorded a gain of just over £2.6M. I say this each year, there is no cash impact from property impairment reviews and these accounting exercises have no bearing on the Diocese's ability to operate normally.

Therefore the figure we reported in the statutory accounts was a negative £905K to the General Fund – but again the true cash adverse variance was a quarter of a million pounds.

Please turn now to Page 18 – the Statement of Financial Activities - SOFA – 2/3 of the way down that page, in the line entitled “Net incoming/outgoing resources before transfers” under the first column of numbers for unrestricted General Fund, you will find the £905K. By glancing above this line, you can see this figure represents the difference between ‘Incoming Resources’ and ‘Total resources expended’.

Please look at the line 2 rows above called “other resources expended” – here you see a net positive £2.263M that arises as a result of the revaluation of our property holdings. It is a net number – for on the left of that line, under the General Fund column, you will see the £337K impairment figure arising from the CH exercise.

Finally, I should like to point out that at the bottom of the page you see that total fund balances are £3.22M higher than a year ago. I shall mention note 36 in a moment.

Please look now at Note 26 on page 29. You can see that the market value of unlisted investments has risen by £1.08M; slightly offset by a disposal recorded in paragraph 26 b against investment properties – a property that had been occupied by a clergy widow, but now sold.

Investment income is one of two main contributors to the ‘other income’ that helps reduce the level of the Share budget. Total budget less other income provides the budget for Share assessment. We have tried to increase this figure steadily each year as one contributor towards keeping Share increases as low as possible.

Last year I said: I hesitate to forecast equity markets in the short term, particularly with the perturbations in the Eurozone. However our investments are designed to provide above average annual income, which I expect to continue. So what happened? This slide shows the performance of our investment portfolio during 2010. Total returns for equities and property holdings were in double figures. The important

column in relation to Share is Dividend, or Income as we record it – as you can see all performed strongly, including the Bond investment with M&G Charibond fund – compared to normal bond yields that is quite exceptional. The Capital value of our investments increased by £715K as well against £641K during 2009. Of course we are not back to the capital values before stock markets went awry, but we are making steady progress, while our income from investments remains good. More recently the stock market has once more drifted south, even the European Central Bank could become insolvent if Greece defaults, but we expect income to remain steady.

Recently we have invested a further £500K into M&G Charifund, equities in other words, and as Bond yields will fall this year – transferred a further £500K from Charibond to Charifund.

This continues a trend we set a few years ago to move away from almost exclusive dependency on CCLA/CBF funds and weight our investments more heavily with M&G. I suspect that we may consider diversifying into other financial instruments at our next review.

On page 20 you will find the Balance Sheet. Other than noting that it balances, all I wish to say is that as you examine it you will see that the asset base is stronger than last year in virtually every category. Net assets have increased by £3.22M, as we saw when looking at the SOFA on page 18. Our balance sheet is healthy and robust.

Also if you care to look across at page 21 – the cash flow statement – you will see that the cash position is stronger than a year ago – there was no recurrence of paying down a £1.33M Lay pension deficit as we did in 2009.

Please would you look at page 32 – note 35? – The summary of transactions by fund during 2010. Glancing down the list of the Funds, which reflect operations, you can see that they have been well used. Columns 2 and 3 are matched, which is very positive for it means that the DBF is active in using the assets it holds for the specific purposes for which they are intended. To emphasise, we do not hold idle assets!!

For completeness look across to Page 33 – note 36, which indicates how the net assets of each fund are held.

Before seeking your approval for the accounts, I have a few people to thank for their hard work and dedication:

First may I ask you to endorse the DBF Executive's vote of thanks to Phil Musselwhite for the fantastic amount of work he has done this year?

As Share has been mentioned several times and will be again when we look at the budget, I should like to thank Angie Wheeler for the vital role she plays in administering Share and as someone, who is a deanery treasurer too, that so many parishes rely upon to put them straight. My thanks also to the two Area teams for all they do in working with parishes who may be having difficulties. We do recognise that any parish, whatever its size, can face unexpected financial problems and we are on hand to help out whenever that is needed.

Our financial position is strong. Unlike some other dioceses close to us and across the country, we have not had to cut costs savagely, which inevitably means reduce the number of clergy that can be afforded. So I should like to thank everyone in our parishes for their continued generosity and support for mission and ministry throughout the Diocese.

My thanks to Muriel Jacobs and Williams Wilks, who together with Lucinda, Phil and I constitute the investment team.

My colleagues on the Finance Committee with whom it is a pleasure to work

Finally I should like to thank the excellent team at Church House, ably led by Lucinda Herklots, for their good humour, sheer hard work and for being who they are – we are very fortunate to have them on our side.

Now are there any QUESTIONS?

MOTION ITEM 5 - I commend the motion:

That the Diocesan Board of Finance approves the Director's and Trustees' Report and Financial Statements for the year ended 31 December 2010

Motion Item 6

Item 6 on your agenda: Without further ado, may I ask for your Approval for the reappointment of Mazars LLP as Auditors for the next year?
(QUESTIONS & APPROVAL)

2012 BUDGET – AGENDA ITEM 7

Now to the Budget for 2012

Everyone in the UK faces tough times for a while. Unfortunately rectifying grotesque levels of profligacy and recovering to a point where we live within our means is painful, whoever is landed with the task. Inevitably there are, anomalies created and the process is unpredictable at times.

For us in the Diocese, it is imperative that we continue to do all the things that are important in mission and ministry, but also ensure that costs are properly controlled and that we are efficient in our work. This focus has enabled us to avoid some of the problems experienced by other dioceses in the SW and beyond. We need to maintain our balance to allow us to do what is needed, in the sure knowledge that the funds and other resources will be available.

We shall continue to try and keep the budget for Share assessment as low as we can, just as we have in the past. I would like to thank each department for their engagement in trying to reach a zero increase budget for 2012; their response to the challenge was excellent – in fact we even managed a small decrease of 0.26% compared to the 2011 budget for those cost items we control; this included a 2.4% increase to the Votes for money we send to the national Church and the stipend increase from April next year. However we could not absorb a 4.7% increase to the NMS that impacts clergy pension contribution rates and further nationally controlled pension contribution increases for lay staff – that once again we have no rational explanation for.

With low Diocesan budget increases, parishes can plan with added confidence that what they wish to do locally will not be undermined by excessive Share calls – although money never inhibits mission; our own structures and lack of imagination are major contributors. Hopefully this will encourage some to be bolder in their ambitions, for mission happens in parishes and the interaction with the communities they are there to serve. It is encouraging to witness how much good mission work occurs throughout the Diocese, with laity and clergy working together closely – sometimes I feel that it would be good if more of this work was recognised and that we stopped declaring how important it is for clergy and laity to work together – they do!! The LeLM project, approved by Synod in February, will build on the strength of this work. Nevertheless it is sad to witness some parishes in a form of limbo while the world passes by – I hope they too will catch the confidence train before too long – it does not take much to light the imagination and entice a response, for every parish has good people.

The other part of the bargain or pact between parishes and the Diocese is that Share has to be paid. In my written introduction to the budget, I have tried to address those few parishes that maintain paying Share is voluntary and not something with which they intend engaging fully. Thankfully the number of these parishes is tiny now. One of them said to me about 2 months ago that my use of an analogy with breathing was incorrect; as you have to breath otherwise you die and there is no choice. Precisely!

Introducing artificial spending in budgets to offset underpayment of Share would penalise the 89% of parishes that pay in full and on time – so achieving 99% payment rates is important.

There are another tranche of parishes that underpay by small amounts that in the main arise from not changing standing orders to reflect the new Share total each year. The smallest figure last year was £8 ranging up to a few hundreds of pounds. These parishes pay in the end, but it is a hassle for them and for us.

So our discount structure is based on paying by Direct Debit. A parish wrote to me to explain that they were paying in full this year, but would not sign a Direct Debit as they wished to maximise the interest they could earn from the bank. If a parish has the money, it is hard to understand what advantage is gained from 0.1% interest when there is a discount of 2.5%

available by paying in January each year. There are other discount rates available – all of which, at the moment, provide a far better return than keeping the money in a bank until the last minute. Our discount rates have not changed, despite the unprecedented low bank interest currently. They will not change when interest rates rise in due course – but are likely to be competitive again at the start of next year.

In 2010 our shortfall arose from 5 healthy parishes experiencing difficulties and so underpaying by over £200K. These problems are being resolved – but only 1 parish told us of their difficulties in advance. Please if any parish is having a problem, let us know and there is immediate help on hand.

Some deaneries take pride in helping those of their parishes having genuine difficulties, by using mutual support within the deanery – this is something encouraged by *Fairer Share*. They set a fine example and I thank them for their work. So if some can do this – then why not more or indeed all?

With your help we shall get to a 99% payment level.

So after applying the recently announced 4.7% increase to the NMS that impacts clergy pension contribution rates and also a higher than expected increase to lay pension contribution rates the budget for Share assessment is

£9,492,072 – an increase of £64,817 over 2011 or 0.69%.

I make no excuse for restating the annual health warning; this increase may not be the one that applies to your parish. These days changes to Count and Category impact each parish to a far greater extent than any change in the Diocesan budget.

A parish where either the count or category has increased may find their Share rise by a larger percentage than this budget. Their Share could fall of course also. We do buffer count changes by applying a 3-year rolling average to the count. IF any parish has questions, then the Deanery Treasurer, Angie or I will answer.

Before seeking your approval for the 2012 budget – are there any questions?

MOTION

I commend the motion:

THAT THE DIOCESAN BOARD OF FINANCE/SYNOD APPROVES THE ANNUAL BUDGET FOR SHARE ASSESSMENT 2012

Thank you for your attention

GW \ 25.06.11