The Church
Commissioners
for England

The Church Commissioners Annual Report 2016

Investing in the Church's growth

THE CHURCH
OF ENGLAND

The Church Commissioners Annual Report 2016
Investing in the Church's growth

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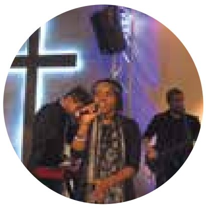

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Thanks to St Swithun's Bournemouth, Southwark Diocesan Communications, Milkbottle Photography, Jim Drew, Lang Shot Photography, Alan Edrington, London Stock Exchange Group, Aishah Mehmood, John Fleetwood, Andy Marshall.

Overview

The Church Commissioners exist to support the work and mission of the Church of England today and for future generations, ensuring a Christian presence in every community.

We manage a £7.9bn investment fund in a responsible and ethical way. Our long-term objective is to continue to support the Church through our ongoing responsibilities, and each year we use the returns from our fund to:

- Provide funding for mission activities
- Support dioceses with fewer resources with their ministry costs
- Pay for bishops' ministry and some cathedral costs
- Administer the legal framework for reorganising parishes and settling the future of closed church buildings
- Pay clergy pensions for service prior to 1998
- Run the national payroll for serving and retired clergy

The Church of England network:

16,000
church buildings (12,500 parishes)

80,000
volunteers involved in children, young people and families ministry

20,000
ordained clergy

76%
of churches help run activities in local schools

66%
of churches help run food banks

60%
of churches offer parent and toddler groups

Opposite: Members of the band at the Christmas carol service at St Swithun's Bournemouth, one of the recipients of City Centre Resource Church funding (page 14).

The Archbishop of Canterbury

Throughout 2016 the Church Commissioners proved to be vital partners in providing the Church of England with the necessary financial resources to help our network of 12,500 parishes, 80,000 volunteers and 12,400 clergy proclaim the Good News of Jesus Christ across all communities.

This year's Annual Report details the crucial role the Church Commissioners continue to play in providing ministry support, funding local community projects across the country and other vital expenditures that ensure the long-term sustainability and growth of the Church, so that it can live out its calling.

The Renewal and Reform process is actively supported by the Commissioners, in partnership with the Archbishops' Council, leading to an ongoing and renewed sense of confidence and ambition for the dioceses of the Church and the communities they serve. Strategic Development Funding, a key part of Renewal and Reform, is funding projects such as Mountain Pilgrims in Carlisle Diocese (page 13), an innovative 'fresh expression of church' helping people who might not consider attending a church service to explore faith amid the stunning surroundings of the Lake District.

In a year which saw considerable political turbulence, the Church Commissioners continued to provide effective stewardship of investments matched by ethical and responsible investment.

The successful launch of the Transition Pathway Initiative ('TPI') alongside 13 leading international asset owners with over £2trn under management, will now allow asset owners to better understand how the transition to a low-carbon economy affects their investments and how individual companies are positioning themselves for the transition to a low-carbon economy.

Continuing the emphasis on responsible investment, the Commissioners were again highly rated for their work on Responsible Investment by a United Nations-backed organisation, PRI (Principles for Responsible Investment), receiving a series of 'A' ratings and scoring above-average in every category.

Sir Andreas Whittam Smith, First Church Estates Commissioner, announced his intention to step down from his current role following 15 years' service, both to the Church Commissioners and to the wider Church. Andreas has been an outstanding First Church Estates Commissioner and has overseen the growth of the endowment. Under his leadership the Church Commissioners have led the investment industry in responsible investment and in engaging with businesses on a wide range of economic and social issues. His leadership and legacy will be recognised for many years to come.

> “I look forward to continued partnership between the Church Commissioners and the wider Church in 2017.

The Bishop of Manchester, Dr David Walker, was announced as the new Deputy Chair of the Church Commissioners' Board of Governors, replacing the Bishop of London, Dr Richard Chartres, who retired in February and who has served as a Commissioner since 1999. Bishop Richard, who has been an outstanding Deputy Chair, will be replaced by Bishop David, whose past experience within the Church Commissioners and Pensions Board will ensure that the Board continues to be very ably led.

I look forward to continued partnership between the Church Commissioners and the wider Church in 2017 as we work together to support our wider mission of living and proclaiming the Gospel of Jesus Christ, in word and deed.

Justin Welby
Archbishop of Canterbury

The Church Commissioners at a glance

We manage a £7.9bn investment fund, aiming to generate a total return averaging inflation (RPI) +5% per annum over the long term. We use these returns to support the mission and ministry of the Church of England, including grants for mission activities, bishops and cathedrals.

9.6%
Average annual return over 30 years

£7.9bn
Total investable assets

17.1%
Total return for 2016

£54.1m
Mission activities and diocesan and ministry support

£122.2m
Clergy pension payments

£48.3m
Bishops' ministry and cathedral costs

£5.2m
Parish reorganisation and closed churches

£0.9m
National payroll for clergy

£230.7m
Total support for the Church of England in 2016

One of the largest charitable givers in the UK

The First Church Estates Commissioner

"Our minimum purpose is to maintain the real value of the fund through time so that future generations of churchgoers will enjoy the same backing from the Commissioners' funds that our generation does. In practice, however, we aim considerably higher.

The successful management of the Commissioners' fund depends upon thoroughly understanding its nature. It is a perpetual endowment. This means that we have the luxury of patience. We can make decisions that may take a number of years to pay off. So we are prepared to hold assets that are relatively illiquid and not traded on stock exchanges. Thus almost 30% of the fund is invested in real estate, which in turn is a mixture of commercial, residential, and rural property and what we term strategic land holdings, where planning permission for housing is being sought.

At the same time, the sheer size of the fund, at nearly £8bn, is also an advantage. This allows us to invest in a wide variety of specialised opportunities. For instance, some 10% of the fund is placed in multi-asset strategies that comprise portfolios with an international mix of equities, equity-related securities (including derivatives), cash, fixed interest securities, currencies, index-linked securities, money market instruments and deposits. Performance here depends upon the manager's skills rather than on the direction of the stock market. A further example of diversification is that some 8% of the fund is placed in what we call 'defensive equities', stocks that do relatively well when the overall market is declining.

We are, too, a fund that has only one client, the Church. Almost all large funds have a multiplicity of clients, which means that their investment strategy must take account of different objectives and different time frames. We can be single minded and follow a pure investment-led strategy, unbothered by the sorts of legal restrictions that are placed on, say, pension funds and life assurance funds. In addition, we can freely apply such ethical restrictions as the Church wishes to see in place.

Now looking at the recent performance of stock markets and at the Church Commissioners' performance, I am reminded of the words of Harold Macmillan, the former prime minister, who famously told the British people – "Let us be frank about it: most of our people have never had it so good". As one of our investment managers has calculated, the only periods with higher returns than the present were the years immediately following the Second World War and during the 1990s when the tech bubble pushed stock prices to extremes.

Not that I want this sentiment to detract from the Commissioners' market-beating performance. Our minimum purpose is to maintain the real value of the fund through time so that future generations of churchgoers will enjoy the same backing from the Commissioners' funds that our generation does. In practice, however, we aim considerably higher.

Our target is inflation plus five percentage points. In 2016, the fund returned 17.1% whereas inflation plus five percentage points was 7.5%, so we were well ahead.

Contributing to this stellar outturn was a strong showing by global equities (+32.9%), partly reflecting the depreciation of sterling. Equally helpful were our interests in private credit strategies (+33.1%), private equity (+26.1%), timberland (+24.3%) and residential property (+14.1%).

Of course we want a good performance. But we also seek a second desirable characteristic, consistency. For our beneficiaries are Church bodies of one kind or another. They would find it hard to cope with a volatile flow of funds from the Commissioners. We would view a reduction in our distributions as a serious failure.

Indeed, it is interesting to test our historic performance (see page 22) by looking to see to what extent periods of turbulence in the financial markets have left a mark. Our ten-year record, 2007 to 2016, for instance, includes the financial crash, yet our assets grew by 8.3% per annum compared with our target of 7.8% taking this period as a whole. Then if we go back to the 20-year stretch (1997 to 2016) that covers the 'dot-com' bubble, as it was known, when the prices of internet-related stocks collapsed taking the whole stock market down, we see that again the Commissioners' progress, when averaged out, was unimpeded, with the portfolio growing by 9.5% per annum. Finally consider the 30-year record, 1987 to 2016, which includes the early 1990s when the Commissioners lost substantial sums of money on unwise real estate investments. Nevertheless, this period shows annual growth of 9.6% per annum. Consistency has truly been a guiding principle.

Credit for this admirable performance goes to members of the investment team, to the Assets Committee that oversees their work and to their predecessors. I thank all these colleagues for their skills and dedication.

Andreas Whittam Smith

Sir Andreas Whittam Smith
First Church Estates Commissioner

Mission

The Church Commissioners provide funding and support for mission to churches, dioceses and cathedrals throughout the Church of England.

Objectives

- To manage our financial commitments
- To provide sustainable financial support to our beneficiaries
- To target resources on areas of need
- To identify and help to meet new needs
- To research and share news of effective spending
- To provide an administrative resource and skills base to the Church

Above: Members of the congregation at the consecration of Revd Prebendary Dr Woyin Karowei Dorgu, announced as Bishop of Woolwich in December 2016.

Secretary to the Church Commissioners

> “Our priority is to serve the Church of England in her wider mission, ensuring the gospel of Jesus Christ is lived and proclaimed.

One of the privileges that comes with being Secretary to the Church Commissioners is learning of the extraordinary work that is done through the funding which we provide to the Church of England each year: how dedicated people are living out the gospel of Jesus Christ and making positive differences for people in their communities.

In 2016 we contributed £230.7m to the mission of the Church of England. While this is only around 15% of the Church's overall income – most funding comes from the extraordinary generosity of parishioners – we are delighted to be able to play our part. Our funding is targeted towards mission opportunities and those areas which are most in need, as well as meeting our ongoing responsibilities for bishops, cathedrals and clergy pensions.

During 2016 we have continued to work with others across the Church in funding and implementing aspects of the Renewal and Reform programme. Although it is led and largely implemented by dioceses, we have continued to contribute to the process, working with the Archbishops' Council to provide Strategic Development Funding. So far this is supporting 24 projects in 20 dioceses, and we look forward to seeing how these and future projects develop in the months and years to come.

This year saw the resignation of two senior Commissioners – the Bishop of London, Richard Chartres, and the First Church Estates Commissioner, Sir Andreas Whittam Smith. Bishop Richard has been a Commissioner since 1999, expertly chairing the Board on behalf of the Archbishop of Canterbury for most of that time. Sir Andreas has served for 15 years as First Church Estates Commissioner, chairing the Assets Committee. Bishop Richard stepped down in December and Sir Andreas will step down in June; together they have provided outstanding leadership and helped steer the Commissioners during both challenging economic cycles and more prosperous periods. We will miss them both hugely.

In Bishop Richard's place as the Archbishop's appointed deputy we welcome the Bishop of Manchester, David Walker. Bishop David, already a Commissioner, has served on the Assets Committee and will continue as Deputy Chair of the Ethical Investment Advisory Group. We are looking forward to benefitting from the skill and wisdom which he will bring to the role. I am also looking forward to the Crown's appointment of the next First Church Estates Commissioner. The process has been very thorough, using search consultants and advertising to ensure all suitable candidates could be considered.

Once again I am enormously grateful to the Church Commissioners, our staff and partners within the Church of England. Without their dedication and skill we would not be able to generate the financial returns to distribute to the Church, nor would we be able to ensure the money is spent in the best possible way.

Our priority is to serve the Church of England in her wider mission, ensuring the gospel of Jesus Christ is lived and proclaimed across the nation. That is why serving as Secretary to the Church Commissioners is such a privilege, and I look forward to continuing to see the impact of our work in the months and years ahead.

Andrew Brown
Secretary to the Church Commissioners

Mission and ministry

Whether funding city centre churches, community projects in low-income areas or research programmes to examine how the Church can grow, the returns on the Church Commissioners' investments make a tangible difference to the lives of thousands across the country.

The way the Commissioners distribute returns (aside from clergy pensions) has been significantly changed under the Renewal and Reform initiative, with national funding being reworked to best support the spiritual and numerical growth of the Church of England.

Renewal and Reform is an ambitious programme of work which looks to address some of the deep-rooted missional challenges facing the Church of England. As part of the programme, the Church Commissioners have worked with the Archbishops' Council in re-examining how funding for mission is distributed to dioceses.

In 2017, half of the funding made available by the Church Commissioners to the Archbishops' Council for dioceses will be distributed as Lowest Income Communities Funding to 25 dioceses through a formula based on average income and population. The other half will be available for Strategic Development Funding, for which all dioceses can apply to invest in new growth opportunities.

Dioceses with reduced funding (compared to the amount received under the previous formula) will receive transitional funding for up to ten years. They will also receive a one-off sum for restructuring to help them adjust to the new arrangements. We have agreed to make additional time-limited distributions of up to £45.7m in 2017–19 for the transitional funding.

Charitable Expenditure 2016 (£m)

A new governance structure was prepared in 2016 and introduced from January 2017 to support the new arrangements. The Strategic Investment Board has responsibility, on behalf of the Archbishops' Council, for determining the distribution of the funding and evaluating its impact, and for advising the Council on funding strategy. The Board's membership includes the First Church Estates Commissioner and two other members of the Church Commissioners' Board of Governors. A new Funding Monitoring Group (jointly established with the Archbishops' Council) will advise on the efficient distribution of the funds and the arrangements for monitoring and evaluating their use.

The Church Commissioners work with the Archbishops' Council to produce joint three-year spending plans. During the year, the Joint Spending Plans Task Group (which was wound up at the end of 2016 under the new governance arrangements) advised the Commissioners and the Council on spending plans for 2017–19.

The Commissioners approved the group's 2017–19 spending plans recommendations at the Annual General Meeting. The money available for grants to dioceses, bishops and cathedrals will rise by 3.21% p.a. in 2017–19 (compared with a 1% p.a. increase in 2014–16).

Strategic Development Funding

Established in 2014, Strategic Development Funding supports major projects within dioceses that can make a significant impact on their mission to the communities they serve.

Of the funding available for dioceses to apply for in 2014–16, three tranches totalling £15.1m were awarded by the end of 2016 (£4.6m in 2014, £2.7m in 2015 and £7.8m in 2016). The remaining £3.5m of funding made available in 2014–16 was awarded in the first quarter of 2017 as part of the fourth tranche of funding totalling £9.1m. Twenty-four projects are being supported to date in 20 dioceses.

Tranche 3 (awarded 2016)

- Carlisle: £859,000 to help implement the diocese's strategy for new mission communities, through developing mission community leaders, fresh expressions of church, and digital evangelism
- Derby: £1.26m to help establish a City Centre Resourcing Church and missional community in Derby and to support outreach to young people in 14 deprived parishes
- Durham: £800,000 for the diocese's Missional Leadership for Growth programme for key local leaders, accompanied by action learning and mission projects in parishes
- Exeter: £1m for the diocese's Growing the Rural Church programme to help rural parishes develop the use of their church buildings
- Portsmouth: £929,000 to develop pioneer training and pioneering posts for lay and ordained ministers and to plant a resource church in Portsmouth city centre
- Rochester: £655,000 for a church plant and missional outreach in Chatham town centre.
- Sodor and Man: £135,000 for a pioneer youth team to strengthen mission and evangelism for children and young people through work in schools and selected parishes
- Southwark: £950,000 for pioneer ministry and a resource church in Nine Elms and for the development of fresh expressions of church across the diocese

Case study

Mountain Pilgrims
Lake District

The Diocese of Carlisle was awarded £859,000 of Strategic Development Funding in June 2016 to help fund its God for All strategy, which aims to help everyone in Cumbria discover more of God and his purpose for their lives.

John Muir, one of the earliest and most prominent advocates for the US National Parks, once said "I would rather be in the mountains thinking of God, than in church thinking about the mountains." Mountain Pilgrims, one of the projects which has come out of God for All, takes this as its inspiration. Set in the stunning scenery of the Lake District, it is a fresh expression of church which aims to help people see the Creator behind the creation, particularly those who may not consider attending a more traditional form of church.

Mountain Pilgrims consists of three strands. The 'active' strand involves exploring the 'natural cathedrals' of the Lake District. The 'reflective' strand, aimed at adults and more mature young people, involves a theme-based reflection as part of a moderate walk. And the 'abbey' strand is a specifically Christian community which meets in a local climbers' and walkers' café for breakfast.

Each strand is designed to help people explore faith, no matter what stage of their faith journeys they might be at.

"The diocese's God for All strategy is about helping people to discover God for themselves, and Mountain Pilgrims is a great expression of that", says Richard Passmore, Fresh Expressions Enabler for the Diocese of Carlisle. "It has been a thrill to see people come along and explore Christian themes in the magnificent setting of the Lake District who otherwise might not be interested in exploring Christianity."

Mountain Pilgrims has grown quickly, with over 70 people now involved in different groups. With two new groups having been started in the first year, it has the potential to become a new type of resourcing church. Resources are also made available on the God for All website for anyone wanting to start similar projects.

> "I would rather be in the mountains thinking of God than in church thinking about the mountains.
>
> John Muir, founder of the US National Parks.

Mission and ministry
continued

- Southwell and Nottingham: £1.2m for a Younger City Resource Church in Nottingham and to set up a Younger Leadership College

Tranche 4 (awarded 2017)
- Birmingham: £2.6m to extend and underpin the diocese's Growing Younger programme
- Bristol: £950,000 to develop three churches to become resource churches for specific mission areas
- Chelmsford: £2m to support the ongoing development of resource churches and a network of new church communities in four strategic mission priority areas, together with a new congregation in Forest Gate
- Chichester: £825,000 to continue the diocese's ongoing programme of church planting
- Leicester: £1.03m to improve mission strength in multi-faith/multi-ethnic communities
- Liverpool: £1m to multiply congregations by developing a model which is smaller scale and lower cost than conventional church planting
- Worcester: £750,000 for ten young people's missioners, including their training and development

Further information about all the projects supported by the Strategic Development Funding can be found on the Renewal and Reform website at churchofengland.org/renewal-reform.

Strategic Capacity Funding
In 2014–16, a total of £2.0m of Strategic Development Funding was made available as Strategic Capacity Funding for dioceses. By the end of 2016, 14 dioceses had been awarded Strategic Capacity Funding totalling £1.297m. An additional £2.0m has been earmarked from Strategic Development Funding in 2017–19.

Parish ministry and mission
2016 was the final year of funding for dioceses' ministry support provided through a formula which aimed to target funding on the least resourced dioceses. The Archbishops' Council distributed £35.3m of this formula funding to 25 dioceses in 2016. Dioceses usually used their grant to support clergy stipends, targeting it on those parishes which are least able to meet their ministry costs. In 2016, £41.6m was distributed to the Archbishops' Council, most of which was allocated in grants to the dioceses. In addition, we distributed £18.7m for mission activities (including £7.8m for Strategic Development Funding as above). 2016 was also the final year of Mission Development Funding: £6.6m was distributed to all dioceses to invest in new mission opportunities (which could also be used to support clergy stipends). Information on dioceses' use of this funding will be shared with the General Synod in summer 2017 and published on the Church of England website.

Cathedral Development Funding
In 2014–16, £500,000 of development funding was earmarked for cathedrals. In 2016, the Spending Plans Task Group approved a proposal to use £155,160 of this funding to support a programme of training for cathedral chapters.

City Centre Resource Churches
Thriving churches in city centres are crucial to the work and mission of the Church of England. £1.45m of unspent research and development funding from 2011–13 was allocated to support City Centre Resource Churches in 2014–16. By the end of 2016, £1.35m had been allocated:
- £150,000 each for St Swithun's Bournemouth, St Philip's Salford, St George's Durham and St Mark's Coventry
- £200,000 each for St Swithin's Lincoln and St Matthias Plymouth
- £350,000 for St Luke's Gas Street, Birmingham

The remaining £100,000 of funding will be used for leadership development and evaluation, with new city centre churches being funded as wider projects under Strategic Development Funding from 2017 onwards.

Developing Church Growth in Deprived Areas
In 2011–13 funding of £2.9m was distributed to 28 projects around the country to develop church growth in deprived areas. The funding for most of these projects has come to an end and an external evaluation of the funding programme was completed in the summer of 2016. The evaluation found significant growth in church attendance in five projects and good or moderate growth in 14 of the other projects. Seven key factors in church growth were identified and the findings were shared with project leaders and dioceses. The report is available to view at churchgrowthrd.org.uk.

Funding for Mission in New Housing and Other Development Areas
Funding for Mission in New Housing and Other Development Areas was designed to help dioceses develop a sustainable Christian presence in new communities. £7.25m was allocated to 15 dioceses in 2008–10. This money is all committed and was accounted for by the end of 2010, but owing to the economic downturn which took place at the time the funding was made available, many developments were delayed and the money will be drawn down over several years.

Church Growth Research Programme
Two major research projects funded by the Church Commissioners and Archbishops' Council were completed by the Church Army in 2016. The first was an extension of a survey of the scale and dynamics of fresh expressions of church to a further ten dioceses (an initial 11 dioceses were surveyed as part of the original research programme). The second study was a project to profile attendees at fresh expressions of church. The Church Army published its research findings at a conference on 4 November 2016. The research reports are available at churcharmy.org.

Lambeth Palace Library

The Church Commissioners oversee Lambeth Palace Library, the historic library and record office of the Archbishops of Canterbury and an invaluable resource for the Church and the nation. The development of plans for a new library building to protect and preserve the nationally and internationally important collections continued during 2016. Initial public consultation on the proposals in the autumn received an overwhelmingly positive response. The Board gave full approval in late 2016 and a planning application was submitted in December. The project is scheduled for completion in 2020. The library continues to provide direct support to the work and mission of the Archbishop and the refurbished Great Hall has seen increasing use for both Church and external use. More information about the library is available at lambethpalacelibrary.org.

Payroll

The Church Commissioners administer the national clergy payroll for the Church of England, ensuring accurate and timely stipend payments to serving clergy. MyView for clergy enables users to access pay documents, change bank details, view their personal details and submit forms online.

Clergy pensions

The Church Commissioners meet the cost of clergy pensions earned in service until the end of 1997, ensuring that those who have served the Church can be secure in their retirement. In 2016 the Commissioners' expenditure on clergy pensions was £122.2m (2015: £122.7m). At the end of 2016 the Commissioners were funding – in full or in part – the pensions of 9,761 retired clergy and 3,666 surviving spouses. Pensions in payment increase every year in line with the retail price index.

Case study

Pioneer ministry in Great Denham and West Kempston

Bedford

Suzette and David Maguire are pioneer ministers (Church Army) on the new estates of Great Denham and West Kempston, on the outskirts of Bedford. Supported by Funding for Mission in New Housing and Other Development Areas, their vision is to establish new expressions of church life, each with their own suitable forms of worship, teaching, fellowship, outreach and pastoral care.

Having been in the post for two years, it is still early days for the kind of ministry they are pioneering. Their focus is currently on listening to members of the community, building relationships and getting involved with different institutions in the area, such as schools and children's centres, as well as activities such as Walk2Health (pictured above, left). Deep relationships are being formed already, with many of the people they meet opening up and turning to them for support.

"At a social event someone offloaded some personal stuff from their history", Suzette says, "following this up by saying how they had surprised themselves as they don't usually share this quickly with people!"

Case study

Ignite

Margate

Ignite (above, right) is a fresh expression of church run by St Paul's in Cliftonville, Margate. St Paul's is the 18th most deprived parish in the country, and Ignite received Developing Church Growth in Deprived Areas funding to fund its work in a deprived community with high levels of social exclusion.

Ignite now gathers a regular weekly congregation of 50–70 people. Every effort is made to make people feel welcome, with the meeting broken up into small segments of five to eight minutes long, whether a quiz, a sketch, a discussion or a craft activity. Relationships are vital – each attendee is greeted by name, and much of the weekly meetings are spent eating, talking and building friendships.

"One of the highlights of Ignite has been seeing many of the people who come begin to grasp that God loves them", said Patrick Ellisdon, vicar of St Paul's. "It's fundamentally church – we share a meal, we pray, and we worship together. We've seen so many people move on in their lives as a result of being part of the Ignite community, whether that's living a more healthy and peaceful life, all the way through to making a faith commitment for themselves."

Bishops and cathedrals

Bishops and cathedrals are focal points for their dioceses and communities. The Church Commissioners contribute towards their vital work.

Grants for bishops' ministry in dioceses

£18.9m

Archbishops' stipends, office and working costs and other national costs

£11.0m

The Church Commissioners meet the stipends, office and working costs of the archbishops and bishops to support their ministry. Bishops are able to spend their funding according to local needs, including decisions on the level of funding to their area and suffragan bishops.

Lambeth Palace

Lambeth Palace is owned by the Church Commissioners. It is a focal point of the worldwide Anglican Communion, and the home and office of the Archbishop of Canterbury. Like the Houses of Parliament, the Palace needs significant repair, including the provision of new services (water, gas, electricity and heating) which were last comprehensively refurbished in the late 1940s. The planning of these works commenced in 2016 with a major investigatory survey of the condition of the service provisions.

Bishops' housing

The Commissioners have a statutory duty to support diocesan bishops with housing, providing suitable accommodation which facilitates the bishops' work and mission. In 2016, two new diocesan bishops took office, and the opportunity was taken to undertake works at bishops' houses in Oxford and Lichfield. Furthermore, following the creation of the new Diocese of Leeds, the former house at Wakefield was sold in 2016. We also provided housing for the new suffragan Bishop of Maidstone on behalf of the Diocese of Canterbury, renting a refurbished vicarage from the Diocese of Southwark for the purpose.

Concerns remain over the high cost of maintaining the varied portfolio of bishops' housing, including large and historic properties. As part of the 2014–16 and 2017–19 spending plans we have agreed a limit on the funding spent on bishops' housing of £8.5m.

Cathedrals

Cathedrals are focal points not only for the Church, but for the communities they serve, opening their doors to millions of visitors each year.

We support the ministry of cathedrals through two funding streams. In 2016 £5.8m of funding provided under section 21 of the Cathedrals Measure supported stipends and pension costs of the dean and two residentiary canons at all cathedrals except Oxford. Any part of the grant unused as a result of a vacancy can, at our discretion, be used to support the employment costs of other cathedral staff.

A further £3.5m of grant funding was provided under section 23 of the Measure to fund staff costs for cathedrals with the lowest unrestricted income. This funding frees up cathedral resources and helps facilitate their mission and ministry to local communities.

In 2016, the Church Commissioners played a role in supporting Peterborough Cathedral in the reorganisation of its finances and the creation of a stable long-term financial plan. In matters such as these we provide consultancy expertise as well as financial assistance on commercial terms. This is done to maximise the chances of a return to sustainable financial health and in order to pursue the long-term objective of supporting the mission of the Church of England.

We continue to monitor the financial situation of cathedrals and stand prepared to work with partners regarding their long-term future.

Parish reorganisation and church buildings

The Church Commissioners play a role in the reorganisation of parishes and in finding alternative uses for closed church buildings.

Pastoral reorganisation

The Church Commissioners have a legal and advisory role in the reorganisation of parishes and benefices, serving dioceses by providing accountability and oversight, as well as bringing in expertise from across the Church of England.

Following local consultation and approval by the diocesan bishop, proposals for reorganisation are sent to the Commissioners for validation. They are then published as a draft scheme for consultation, with an opportunity to make objections to the Commissioners, which may be considered at a public hearing. Reorganisation sometimes includes the closure of church buildings – during 2016, 24 of nearly 16,000 church buildings in use were declared closed for regular public worship.

The Commissioners' Mission and Pastoral Committee considered ten cases during 2016, one on two occasions and four of them at public hearings. The other cases were considered on the papers only following the introduction of case sifting (intended to simplify procedures where there is sufficient information for a case to be dealt with without a hearing.) Nine schemes were allowed to proceed and one, having been subject to a local public hearing and referred back to the bishop for further consideration, was still under consideration at the end of the year.

Other objections were resolved without the need for a decision by the Commissioners, either by the objection being withdrawn after further consultation or the scheme being withdrawn or amended. Objectors are entitled to seek permission to appeal to the Judicial Committee of the Privy Council against any aspect of a decision by the Commissioners to allow a scheme to proceed. There were no such applications in 2016.

Clergy housing and glebe land

The Church Commissioners – through the Mission and Pastoral Committee – also have a role in sales and other transactions relating to clergy housing and glebe land. Objections to transactions are handled in the same way as for parish reorganisation cases. Objections were received to two parsonage sales during 2016. One objection was overruled after consideration by the Committee and the other was still under consideration at the year end as the Committee requested further information from the diocese. Two other glebe transactions, one to a connected person and one where no agent's advice had been obtained, were approved (2015: six) as were two new glebe management schemes. One other parsonage transaction (2015: none) was approved.

We also approved the release of covenants in one case (2015: four) where the Commissioners were historically a party to the sale of land which at one time was owned by the local parish priest as a parsonage or glebe land.

Church buildings

The Church Commissioners settle the future of church buildings closed for regular public worship. Our regionally based specialist casework team works closely with dioceses to secure suitable alternative uses, including obtaining planning permission and listed building consent in appropriate cases. In the minority of cases where a suitable use cannot be found, we normally have to decide, following advice, between preservation of the building in the Churches Conservation Trust and demolition.

If a qualifying body objects to the proposed demolition of a listed closed church or an unlisted closed church in a conservation area, the Department for Communities and Local Government may hold a hearing or public inquiry. We are awaiting an inquiry date for the first such inquiry in over 20 years, Birch St Peter in the Diocese of Chelmsford.

Parish reorganisation and church buildings
continued

Contribution to the Church's mission
Around £1.45m in net proceeds was apportioned from the disposal of closed church buildings and sites to support the 'living church' and contribute towards the Church's share of funding the Churches Conservation Trust.

In 2016 we made 16 schemes settling the future of closed church buildings or their sites; 12 provided for alternative use, three for preservation by the Churches Conservation Trust and one for demolition or site disposal. One closed church building was partially restored for worship.

The Church Buildings (Uses and Disposals) Committee considered objections in four cases, deciding in each that the scheme should go ahead notwithstanding the representations. One was considered at a public hearing and the others on the papers only following the introduction of case sifting to simplify procedures where appropriate.

In June, with diocesan colleagues and representatives from various heritage bodies, the Committee visited 11 church buildings in the Diocese of Manchester, either already closed or undergoing closure. We saw at first hand the major challenges facing the Church in some northern urban areas, including how best to manage a legacy of large, listed Victorian buildings coming forward for closure, often with very significant repair bills.

	1969–2006	2007–2011	2012–2016
Alternative use			
Adjuncts to adjoining estates	6	0	0
Arts, crafts, music or drama	29	4	1
Civic, cultural or community	119	17	20
Educational	29	4	5
Light industrial	7	0	2
Monument	131	11	12
Museums	16	0	0
Office or shopping	44	12	3
Other	5	0	0
Parochial or ecclesiastical	60	13	4
Private and school chapel	23	1	2
Residential	252	28	31
Sports	10	3	1
Storage	17	0	2
Worship by other Christian bodies	124	34	15
Alternative use sub-total	**872**	**127**	**98**
Demolition and site disposal			
Additions to churchyards	48	1	5
Housing associations	79	3	1
Local authorities	67	3	0
New places of worship	61	3	3
Not yet decided	2	5	2
Other community purposes	27	3	0
Other purchasers	151	15	4
Demolition sub-total	**435**	**33**	**15**
Preservation			
Churches Conservation Trust	336	5	9
Diocesan Board of Finance	5	0	0
Secretary of State	4	0	0
Preservation sub-total	345	5	9
Grand total	**1,652**	**165**	**122**

Such visits inform our work on closed church buildings while also providing insights into the context in which parishes care for and use their buildings for mission. Following the visit we agreed in consultation with the diocese to formally take over their use-seeking function for closed churches, enabling the diocese to focus on its mission and other priorities.

Churches Conservation Trust

With the Government we co-sponsor the Churches Conservation Trust, which preserves, in the interests of the nation and the Church of England, outstanding closed church buildings for which no suitable alternative use has been found. During the year three buildings were transferred to the Trust, which now cares for around 350 closed churches. We continue to work closely with the Trust in a difficult funding climate to maintain our ability to vest suitable buildings while also looking to identify opportunities to lease or divest buildings already in its care.

Case study

Quay Place
Ipswich

St Mary-at-the-Quay in Ipswich (above, left) is a Grade II* listed church building which had not been used regularly since the Second World War. Located near the waterfront in the town, the building was at risk of falling into disrepair.

The Churches Conservation Trust partnered with mental health charity Suffolk Mind to undertake a £5.1m project over eight years, turning the medieval church into Quay Place – a modern, versatile building with therapy rooms, a café, and ample space for community activities and events.

The involvement of the local community was a crucial aspect of the project, with the construction phase seeing the church used as a 'living classroom', and the finished building featuring a variety of materials telling the story of the building, its people, and its place in Ipswich.

Case study

St Nicholas Cathedral
Newcastle

St Nicholas Cathedral is in the heart of Newcastle, next to the castle keep from which the city derives its name, and a short walk from the river, train station and main shopping centre. Reflecting its central location, it holds events for the community throughout the year, and last year held an advent sleep-out.

In early December, 30 young people came together to celebrate the start of advent and to think about how the homelessness of Mary and Joseph is mirrored today in the experiences of many people in our own society. Participants aged 10–18 met in the cathedral, taking part in a series of group exercises designed to get them thinking about the cycle of homelessness and isolation which many people find themselves in.

They then took part in painting a mural (above, right) with local artist Andy Morley, which was left up in the cathedral into the New Year. The evening ended with prayers and participants were encouraged to find quiet spots around the nave and in the side chapels to bed down for the night – a small glimpse into a daily reality for rough sleepers in Newcastle.

Investment

The Church Commissioners manage an investment fund of £7.9bn in an ethical and responsible way, returning 17.1% in 2016.

Objectives

- To manage the fund to ensure sustainable distributions for our beneficiaries
- To achieve a total return of RPI +5% p.a. measured over the long term
- To meet performance benchmarks for individual asset classes
- To manage financial risks appropriately
- To act within our responsible investment guidelines

Above: The launch of the Transition Pathway Initiative, formed and prepared during 2016, at the London Stock Exchange.

Fund strategy and performance

The Church Commissioners manage a diversified portfolio spread across a broad range of asset classes, consistent with our ethical guidelines.

The Church Commissioners' investment fund was valued at almost £7.9bn at the end of 2016, £0.9bn higher than at the end of 2015 after charitable distributions of £230.7m.

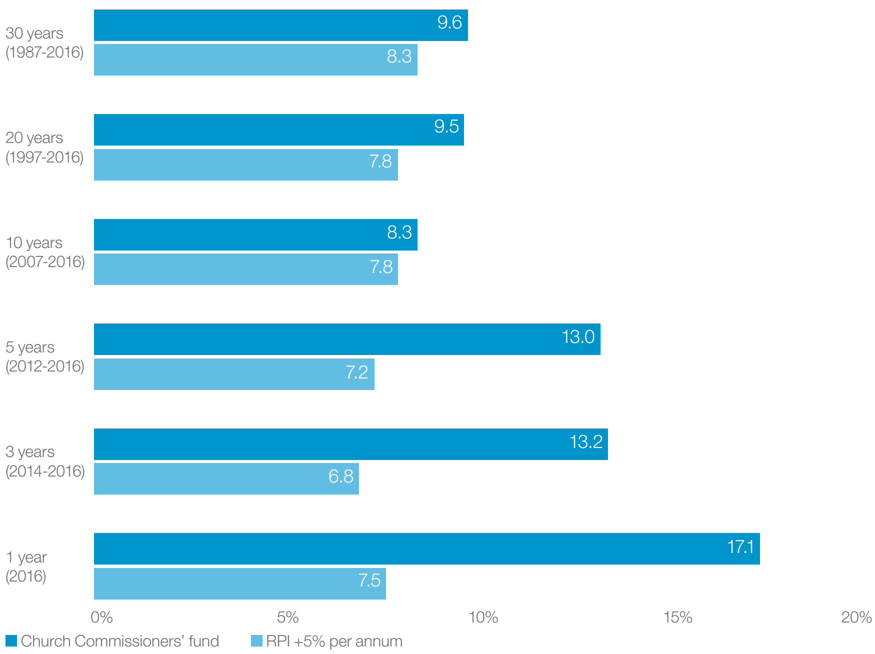
Fund strategy

Our investment objective is to generate a return of inflation (RPI) +5.0% p.a., on average, over the long term to support the work and mission of the Church of England today and for future generations. We have managed to match or exceed this objective over 1, 3, 5, 10, 20 and 30 years, and our investment performance continues to be recognised by industry awards. Over the last 30 years the fund has achieved an average return of 9.6% every year: 6.3% ahead of RPI inflation.

Meeting or exceeding our performance objective allows us to meet our pension obligations and to grow, in real terms, our support for the Church, balancing the needs of both current and future beneficiaries. In 2016 our charitable distributions were £230.7m.

The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes consistent with our ethical guidelines. The asset returns chart (overleaf) shows our asset weightings at the end of 2016 and how these have changed in recent years.

Total Returns per Annum
(against the Church Commissioners' target return of RPI+5% per annum)



Fund performance

The Commissioners' fund returned 17.1% during 2016. Our longer-term performance, which is significantly more important in terms of determining our distributions, also remains strong. Our 1, 3, 5, 10, 20 and 30 year numbers are all ahead of our inflation plus 5% p.a. target.

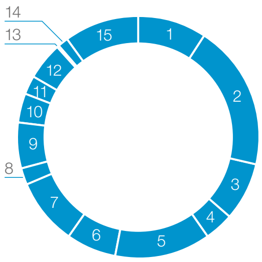
2016 was a strong year for investment returns across the board, with the only exception being cash. The sharp fall in sterling, post the EU referendum in the middle of the year, provided a significant one-off boost to returns from overseas assets for sterling-based investors.

Fund strategy and performance continued

Asset returns, total fund and by asset class: 1, 3, 5, 10, 20 and 30 year averages:

Total returns % p.a.	1 year 2016	3 years 2014–2016	5 years 2012–2016	10 years 2007–2016	20 years 1997–2016	30 years 1987–2016
Commissioners' total assets	17.1	13.2	13.0	8.3	9.5	9.6
Retail price index +5%	7.5	6.8	7.2	7.8	7.8	8.3
CC return v RPI	14.6	11.4	10.8	5.5	6.7	6.3
Commissioners' main asset classes						
Global equities	32.9	15.2	16.5	9.5	8.9	9.1
UK equities	15.7	6.5	12.4	6.1	7.4	9.5
Private equity	26.1	20.6	15.4	12.5	n/a	n/a
Commercial property	7.9	22.0	17.3	8.5	11.6	11.0
Residential property	14.1	16.7	17.2	13.1	17.9	16.2
Rural let land	9.5	11.8	12.0	14.3	14.4	13.8
Strategic land	13.8	18.9	16.4	13.2	n/a	n/a
Indirect property	17.0	15.4	12.1	5.5	10.9	n/a
Timber	24.3	19.5	15.4	n/a	n/a	n/a
Value linked loans	8.4	22.2	19.0	9.2	11.0	8.9

Commissioners Asset Allocation (as at 31 December 2016)



1	UK equities	**9.4%**
2	Global equities	**19.3%**
3	Defensive equities	**7.7%**
4	Private equity	**3.9%**
5	Multi-asset strategies	**12.9%**
6	Credit strategies	**6.7%**
7	Rural property	**8.8%**
8	Strategic land	**2.4%**
9	Residential property	**6.1%**
10	Commercial property	**3.7%**
11	Indirect property	**2.7%**
12	Timberland	**4.8%**
13	Infrastructure	**0.3%**
14	Value linked loans	**1.4%**
15	Cash and cash like assets	**9.9%**

Performance was strong, with most of the Commissioners' asset classes producing a return ahead of our inflation +5% target. Within asset classes our assets and managers typically performed in line with or ahead of their respective benchmarks, which also added to our overall performance.

Notable performance was delivered in global equities, timber and indirect property. Property performance was boosted by selective sales, combined with continued successful asset management by the in-house team materially adding to performance.

Distribution strategy

In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries. Every three years, the actuaries, Hymans Robertson LLP, carry out a detailed assessment of how much of our fund should be held to meet our pension obligations and how much we can afford to spend for other purposes given our aim to maintain and grow such distributions over time. In the years between full reviews the actuaries assess whether existing plans remain affordable.

The key conclusions of the annual update of the actuarial review at the end of 2016 were that 22.6% of the fund will be required to meet the Commissioners' clergy pension obligations and that there is no reason to amend the spending plans for 2017–2019 agreed following last year's full review of the fund. These spending plans included annual increases of 3.21% in the main grant categories, subject to the usual annual checks on affordability.

Equities

Public equities

In 2016 the Commissioners' equity portfolio generated strong returns of 22.2%, though underperformed our custom benchmark, which recorded 23.8%. While absolute returns were very strong for our equities portfolio, aided in part by our exposure to global equities and the weakness in sterling throughout the year, performance was held back by our defensive equity portfolio and, to a lesser extent, our exposure to UK smaller companies.

Elsewhere, our active global managers performed particularly strongly and outperformed across the board. Particularly noteworthy was the strong returns of our value managers, which after a challenging period for value investing, outperformed strongly relative to the market to help drive returns at the fund level. Our emerging markets portfolio also helpfully outperformed the benchmark, as too did our US smaller companies portfolio, which helped contribute to returns in the equities portfolio.

The defensive equity portfolio comprises low-volatility equity managers who are expected to generate good relative performance in down markets and to capture enough upside in periods of positive equity market performance to provide attractive returns in the long run.

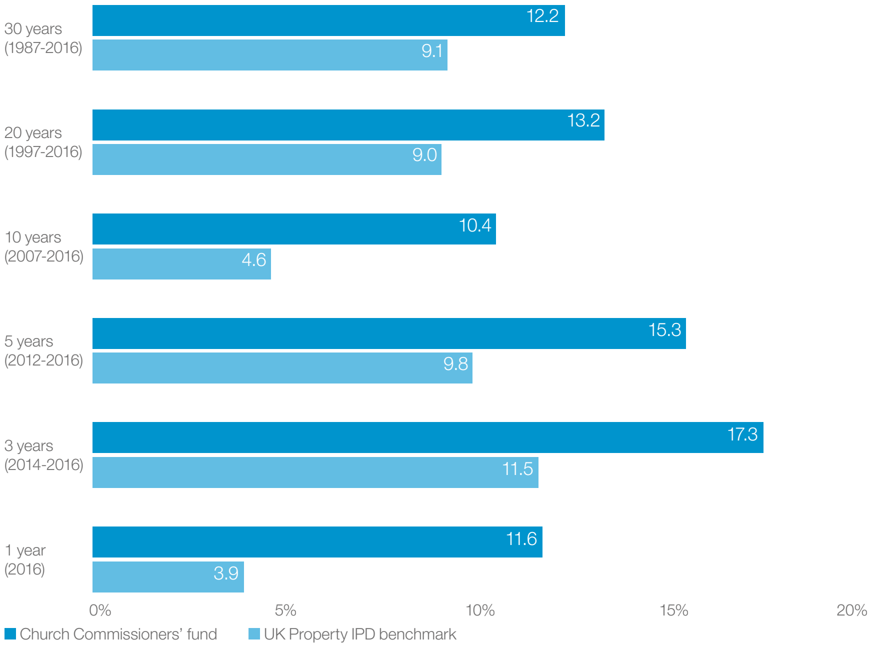
The portfolio is made up of a mixture of specialist long-only and long/short managers and represented around 7.7% of the portfolio at the year end. During the year the portfolio delivered 4.5%, a somewhat disappointing return following the very strong returns in 2015. Over 2016, two new commitments were approved and one mandate was redeemed, repositioning part of the portfolio from the more competitive US market to Asia and Australia.

We reduced our equities portfolio by 17.3% during the year, divesting £500m and reinvesting to rebalance the portfolio.

Private equity

The private equity portfolio, which invests in unlisted companies, achieved a total return of 26.1% in 2016. We made six further commitments totalling £112m to the portfolio during the year. Over the long term, our private equity portfolio has significantly outperformed quoted equity markets and we plan to expand the allocation to the asset class significantly over the next few years.

Church Commissioners' Combined Property Returns
(against UK Property IPD benchmark)



Multi-asset

The multi-asset portfolio represents around 13% of the total portfolio. It is designed to generate attractive positive returns independent of the external environment but we would normally expect it to lag equities in periods of strong growth. These strategies generated a total return of 15.9% in 2016.

Fixed income

Our fixed interest portfolio is intended to generate interest income to help meet the cash needs of the Commissioners as well as to generate relatively stable capital gains. The portfolio, which includes investments in global high-yield bonds, emerging market debt and structured credit, returned 16.4% in 2016 as credit markets rallied due to continued economic growth and improvements in corporate earnings.

Our private credit portfolio was started in 2012 to allocate capital to interesting opportunities which could further diversify and improve the return profile of the fixed income portfolio. We continued to increase our allocation in this area during 2016, making one new commitment totalling £32.8m. In aggregate these strategies generated a combined return of 30.9% in 2016.

Property performance

The Church Commissioners hold a diverse and high-quality property portfolio, taking a long-term approach in line with our charitable objectives.

Our property portfolio delivered a strong performance in 2016, providing a total return of 11.6%. We continued to work actively with our tenants and stakeholders to improve and maintain our holdings, which in turn increased their values, notwithstanding the levels of uncertainty in the property markets. We benefit from a long-term approach and stewardship of well-diversified and high-quality holdings.

Rural

2016 was a productive year for the portfolio and we worked with our tenant farmers to further improve the holdings through investment and restructuring, exploring value-adding opportunities, and completing a number of purchases and sales across the portfolio. We were delighted that the construction of a 5MW solar farm at Carlisle was completed in March 2016 and is now generating electricity for around 1,200 homes. Planning consent was also granted for a 4MW solar farm in Newport, which will be constructed in 2017.

We continued to explore opportunities to restructure a number of tenancies to the benefit of both the Commissioners and our farmers. We also focused our investment in a number of key areas, including water management, horticulture and agricultural infrastructure. We continued to investigate suitable alternative land uses for some sites, including the change of use of some dilapidated traditional farm buildings to residential dwellings.

All of this work helped to support the investment performance of our rural portfolio, which generated a return of 9.5%.

Strategic land

Our strategic land portfolio generated sales receipts of £17m for the year. This included the sale of land at Glastonbury Road, Wells for 150 new homes and further sales of land at North Hykeham, Lincolnshire.

During 2016, planning permissions were received for new market and affordable dwellings at Greetwell, Lincoln (500 homes), Sherburn, County Durham (120 homes), Coxhoe, County Durham (50 homes) and at Wetheral, Cumbria (50 homes). We also made planning applications for new residential developments at Hereford (1,200 homes) and at Ryhope, Sunderland (500 homes).

Local authorities continued to identify the Commissioners' land as suitable for residential development with all pre-existing site allocations continuing to be confirmed in local development plans. In addition, new draft allocations were proposed at Ashford, Kent, and at Barnsley, South Yorkshire.

The strategic land portfolio delivered a return of 13.8%.

Residential

Our Hyde Park Estate generated £23.0m from lease extensions and sales, and we reinvested £9.9m improving the estate and refurbishing properties. There was a high level of active management which brings material benefit to the residents and the Commissioners, despite the broader market slowdown caused by the stamp duty changes in spring 2016. We completed 12 residential refurbishment projects and began work on a further 14 properties.

At Connaught Village we completed three new lettings to unique and independent traders. We made further improvements to the public realm and the second phase of the reinstatement of iron railings was completed in Sussex Gardens.

We were pleased to complete the sale of Rose Castle, the former home of the bishops of Carlisle, to the Rose Castle Foundation. The property will become an international centre of peace and reconciliation, working to build bridges between individuals and communities experiencing conflict.

This portfolio generated a total return of 14.1%.

“

During the year we focused our energy infrastructure investment programme towards lower carbon energy, committing to an anaerobic digestion project which will reduce water waste and methane gas emissions and is underwritten to meet our required returns.

Chris West, Head of Indirect Property, Timberland and Infrastructure

Commercial

We have continued to focus upon active asset management of our existing assets in our commercial portfolio, having undertaken significant sales in recent years. We monitored the commercial property markets closely and have funds to reinvest when we think the time is right.

We were pleased to purchase a vacant garden centre in Fulham, London and to quickly secure a letting to the Fulham Gardener.

We also completed three new lettings and three rent reviews, all of which resulted in a total return of 7.9% in the year.

Indirect property

Our focus in 2016 was on achieving key sales and seeing a return of capital, as well as considering bespoke opportunities with trusted managers. The indirect portfolio saw the greatest volume of sales of the property portfolios, generating £66.3m.

Our US and European investments all performed well at the property level, and were further boosted through currency gains with the dollar and euro gaining against the pound. In aggregate, the indirect property portfolio delivered a return of 17.0% in 2016.

Alternatives

Timberland and forestry

Since we began investing in global timberland markets five years ago, we have built a high-quality portfolio of over £360m. The Commissioners' forestry estate covers 120,000 acres in the UK, the US and Australia. All of our UK and US forests are operated to the highest standards and all wood produced is fully certified as sustainable to international standards.

In 2016 we acquired a single investment in Scotland totalling 147 acres adjoining an existing property holding. We continue to explore renewable energy opportunities across our UK holdings, and our two wind farms in Scotland provide 32MW of renewable power. In the US we negotiated a conservation easement on part of our forest property in Idaho, resulting in income for the Commissioners as well as helping to protect the environment for future generations. Our investment in Indian Sandalwood plantations in the Northern Territory of Australia continues to perform well. We expect these to deliver high-quality sustainably produced Indian Sandalwood Oil for use in the fragrance and pharmaceutical sectors in the late 2020s.

Our timberland and forestry portfolio delivered a return of 24.3%.

Infrastructure

Infrastructure is a relatively new asset class for the Commissioners and to date we have made two commitments: an energy credit strategy focused on developed markets, and an anaerobic digestion investment in the US. The anaerobic digestion investments should meet the Commissioners' required returns and reduce harmful greenhouse gases by producing green biogas from sustainable sources and helping to recycle water, minimising usage and waste.

Our infrastructure portfolio delivered a total return of 41.3% during 2016.

Case study

Solar farm

Carlisle

The Church Commissioners partnered with Lightsource Renewable Energy to build a solar farm on two fields near Nether Welton, eight miles from Carlisle.

The fields were carefully chosen, ensuring that there are limited views from the surrounding landscape due to the surrounding vegetation. The land continues to be grazed, maintaining its agricultural use in addition to the renewable energy it generates.

Completed in March 2016, the solar farm produces 5MW of power, generating electricity for around 1,200 homes.

Responsible Investment

Our ambition is to be at the forefront of responsible investment practice. In 2016 we took further significant steps towards this goal.

The Church Commissioners' approach to Responsible Investment is shaped by the ethical policies we have adopted on the recommendation of the Church of England Ethical Investment Advisory Group ('EIAG') and by our commitment to the UN-backed Principles for Responsible Investment ('PRI').

Ethical exclusions

The Commissioners received no new recommendations from the EIAG in 2016 on categories of investments to exclude from our direct investments. We continued to exclude from our direct investments companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, gambling, non-military firearms, high interest rate lending, human embryonic cloning, extraction of thermal coal and production of oil from oil sands, subject to revenue thresholds.

We continue to maintain restrictions in the alcohol sector. For most larger companies listed in the UK, we exclude companies from direct investments if they do not meet minimum standards of responsible marketing and retail. Elsewhere in the portfolio, we exclude companies from direct investments based on a revenue threshold. In 2017 we will start work rolling out the new approach for the largest listed alcohol producers across developed markets.

Our approach to indirect investments is shaped by the Pooled Funds Policy recommended by the EIAG. This sets parameters for the use of pooled funds and a cap on indirect exposure to restricted investments.

Environmental, social and governance issues

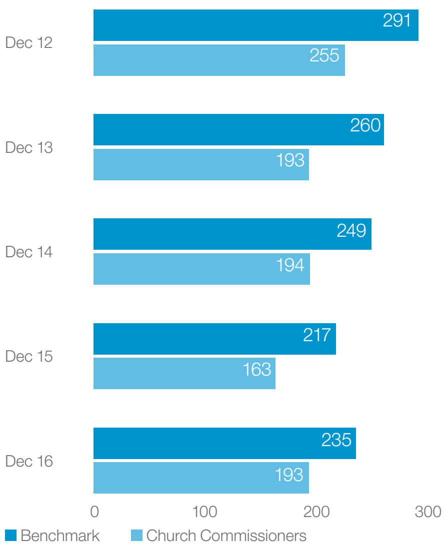
As PRI signatories, the Commissioners are committed to incorporating environmental, social and governance ('ESG') issues into our approach to investment. Our Responsible Investment ('RI') Framework sets out how we do this, and in particular the way in which we select, appoint and monitor asset managers.

Since the adoption of the RI Framework in July 2015, we have assessed the RI practice of those asset managers who manage more than £50m of assets on our behalf. All managers recommended to trustees for appointment or reappointment are also assessed. Discussion of RI practice is an integral part of our monitoring of, and engagement with, our managers.

We use third party data from MSCI ESG Research to monitor the non-financial characteristics of as much as possible of our public equities portfolio and to make a comparison against our blended UK/global listed equities benchmark.

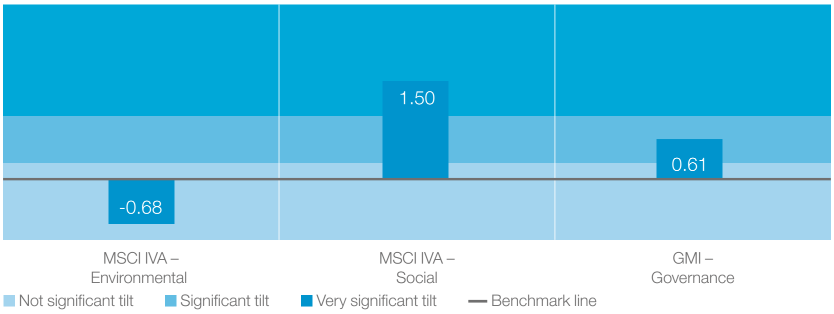
Listed Equities Carbon Footprint 2012-2016

Tonnes CO_2 equivalent per £1m revenue



This data indicates that, at the end of 2016, our public equity portfolio had a significant tilt towards companies with better social characteristics compared to its combined benchmark. Tilts towards companies with better governance characteristics and poorer environmental characteristics were not significant.

Church Commissioners' Portfolio Style Skyline™ Report



Climate change

The Church Commissioners support the Paris Agreement and the goal of the international community to restrict the global average temperature rise to well below two degrees Celsius. We regard climate change as an urgent ethical issue that also poses financial risks to our investments.

Our disclosures on climate change are guided by the recommendations for asset owners of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures.

The Commissioners' response to climate change is overseen by the Assets Committee. Climate change-related issues featured on the Assets Committee agenda in four out of six meetings in 2016. The agenda items comprised low carbon investment, climate change investment risk, climate change engagement and the Transition Pathway Initiative. Climate change-related risks are incorporated into the Commissioners' risk register, which is reviewed for, and at, every Assets Committee meeting. The Commissioners' approach to climate change and climate-related risk management is set out in our Climate Change Policy adopted in 2015.

The Commissioners received a report in October 2015 prepared by investment consultants Mercer that assessed our portfolio against a range of climate change scenarios which modelled the investment impacts (to 2050) of a global average temperature rise of two, three and four degrees Celsius by 2100.

The assessment found that the diversification of the Commissioners' portfolio was supportive of resilience in all four climate scenarios, including the two degrees scenario. In this 'Transformation' scenario aligned with the goal of the Paris Agreement, the Commissioners' investments in developed market equities (including UK equities) were expected to be negatively impacted by a rapid transformation of the economy but this was offset considerably by the positive expected impact on returns for emerging market equities, real estate, timber and infrastructure.

Since the analysis was conducted we have increased our exposure to assets that are not expected to be sensitive to the risks posed by climate change, namely developed market sovereign bonds, multi-asset strategies and cash. This has been for wider risk management reasons against a challenging investment backdrop, but the shift in asset allocation will have increased our current state of climate change-related resilience.

The Commissioners monitor the value of investments qualifying as low-carbon investments under the methodology of the Global Investor Coalition on Climate Change. At 31 December 2016, £341m of the Commissioners' investment portfolio (approximately 4.3%) qualified as low-carbon investments:

- Sustainably certified forestry portfolio – £295m
- Green office development in Singapore – £13m holding
- Impax Environmental Markets plc Fund – £29m holding
- Equilibrium Wastewater Opportunity Fund – £4m holding

The Commissioners pursue all appropriate opportunities to add to commercial renewable power generation – both wind and solar – on our rural and forest land. Because we do not own the facilities, but obtain rental income from them, these are not qualifying low-carbon investments.

We continue to have one of our largest listed equity mandates, valued at £316m at 31 December 2016, with Generation Investment Management, which was co-founded by former US Vice-President Al Gore, and all of whose investments must meet sustainability criteria. This represents a further 4% of the Commissioners' overall investment portfolio. However, because Generation invest across a wide global equity universe, this is not a qualifying low-carbon investment.

Responsible Investment
continued

We have collected data for carbon emissions at our largest single property asset, the Hyde Park Estate, and are developing a new sustainability strategy for it which will include an emissions reduction target. Our largest commercial property asset, the Metro Centre, is subject to our partner Intu's group carbon emissions reduction target of a 50% reduction in emissions intensity 2010–2020.

Impact investments

While the Commissioners have long made investments with positive social and environmental impact, we made our first qualifying 'impact investments' in 2016. Impact investments must have an explicit objective of delivering positive social and/or environment impact – as well as financial returns – and these impacts must be measured and reported. Like all our investments, they must meet our investment risk/return criteria. We do not have a specific impact investment allocation in our portfolio.

The first investment, made in March 2016, was a $40m commitment to Equilibrium Capital Management's Wastewater Opportunity Fund, which develops anaerobic digestion facilities. Equilibrium is an Oregon-registered Benefit Company, meaning it has a statutory responsibility to create general public benefit, and to consider its impact on its shareholders, employees, suppliers and customers, communities, society and the environment. Equilibrium estimate that our investment will prevent the emission of over 500,000 tonnes of 'carbon dioxide equivalent' annually.

The second impact investment, in December 2016, was a £10m commitment to a fund being raised by Palatine Private Equity, who are based in Manchester and invest mainly in small and medium enterprises in the English North West. The fund is expected to invest in a wide range of growth areas where the chance of achieving a positive impact outcome is high, including renewable energy, vocational education, ethical consumerism and companies addressing the issues of financial exclusion, among others.

External assessment and awards

The Commissioners were awarded A+ for Responsible Investment Strategy and Governance in our 2016 PRI assessment report. The Financial Reporting Council rated our Stewardship Code Statement 'Tier 1'. The Asset Owner Disclosure Project gave the Commissioners their highest rating for climate risk management, AAA, placing us in the top ten asset owners globally out of 500 rated.

The Commissioners won the Portfolio Institutional Award for Best Implementation of Responsible Investment and the Investment and Pensions Europe ESG and Climate Related Risk Management awards.

Signatory of:

PRI Principles for Responsible Investment

IPE AWARDS 2016 WINNER Climate Related Risk Management

IPE AWARDS 2016 WINNER ESG

Winner 2016 Best implementation of responsible investment portfolio institutional awards

Engagement

The Church Commissioners are committed to active engagement with the companies we invest in, consistent with our ethical investment policies.

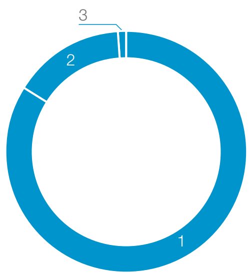
Over the past year the Church Commissioners have established an engagement department jointly with the Church of England Pensions Board. The decision to establish an in-house team and to strengthen engagement capacity reflected the increased importance of engagement in the application of the Commissioners' ethical investment policies. The joint engagement team has responsibility for:

- Voting our shareholdings in publicly listed companies
- Preparing ethical exclusion lists
- Engaging companies in which we are shareholders on issues related to our ethical policies.

Voting against directors of UK companies

Attendance	17
Audit independence	108
Board diversity	96
Board does not contain 25% gender diversity	4
Chair/CEO	8
Code breach	6
Executive chair	15
Failure to provide effective independent oversight	3
Governance failure	4
Independence	73
Other	2
Responsible for remuneration	116
Time commitments	7
Grand total	**459**

Voting for/against directors of UK companies



1	For	**84%**
2	Against	**15%**
3	Abstain	**1%**

Voting and company AGMs

In line with commitments under the UK Stewardship Code, the Church Commissioners have continued to vote our shareholdings in 2,017 global companies which held 2,228 company meetings, comprising 29,122 individual resolutions. In 2016 there were three particular focuses of voting and our interventions at Annual General Meetings. These were executive remuneration, board diversity and climate change.

During 2016, in line with the National Investing Bodies' executive remuneration policy, the Commissioners continued to vote against the majority of remuneration reports and publicly called upon company remuneration committees to better exercise their judgement when recommending reports to shareholders. A number of high-profile advisory votes went against board recommendations and we expect executive remuneration to remain the most prominent issue in the 2017 voting season.

During 2016, and in line with the recommendations from the Davies Review, the Commissioners voted 'against' the chairs of nomination committees in instances when female representation was below 25% of the board. These votes represented 21% of all the votes instructed against directors' election over the year as we applied our guidelines for the first time on this issue to FTSE 350 companies (having previously applied it only to the FTSE 100).

On climate change the Commissioners were instrumental in filing climate disclosure resolutions at Anglo American, Glencore and RioTinto. These were supported by the boards of the companies and received overwhelming shareholder support. The Church Commissioners led the engagement with Glencore, and the resolution at the AGM was passed with 98% support from shareholders. The companies will be reporting against their implementation in coming company reporting cycles, in line with similar disclosure required by shareholders at BP and Shell in 2015.

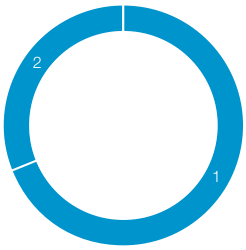
Engagement
continued

We also filed a shareholder resolution jointly with the New York State Common Retirement Fund at ExxonMobil, seeking further disclosure on climate change. Although the vote was lost (with 38% voting in favour) this was the highest vote ever recorded for a climate resolution at ExxonMobil, representing a significant shareholder revolt and demonstrating a significant degree of support.

More than 60 institutional investors with over $10trn of assets under management between them had pre-declared their support for the motion ahead of the AGM including major fund managers and pension funds Amundi, AXA Investment Management, BNP Paribas, CalPERS, Legal & General Investment Management, Natixis Asset Management, New York City Retirement Fund, the Norwegian Government Pension Fund Global and Schroder's. The world's two leading independent proxy advisors, ISS and Glass Lewis, also supported the proposal.

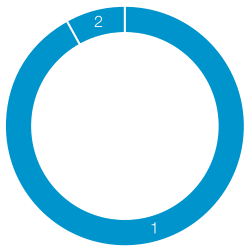
Engagement work continues with ExxonMobil, led by the Church Commissioners, to encourage the necessary disclosure of information in line with the policies required by the Paris Climate Change Agreement.

Voting for/against UK remuneration reports and policies



1	For	69%
2	Against	31%

Voting for/against US remuneration reports and policies (say-on-pay only)



1	For	92%
2	Against	8%

Company engagement

During the year, the engagement team continued to meet and engage company representatives on a range of issues of concern. These included issues on human rights, climate change, tailings dams, risks around reporting on joint ventures within extractives companies, promotion of responsible alcohol consumption, community health and safety, and environmental concerns around mining activity.

Mining and Faith Reflections Initiative

Over the past year the Commissioners have continued to support the Mining and Faith Reflections Initiative. This initiative is the result of a group of eight mining company CEOs reaching out to the Catholic, Anglican and Methodist Churches for an honest and open dialogue about the social licence to operate of their sector. This is a high level and different style of engagement that enables issues to be raised in a forum that contrasts from normal engagement outreach.

So far, the initiative has involved high-level dialogues with the CEOs at the Vatican and Lambeth Palace. The Head of Engagement represents the Church of England on the Mining and Faith Reflections International Steering Committee, and Bishop David Urquhart (Birmingham) leads on behalf of the Church of England more broadly. The dialogue is intended to provide a forum for difficult issues to be raised and addressed with companies.

Case study

Transition Pathway Initiative

The Transition Pathway Initiative is an asset owner-led initiative, supported by asset managers and owners with over £2trn of assets under management. It assesses how companies are preparing for the transition to a low-carbon economy through a public and transparent online tool.

The Church of England's National Investing Bodies ('NIBs') have led the initiative in partnership with the UK Environment Agency Pensions Fund, and with data and analysis provided by the London School of Economics and FTSE Russell. It was launched on the London Stock Exchange in January 2017, with preparation having taken place throughout 2016.

The initiative came about as a result of the National Investing Bodies' climate change policy, which committed us to engage more intensively with companies on climate change and assess whether they are taking seriously their responsibilities to assist with the transition to a low-carbon economy.

Assessments from the TPI produced by the London School of Economics will be used to support our engagement with companies over the coming year and provide a clear and transparent basis upon which to report progress of engagement. The TPI also provides a basis to be able to assess the exposure to transition risk within our portfolio and to better inform our decision-making.

Adam Matthews, Co-Chair of the initiative and Head of Engagement for the Church Commissioners and Church of England Pensions Board, said: "The Transition Pathway Initiative is a tipping point for the market. The initiative will identify companies that are aligned with the transition to the low-carbon economy and those most exposed to climate transition risk. There can be no doubt about the seriousness with which asset owners are taking account of these risks and it will be a key feature in the discussions we will be having with companies over the coming years."

Governance

The Church Commissioners are committed to good governance and cost-effectiveness as we fulfil our responsibilities towards the Church of England.

Objectives

– To ensure cost-effective administration of the Commissioners' responsibilities
– To identify and manage organisational risk
– To be transparent and accountable in all organisational activity and internal governance
– To ensure trustees are properly resourced for their role
– To apply ethical investment policy guidelines

Above: St Nicholas Cathedral, Newcastle, at night.

Trustees and accountability

The Church Commissioners are a well-governed charity, accountable to Parliament and committed to serving communities across the country.

The Church Commissioners for England (the Church Commissioners) are a statutory body created by the Church Commissioners Measure 1947. We are a registered charity (number 1140097) under the Charities Act 2011.

Public benefit

As trustees, the Church Commissioners are mindful of the Charity Commission's guidance: Charities and Public Benefit and, in particular, the supplementary guidance for charities whose aims include advancing religion: The Advancement of Religion for the Public Benefit, and have regard to that guidance when reviewing the Commissioners' aims and objectives and in planning future activities.

We are confident that the financial resources we provide to parishes, bishops and cathedrals help to promote the whole mission of the Church (pastoral, evangelistic, social and ecumenical) more effectively, at a national level, in the dioceses, and in individual parishes. In doing so it provides a benefit to the public by:

– providing facilities for public worship, pastoral care and spiritual, moral and intellectual development both for its members and for anyone who wishes to benefit from what the Church offers; and
– promoting Christian values, and service by members of the Church in and to their communities, to individuals and society as a whole.

Throughout this report there are examples of this public benefit in action.

Trustees and the Board of Governors

There are 33 Church Commissioners and they have the trustee responsibility for meeting our charitable obligations. Six of the Commissioners hold offices of state and the other 27 make up the Board of Governors, the main policy-making body.

Thirteen Board members are elected either by General Synod or the cathedral deans, and other members are appointed either by the Crown or the Archbishops for professional expertise of various kinds (e.g. actuarial, legal, investment). Board members are organised into five committees (Assets, Audit and Risk, Bishoprics and Cathedrals, Church Buildings (Uses and Disposals) and Mission and Pastoral), which fulfil the Commissioners' various responsibilities to the Church. They are joined by other, non-trustee, members and the Board and all the committees are supported by an executive team led by the Secretary (Chief Executive), Andrew Brown.

During the year we learned of two very significant departures to come in 2017. Firstly, the Bishop of London announced his retirement. Richard Chartres has been a Commissioner since 1999, chairing the Board on behalf of the Archbishop of Canterbury for most of his tenure. Bishop Richard brought huge skill to the role, and his contribution will be greatly missed.

Case study

Suzanne Avery

Suzanne Avery is one of our newest Commissioners, replacing Harry Hart who stepped down at the end of 2016. Suzanne has extensive experience of the real estate and housing finance sectors, including as Managing Director of the Real Estate Finance Group and Sustainability at RBS.

From 2015, she moved to a portfolio career including various non-executive director roles and as Senior Advisor at Centrus.

Passionate about helping people advance in the workplace, she is also actively involved in promoting and embedding a diversity culture within industry and she co-founded Real Estate Balance with this in mind in 2015. She has held various board appointments in the charitable sector, for organisations such as Mercy Ships, and has been an enthusiastic supporter of the property industry charity LandAid for many years and joined their Board in May 2013.

Trustees and accountability
continued

Case study

Showcasing the Commissioners in Parliament

The Second Church Estates Commissioner, Rt Hon Dame Caroline Spelman MP, hosts a number of receptions throughout the year on behalf of the Church Commissioners, showcasing the work of the Church of England to parliamentarians.

In November 2016, Dame Caroline held a reception on the theme of community cohesion. Guests were joined by Rt Hon Sajid Javid MP, Secretary of State for Communities and Local Government, to celebrate the work of the Church Urban Fund's Near Neighbours project (pictured above), church schools, and funding provided by the Church Commissioners to strengthen community ties and societal cohesion.

Revd Annie McTighe, pioneer minister for the Queen Elizabeth Olympic Park, spoke to guests about the work she is doing to form community in an entirely new housing area thanks to the funding provided by the Church Commissioners.

Secondly, Sir Andreas Whittam Smith announced he would be stepping down from his role as First Church Estates Commissioner. Sir Andreas has been in his role for 15 years, chairing the Assets Committee with great skill and wisdom during that time.

The Bishop of Manchester, David Walker, was announced as Bishop Richard's replacement in October 2016, taking up his role from 1 January 2017. Sir Andreas will step down formally at the 2017 AGM.

We also said farewell during 2016 to the Bishop of Lincoln as a House of Bishops-elected Commissioner, and two Crown-appointed Commissioners in Harry Hart and John Wythe. They have been replaced by the Bishop of Birmingham David Urqhart, Duncan Owen and Suzanne Avery respectively. We also said farewell to two non-Commissioner committee members in George Lynn (Audit and Risk Committee) and Julia Flack (Mission and Pastoral Committee), and welcomed Jonathan Templeman and Garth Watkins in their place. We thank all our departing members for the great expertise and commitment they have showed in helping us serve the Church.

Management
The day-to-day management of the Commissioners is delegated to Andrew Brown. He is supported in his role by a senior management group comprising the Heads of Investment, Finance, Resource Strategy and Development, Human Resources, IT, Pastoral and Closed Churches, Libraries and Archives, and Bishoprics and Cathedrals departments as well as a small secretariat. He is also regularly advised by the Official Solicitor and others.

Second Church Estates Commissioner
The office of the Second Church Estates Commissioner, Rt Hon Dame Caroline Spelman MP, maintains the statutory accountability of the Church Commissioners to Parliament by regularly answering questions in the House of Commons. The Commissioners would like to congratulate Caroline on her investiture as a Dame for political and public service.

Dame Caroline answered a wide range of questions in 2016, most frequently on the Church Commissioners' ethical investments, church and cathedral sustainability, the work of the Church of England in areas of deprivation, and persecuted Christians overseas.

The Second Commissioner has also engaged with Government ministers over the Apprenticeship Levy, improving the partnership with the Department for International Development, increasing church/faith/grammar schools, religious minorities in Syria, using churches to broadcast mobile and broadband signal in rural areas, and tackling bat infestations in church buildings.

Dame Caroline has continued to host Parliamentary receptions to draw attention to the work of the Church of England. This year the receptions have been themed around community cohesion (focusing on Church schools, Near Neighbours and Commissioners' funding), the Church of the Future (focusing on the future of cathedrals and parish churches), and how the Commissioners invest (focusing on ethical investment, climate change and parish development projects).

Full details of the questions answered by Dame Caroline in 2016 can be found at churchinparliament.org

Ethical Investment Advisory Group

The Ethical Investment Advisory Group ('EIAG') supports the Church of England's National Investing Bodies ('NIBs') on ethical investment – the Church Commissioners, the Church of England Pensions Board and the CBF Church of England funds managed by CCLA.

The EIAG provides timely and practical advice to support the Church Commissioners and other NIBs to invest ethically in a way which is distinctly Christian and Anglican. In particular, such advice may relate to:

- assets, sectors or markets in which it would not be appropriate for the NIBs to invest (including screening);
- stewardship by the NIBs of their investments (including voting and engagement);
- relationships with managers and other investors; and
- policy issues.

The EIAG's members include representatives of General Synod, the Archbishops' Council, the Council for Mission and Public Affairs, the investing bodies and co-opted members. There is a rich mix of theological, Church, investment and business experience.

Advice offered by the EIAG is considered by the Church Commissioners' Head of Responsible Investment and Head of Engagement, and approved for incorporation into the Commissioners' investments by the Assets Committee.

Attendance at Board and committee meetings

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	Mission and Pastoral	Church Buildings (Uses and Disposals)
Number of meetings	**5**	**5**	**3**	**5**	**7**	**3**
Archbishop of Canterbury, Justin Welby	The Archbishop of Canterbury chairs the Annual General Meeting. By arrangement he does not attend meetings of the Board of Governors. The Bishop of London stepped down from his role as the Archbishop's appointed deputy at the end of 2016 and was replaced by the Bishop of Manchester.					
Archbishop of York, John Sentamu	0					
Sir Andreas Whittam Smith, First Church Estates Commissioner	5	5				
Dame Caroline Spelman MP, Second Church Estates Commissioner	4					
Andrew Mackie, Third Church Estates Commissioner	5			4	6	2
Bishop of Chichester, Martin Warner	4			4		
Bishop of Doncaster, Peter Burrows				2		
Bishop of Lincoln, Christopher Lowson	3 of 4				1 of 5	
Bishop of London, Richard Chartres	5					
Bishop of Manchester, David Walker	3	3				
Bishop of Truro, Tim Thornton					2	
Dean of Gloucester, Stephen Lake	3			5		
Dean of Wakefield, Jonathan Greener	3			2	7	
Ven Penny Driver					1	
Revd Mary Bide				5		
Revd Stephen Evans					7	
Revd Amanda Fairclough	5	3				
Revd Simon Talbott						3
Revd Stephen Trott	3					3
Revd Canon Bob Baker	5				7	2
Revd Canon Peter Cavanagh						3

* Those listed in italics are non-Commissioners.

Board/Committee	Board	Assets	Audit and Risk	Bishoprics and Cathedrals	Mission and Pastoral	Church Buildings (Uses and Disposals)
Canon Peter Bruinvels	5	5			7	
Canon Elizabeth Renshaw				4		
Ian Ailles			3			
April Alexander	5		3			3
Poppy Allonby	4	4				
Jeremy Clack	4		3			
Margaret Davies						1
Stephen East			2			
William Featherby QC	3				5 of 6	
Julia Flack					6	
Harry Hart	4	4				
George Lynn			2			
Gavin Oldham	5					
Graham Oldroyd	3	4				
Hywel Rees-Jones	5		3			
Susan Pope					7	
John Steel						3
Jacob Vince	4			4		
Marcia Wall				1 of 2		
Ian Watmore	4					3
Mark Woolley	3	4				
John Wythe	3	4				

* Those listed in italics are non-Commissioners.

People and organisation

The Church Commissioners work with the other National Church Institutions to serve the Church of England and ensure effective use of the Church's money.

The ambitious programme of work under Renewal and Reform seeks to provide a narrative of hope to the Church of England in the 21st Century. A strand of this programme, 'How We Work', is focusing on enabling the delivery of Renewal and Reform through improving how the National Church Institutions ('NCIs') serve and support the mission of the Church of England.

This significant change programme includes three work-streams: improving how we work with dioceses, how the NCIs steward the data, systems and processes that they manage on behalf of the Church, and leadership and cultural change within the NCIs.

In May 2016 the NCIs published a common purpose statement and set of behavioural values. The stated purpose – to support the mission and ministries of the Church – places an emphasis on how we work together within the NCIs, with those who serve in parishes, dioceses, schools and other ministries, and with our partners at a national and international level. Results from the 2016 staff survey show that there is a real sense of shared purpose and understanding of where the NCIs fit in the wider world context.

Improving our leadership capacity is a key area of focus across the NCIs. In 2016 a new network of senior managers – the Senior Leadership Group – was created to bring the NCIs closer together, strategically and operationally. From a cultural standpoint, the Group is also playing a key role in fostering a work environment that values collaboration and communication between departments.

Our people

Half of all staff (50%) have been employed by the NCIs for three years or fewer, and just over three quarters (78%) employed for ten years or fewer. Senior managers (bands 0–2) account for a fifth (20%) of the total workforce of 556 employees. The Church Commissioners employ 16% of the total number of people employed by the NCIs.

The percentage of people who class themselves as black or minority ethnic within the Church Commissioners rose by 0.5%. Across the NCIs, the percentage remained stable at 14.4% – a drop of 0.1% on 2015. The percentage of women in senior roles stood at 38.4%, a fall of 3.1% from 2015. The percentage of people who completed the staff survey in 2016 who classed themselves as having a disability was 6%, compared to 3% in 2015.

To help us reach and attract a greater diversity of candidates that reflect the communities in which we operate, we continue to make changes to our recruitment strategy. This includes placing a greater emphasis on the use of social media sites to advertise vacancies within the NCIs. In 2016 we formed a partnership with Westminster College to create an apprenticeship scheme – part of a wider programme to increase the number of routes into working at the NCIs, including internships, graduate schemes and work placements.

The Church and the NCIs are committed to equal pay and transparency in remuneration matters. We will be reporting our gender pay gap during 2017 in line with new Government legislation.

Staff remuneration and executive pay

The staff who provide support functions to the Commissioners are covered by a unified pay policy that operates across all the NCIs. The policy is designed to ensure the same level of pay for all staff in posts with work of equal value based on eight 'bands'. For certain staff with specialist skills, typically those whose role requires them to hold a professional qualification, a market adjustment may be applied, the value of which is determined by reference to the lower quartile and median of market-related salaries and is subject to annual review. The NCIs retain the services of AON Hewitt to advise on market rates.

Staff pay is reviewed annually and any increases as a result of the annual pay negotiations are awarded with effect from 1 January. The NCIs are committed to a being a Living Wage employer and, for those roles based in London, a London Living Wage employer for directly employed staff. Apprenticeships, interns and those on training schemes are paid the National Minimum Wage. No staff member employed by the Church Commissioners earns less than the London Living Wage.

A number of senior roles, including those of the Chief Executives, sit outside the banding system, as the skill sets required to fulfil the roles are not readily measured within the NCIs' standard job evaluation system. Salaries for these roles are set individually with reference to the wider marketplace, typically comparing to the charity and public sector market. This process is overseen by the Remuneration Committee, comprising senior trustees from each of the main NCIs. In general, these staff can expect the same percentage annual uplift for cost of living.

Asset management staff

Staff engaged directly in the management of the Church Commissioners' investment portfolio are on separate contracts of employment and sit outside the general NCI pay arrangements described above. The Church Commissioners are a large and sophisticated institutional investor investing in a broad range of asset classes, including significant property holdings, and as such seek to attract and retain high calibre investment professionals.

Accordingly, salaries are designed to reflect the market for investment specialists and incorporate an element of Long Term Incentive Payment ('LTIP') which encourages consistent outperformance of the Commissioners' target investment return of RPI plus 5% p.a. over a sustained period of five years.

The level of pay and the value of LTIPs is overseen by a Remuneration Committee, comprising trustees on the Assets Committee supported by independent benchmarking data. The scheme is reviewed for consistency with the executive remuneration policy adopted by the Church's National Investing Bodies on the recommendation of the Ethical Investment Advisory Group.

Amounts payable in relation to the fund performance are spread over three years, and the full amounts are only payable if the recipient remains in post during that time. By this method, the Commissioners ensure incentives are directly aligned with their objectives and are also long-term in nature. In the year to 31 December 2016, ten professional investment staff received LTIPs totalling £1,048,000 based on the long-term performance of the fund. This included £202,000 paid to the highest paid member of staff, the Director of Investments.

The Secretary to the Church Commissioners does not participate in the LTIP scheme.

During 2016 the highest paid member of staff earned 11.5 times the salary (excluding LTIP payments) received by the lowest paid member of staff and 6.8 times the median salary. This is consistent with the recommendations on company remuneration adopted by the National Investing Bodies on the advice of the EIAG in 2013.

Staff pensions

All staff members are eligible to join the Church Administrators Pension Fund – those whose employment commenced before July 2006 accrue pension on a defined benefit basis, and those employed subsequently are part of the defined contribution section with employer contribution rates ranging from 8% to 18% depending on the age of the employee.

Risk management

1. The Church Commissioners' risk management process assists management by facilitating the identification and assessment of significant risks to the achievement of objectives. The process is supported by a risk management policy which outlines the roles and responsibilities of Commissioners, management and staff.
2. The Board of Governors reviews the risk register and risk management arrangements annually. The Board is supported by the Audit and Risk Committee, which regularly reviews the content of the risk registers and seeks assurance over the adequacy of arrangements in place to manage the risks. Operational risks, related to investment operations, are also subject to regular review by the Assets Committee.
3. Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. Risks are prioritised using an agreed scoring methodology and are assessed at an inherent and residual level. The risk management process is facilitated and monitored by the Internal Audit and Risk Management Department. The management of key risks is subject to independent review and assurance through the internal audit process, which reports to the Audit and Risk Committee.

Major risks

The major inherent risks which the Board of Governors considers most significant are:

Principal risk area	Key management actions and plans
Poor long-term market returns (below the level assumed by Church Commissioners' actuaries) impacting on the ability to provide stable and sustainable distributions	– Disciplined evaluation-driven investment process. Supported by high calibre/experienced non-executive members of the Assets Committee. – Significant portfolio diversification strategy and diversification of fund managers managed by a well-resourced internal investment team. – Regular review of overall portfolio asset allocation, performance monitoring and reporting to trustees in the Assets Committee and sub-committees. – Actuarial advice and guidance on distribution capacity. – Forward planning process to identify spending plans and identify potential issues due to investment performance.
Responses to significant increases in support costs and other financial demands impact on the level of distributions	– Review, approval and governance arrangements to control costs. – Ongoing communication with stakeholders to assist the early identification of emerging costs. – Discretion over the allocation of funds to allow the protection of distributions. – Improved intelligence gathering on the financial position of cathedrals and support services.
Loss of Church or societal confidence in the Commissioners' ethical investment policy	– Theologically grounded ethical investment policies by independent Ethical Investment Advisory Group and commitment to the UN Principles for Responsible Investment. – Responsible Investment team which oversees implementation of ethical and responsible investment and leads communication to the Church and wider society. – Robust monitoring arrangements with third parties to review compliance with ethical investment requirements.
The cost and effectiveness of works to ensure the maintenance and delivery of Lambeth Palace and the Library project	– Ongoing and detailed surveys of work required and the commencement of high-priority works. – Ensuring adequate funding is available to undertake works. – Project Board appointed to provide governance for the project. The board meet monthly and can act remotely between meetings. – Plans to ensure that disruption to the work of the Palace is minimised.
IT robustness and security and the effective management of data	– Policies, training and monitoring processes to assist compliance with legal and regulatory requirements. – Improvements to IT infrastructure and IT security have been undertaken and further developments are planned. – IT Governance Group to review the robustness of processes. – Proactively consider the implications and prepare for the EU Data Protection Regulation changes.

Long-term financial strategy

Reserves policy
It is the Commissioners' policy to invest its endowment to provide long-term financing to pay the pre 1998 clergy pension liability and to make charitable distributions to support the mission of the Church of England in perpetuity.

The total endowment fund of the Commissioners as at 31 December 2016 stood at £6.1bn net of the provision for the pre 1998 clergy pension liability of £1.8bn which is due for payment in future years.

Under the terms of the Total Return Order obtained from the Charity Commission in 2012, the Church Commissioners account and report returns (whether capital or income) and charitable expenditure on a total return basis. The level of unapplied total return at the end of 2016 was £3.4bn (2015: £2.5bn), and the trustees consider this to be sufficient, in light of their distribution policy, to meet their expenditure plans without a general reserve being necessary.

In addition to being able to spend unapplied total return, the Commissioners have a time-limited power, currently extended to December 2025, to spend capital on its clergy pension obligations.

Distribution policy
In determining the level of unapplied total return that is distributed each year, the trustees are required to have regard to advice from independent actuaries. This process is described more fully on page 22.

Following the actuaries' most recent full review of the fund as at the end of 2015, we informed beneficiaries of our plan to make ongoing non-pensions distributions totalling up to £318.1m during the 2017–2019 triennium, together with time-limited distributions of up to £97.7m – mainly to fund additional transitional grants to dioceses and projects on Lambeth Palace and Lambeth Palace Library. An update of the valuation work as at the end of 2016 concluded that the 2017–2019 plans continued to be affordable.

Transparent governance
The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the charity and of the incoming resources and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity and group's transactions and disclose with reasonable accuracy at any time the financial position of the charity and the group and enable them to ensure that the financial statements comply in all material respects with the Charities Act 2011, and the Charity (Accounts and Reports) Regulations 2008.

The trustees are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The trustees are responsible for the maintenance and integrity of the organisational and financial information included on the Commissioners' section of the Church of England website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

The Church Commissioners are committed to transparency and good governance in our ongoing support for the Church of England.

Our ongoing responsibilities:

- Providing funds to support mission activities
- Supporting dioceses with fewer resources with their ministry costs
- Paying for bishops' ministry and some cathedral costs
- Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings
- Running the national payroll for serving and retired clergy
- Paying clergy pensions for service prior to 1998

Above: Suzette Maguire (right), pioneer minister on the new estates of Great Denham and West Kempston, Bedford, supported by Funding for Mission in New Housing and Other Development Areas.

Chief Financial Officer

Throughout 2016 the finance team has continued to support the Church Commissioners in their broader intention to fund the Renewal and Reform programme. We have continued to focus on Strategic Development Funding, and the importance of measuring results in order to ensure we are making the right decisions to support growth in the Church.

One area that the finance team has been particularly active in has been in working with dioceses to identify where funding is creating the right results, or not, and allocating funding to where it is most needed and can have the greatest impact. This has involved focussing on better measurement tools and financial intelligence so we can make improved decisions about what is working well to ensure long-term growth.

The results for the year show positive growth in income and net investable assets, ahead of our own and industry benchmarks. This year's annual report also shows how our expenditure supports the public benefit and achieves our charitable objectives. The Church Commissioners play an integral role in not only running the national clergy payroll and paying clergy pensions, but also providing funds to support bishops' ministry, cathedral costs and other mission activities.

The accounts however include a significant change in the way the Church Commissioners present their liability for paying clergy pensions for service prior to 1998. This liability has been brought onto the balance sheet for the first time – previously it had been treated in the same way a pension fund would treat such a liability and disclosed in a note to the accounts. This accounting adjustment does not alter the Commissioners' long-term distribution plans.

This presentational change has been made recognising that the requirement to fund pensions is now a less significant part of the Commissioners' broader charitable activities.

At the end of 2016 the liability is estimated by independent actuaries at £1.8bn. With £7.9bn of investable assets this results in a value of the fund (net of the pension provision) of £6.1bn. In order to reflect this change the Commissioners have also restated balance sheet values for 2014 and 2015.

Ian Theodoreson
Chief Financial Officer

"The results for the year show positive growth in income and net investable assets, ahead of our own and industry benchmarks.

Independent Auditor's Report
To the Church Commissioners for England

We have audited the financial statements of The Church Commissioners for England for the year ended 31 December 2016 which comprise the consolidated and Commissioners statements of financial activities, the consolidated and Commissioners balance sheets, the consolidated cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the charity's trustees, as a body, in accordance with Section 154 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Trustees' Responsibilities Statement set out on page 41, the trustees are responsible for the preparation of the financial statements which give a true and fair view. We have been appointed as auditor under section 151 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the group's and parent charity's affairs as at 31 December 2016 and of the group's and parent charity's incoming resources and application of resources, including its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:
- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- the parent charity has not kept sufficient accounting records; or
- the parent charity's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 15 May 2017

Grant Thornton UK LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Consolidated statement of financial activities

For the year ended 31 December 2016

	Notes	2016 General fund £m	2016 Endowment £m	2016 Total £m	2015 (restated) General fund £m	2015 (restated) Endowment £m	2015 (restated) Total £m
Income from:							
Investments	2(b)	**–**	**150.0**	**150.0**	–	138.8	138.8
Other		**2.1**	**2.6**	**4.7**	2.5	2.1	4.6
Transfer to income	17	**107.0**	**(107.0)**	**–**	93.6	(93.6)	–
Total income		**109.1**	**45.6**	**154.7**	96.1	47.3	143.4
Expenditure on:							
Raising funds	2(c)	**–**	**(71.0)**	**(71.0)**	–	(52.2)	(52.2)
Charitable activities	3	**(109.1)**	**(206.4)**	**(315.5)**	(96.1)	(44.2)	(140.3)
Total expenditure		**(109.1)**	**(277.4)**	**(386.5)**	(96.1)	(96.4)	(192.5)
Total net expenditure before investment gains		**–**	**(231.8)**	**(231.8)**	–	(49.1)	(49.1)
Gains on investment assets	2(a)	**–**	**1,076.1**	**1,076.1**	–	429.0	429.0
Gains on investment current assets		**–**	**1.2**	**1.2**	–	1.1	1.1
Losses on derivative financial instruments		**–**	**(80.1)**	**(80.1)**	–	(14.4)	(14.4)
Gains on foreign currency		**–**	**61.3**	**61.3**	–	7.8	7.8
Total net income before taxation		**–**	**826.7**	**826.7**	–	374.4	374.4
Taxation	10	**–**	**(0.4)**	**(0.4)**	–	(5.5)	(5.5)
Total net income after taxation		**–**	**826.3**	**826.3**	–	368.9	368.9
Other recognised gains and losses							
Actuarial gains/(losses) on defined benefit pension schemes (staff pre 2000)	16(b)	**–**	**(21.4)**	**(21.4)**	–	11.1	11.1
Total other recognised gains and losses		**–**	**(21.4)**	**(21.4)**	–	11.1	11.1
Net movement in funds		**–**	**804.9**	**804.9**	–	380.0	380.0
Reconciliation of funds:							
Total funds brought forward (restated)		**–**	**5,294.5**	**5,294.5**		4,914.5	4,914.5
Total funds carried forward		**–**	**6,099.4**	**6,099.4**	–	5,294.5	5,294.5

The income, expenditure and other recognised gains and losses all relate to continuing operations, none of which were acquired during the year.

Changes to the opening funds as at 1 January 2015 and 1 January 2016 resulting from a prior year adjustment are shown in the table below:

	General fund £m	Endowment £m	**Total £m**
Total funds brought forward at 31 December 2014 (as previously stated)	–	6,703.1	**6,703.1**
Recognition of clergy pension provision (note 15)	–	(1,788.6)	**(1,788.6)**
Total funds brought forward at 31 December 2014 (restated)	–	4,914.5	**4,914.5**
Total funds brought forward at 31 December 2015 (as previously stated)	–	7,004.7	**7,004.7**
Recognition of clergy pension provision (note 15)	–	(1,710.2)	**(1,710.2)**
Total funds brought forward at 31 December 2015 (restated)	–	5,294.5	**5,294.5**

Commissioners' statement of financial activities

For the year ended 31 December 2016

		2016			2015 (restated)		
	Notes	General fund £m	Endowment £m	Total £m	General fund £m	Endowment £m	Total £m
Income from:							
Investments		**0.1**	**179.4**	**179.5**	–	147.1	147.1
Other		**2.0**	**2.6**	**4.6**	2.5	2.1	4.6
Transfer to income	17	**107.0**	**(107.0)**	**–**	93.6	(93.6)	–
Total income		**109.1**	**75.0**	**184.1**	96.1	55.6	151.7
Expenditure on:							
Raising funds		**–**	**(53.4)**	**(53.4)**	–	(48.7)	(48.7)
Charitable activities	3	**(109.1)**	**(206.4)**	**(315.5)**	(96.1)	(44.2)	(140.3)
Total expenditure		**(109.1)**	**(259.8)**	**(368.9)**	(96.1)	(92.9)	(189.0)
Total net expenditure before investment gains		**–**	**(184.8)**	**(184.8)**	–	(37.3)	(37.3)
Gains on investment assets	2(a)	**–**	**1,040.4**	**1,040.4**	–	415.5	415.5
Gains on investment current assets		**–**	**1.2**	**1.2**	–	1.0	1.0
Losses on derivative financial instruments		**–**	**(80.1)**	**(80.1)**	–	(14.4)	(14.4)
Gains on foreign currency		**–**	**49.7**	**49.7**	–	4.1	4.1
Total net income before taxation		**–**	**826.4**	**826.4**	–	368.9	368.9
Taxation		**–**	**(0.1)**	**(0.1)**	–	–	–
Total net income after taxation		**–**	**826.3**	**826.3**	–	368.9	368.9
Other recognised gains and losses							
Actuarial gains/(losses) on defined benefit pension schemes (staff pre 2000)	16(b)	**–**	**(21.4)**	**(21.4)**	–	11.1	11.1
Total other recognised gains and losses		**–**	**(21.4)**	**(21.4)**	–	11.1	11.1
Net movement in funds		**–**	**804.9**	**804.9**	–	380.0	380.0
Reconciliation of funds:							
Total funds brought forward (restated)			**5,294.5**	**5,294.5**		4,914.5	4,914.5
Total funds carried forward		**–**	**6,099.4**	**6,099.4**	–	5,294.5	5,294.5

The income, expenditure and other recognised gains and losses all relate to continuing operations, none of which were acquired during the year.

Changes to the opening funds as at 1 January 2015 and 1 January 2016 resulting from a prior year adjustment are shown in the table below:

	General fund £m	Endowment £m	**Total £m**
Total funds brought forward at 31 December 2014 (as previously stated)	–	6,703.1	**6,703.1**
Recognition of clergy pension provision (note 15)	–	(1,788.6)	**(1,788.6)**
Total funds brought forward at 31 December 2014 (restated)	–	4,914.5	**4,914.5**
Total funds brought forward at 31 December 2015 (as previously stated)	–	7,004.7	**7,004.7**
Recognition of clergy pension provision (note 15)	–	(1,710.2)	**(1,710.2)**
Total funds brought forward at 31 December 2015 (restated)	–	5,294.5	**5,294.5**

Balance sheets

As at 31 December 2016

	Notes	Consolidated 2016 £m	Consolidated 2015 (restated) £m	Commissioners 2016 £m	Commissioners 2015 (restated) £m
Fixed assets					
Tangible assets	11	**93.1**	95.7	**93.1**	95.7
Heritage assets	12	**3.4**	3.4	**3.4**	3.4
Investments	2	**7,173.6**	6,330.4	**6,838.6**	6,067.4
Total fixed assets		**7,270.1**	6,429.5	**6,935.1**	6,166.5
Current assets					
Debtors	13	**112.3**	42.2	**448.7**	317.4
Current asset investments		**314.6**	353.6	**314.6**	353.6
Cash at bank and in hand		**440.7**	391.6	**437.9**	389.1
Total current assets		**867.6**	787.4	**1,201.2**	1,060.1
Liabilities					
Creditors: amounts falling due within one year	14	**(210.3)**	(197.7)	**(208.9)**	(207.4)
Net current assets		**657.3**	589.7	**992.3**	852.7
Total assets less current liabilities		**7,927.4**	7,019.2	**7,927.4**	7,019.2
Provisions falling due after more than one year	15	**(1,673.2)**	(1,588.6)	**(1,673.2)**	(1,588.6)
Net assets excluding staff pension liability		**6,254.2**	5,430.6	**6,254.2**	5,430.6
Pension liability (staff pre 2000)	16(b)	**(133.3)**	(113.1)	**(133.3)**	(113.1)
Provision for pension deficit liability (clergy post 1997)	16(a)	**(7.8)**	(8.9)	**(7.8)**	(8.9)
Provision for pension deficit liability (staff post 1999)	16(c)	**(13.7)**	(14.1)	**(13.7)**	(14.1)
Total net assets		**6,099.4**	5,294.5	**6,099.4**	5,294.5
Funds of the charity					
Endowment funds		**6,254.2**	5,430.6	**6,254.2**	5,430.6
Pension reserves	16	**(133.3)**	(113.1)	**(133.3)**	(113.1)
Pension deficit reserves	16	**(21.5)**	(23.0)	**(21.5)**	(23.0)
Total charity funds	17	**6,099.4**	5,294.5	**6,099.4**	5,294.5

The changes to the consolidated and Commissioners net assets as at 31 December 2014 and 31 December 2015 resulting from the change in accounting policy to recognise the pre 1997 clergy pension obligation is shown in the table below.

	£m
Net assets at 31 December 2014 as previously reported	6,703.1
Recognition of clergy pension provision (note 15)	(1,788.6)
Net assets at 31 December 2014 (restated)	**4,914.5**
Net assets at 31 December 2015 as previously reported	7,004.7
Recognition of clergy pension provision (note 15)	(1,710.2)
Net assets at 31 December 2015 (restated)	**5,294.5**

By order of the Board

Andreas Whittam Smith

Sir Andreas Whittam Smith
First Church Estates Commissioner

Consolidated cash flow statement

For the year ended 31 December 2016

Reconciliation of net income to net cash inflow from operating activities

	Notes	2016 £m	2015 £m
Net income for the reporting period		**826.3**	368.9
Adjustments for:			
Depreciation of tangible assets	11	**0.4**	0.4
Expenditure on raising funds paid from endowment capital	2	**71.0**	52.2
Expenditure on charitable activities paid from endowment capital	3	**121.6**	122.9
Income from investments	2	**(150.0)**	(138.8)
Less			
(Gains) on investments	2	**(1,076.1)**	(429.0)
(Gains) on foreign currency		**(61.3)**	(7.8)
Add			
Movement in debtors	13	**(70.1)**	2.4
Movement in current asset investments		**39.0**	(147.9)
Movement in creditors	14	**12.6**	16.3
Movement in provision	15	**84.6**	(78.4)
Movement on pension deficit provision clergy post 1997	16	**(1.1)**	(0.6)
Movement on pension provision staff pre 2000	16	**(1.2)**	(1.6)
Movement on pension deficit provision staff post 1999	16	**(0.4)**	(3.1)
Net cash provided by operating activities		**(204.7)**	(244.6)

Statement of cash flows

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Net cash provided by operating activities		**(204.7)**	(244.6)
Cash flows from investing activities			
Income from investments	2	**150.0**	138.8
Expenditure on raising funds paid from endowment capital	2	**(71.0)**	(52.2)
Tangible assets: additions	11	**(0.1)**	(0.2)
Tangible assets: sale proceeds	11	**2.3**	1.9
Investments: additions	2(a)	**(1,820.4)**	(1,078.0)
Investments: sale proceeds	2(a)	**2,053.3**	1,445.0
Net cash provided by investing activities		**314.1**	455.3
Cash flows from financing activities			
Charitable expenditure paid from endowment capital	3,15	**(121.6)**	(122.4)
Net cash provided by financing activities		**(121.6)**	(122.4)
Change in cash and cash equivalents in the reporting period		**(12.2)**	88.3
Cash at the start of the reporting period		**391.6**	295.5
Change in cash due to exchange rate movements		**61.3**	7.8
Cash at the end of the reporting period		**440.7**	391.6

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting policies
(a) Legal status
The Church Commissioners for England ("the Commissioners") are a statutory body established by the Church Commissioners Measure 1947 (as amended) and have been regulated by the Charity Commission since registration on 27 January 2011.

(b) Basis of preparation
The consolidated and charity financial information has been prepared in accordance with:
- Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102");
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) ("the SORP"); and
- the Charities Act 2011.

The Commissioners meet the definition of a Public Benefit Entity ("PBE") as set out in FRS 100, and therefore apply the PBE prefixed paragraphs in FRS 102.

The financial information has been prepared on the historical cost basis (except for the revaluation of investments) and on the accruals basis.

A summary of the accounting policies, which have been applied consistently across the group, is set out below.

The Commissioners adopt a total return approach to investments. Note 17 explains how the unapplied total return and the use thereof is calculated.

(c) Prior year adjustment
Under the Pensions Measure 1997 the Commissioners have an obligation to meet the costs of clergy pensions for service up to 31 December 1997. In prior years the Commissioners disclosed this liability in a note to the accounts, however, the liability was not recognised on the balance sheet, as the Commissioners were following accounting guidance for pension schemes (who are not required to recognise such liabilities). This judgement was made due to the significance of pension activities to the Commissioners as a whole. In 2016 this judgement was reviewed and, in light of the Commissioners' broader charitable activities, management determined that a provision for the pension liability should be recognised in the financial statements through a prior period adjustment.

The provision is based on the actuarial valuation carried out by Hymans Robertson LLP. Further details about the provision and the prior year adjustment are included in note 15.

(d) Significant judgements and estimates
The key areas of uncertainty in our estimations, which have a significant effect on the amounts recognised in the financial statements, are described in the accounting policies and are summarised below:
- Clergy pension liability – the estimations surrounding the pre 1998 Clergy pensions liability. Further details are disclosed in note 15
- Pension deficit liabilities – the estimations surrounding the recognition of the Commissioners' defined benefit pension deficit liabilities. Further details are disclosed in note 16.
- Carrying value of investment assets and tangible fixed assets – the judgements around appropriate valuation methods used for the assets of the Commissioners'. Further details are disclosed in note 2.

(e) Going concern
After considering the Commissioners' role in funding the Church's ministry (described on pages 10-19 of the annual report), spending strategy, application of total return, and the legislation to allow endowment to be spent for specific pensions purposes, the trustees have reasonable expectation that the Commissioners have adequate resources and cash flows to meet their spending commitments for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

(f) Basis of consolidation and subsidiary undertakings
The consolidated statement of financial activities ("SOFA") and balance sheet include the financial statements of the Commissioners and all their subsidiary undertakings made up to 31 December each year. The subsidiaries have been consolidated on a line by line basis in accordance with Section 9 of FRS 102. Intra-group transactions are eliminated on consolidation.

Further details about the Commissioners' significant subsidiaries are given in note 2(e).

Notes to the financial statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

(f) Basis of consolidation and subsidiary undertakings (continued)

The Commissioners, together with the Archbishops' Council and the Church of England Pensions Board are equal partners in Church of England Central Services ("ChECS"), a joint venture. Further details are given in note 2(f). This jointly controlled entity is included in the Commissioners' consolidated financial statements using the equity method. The Commissioners' share of profits or losses from ChECS is included in the SOFA and its share of net assets is included in the balance sheet.

The Commissioners have a number of joint ventures that are held as part of their investment portfolio (for investment purposes). These jointly controlled entities are held at fair value. Changes in fair value are recognised in the consolidated SOFA. More detail is shown in note 2(d).

(g) Income

Securities portfolio

Income is recognised on the accruals basis. Dividends and interest, including any recoverable tax, are credited to income on the ex-dividend date of the underlying holdings.

Other investment income

Income from investment properties, property funds, value linked loans, directly held timberland, timberland funds and infrastructure funds is recognised on the accruals basis.

Value Linked Loans

In line with FRS 102, income on the Value Linked Loans is recognised through the movement in fair value.

Other Loans

Interest on loans is recognised on the accruals basis.

Legacies and donations

All income is recognised when the Commissioners are legally entitled to the income and the amount can be quantified with reasonable accuracy. Pecuniary legacies are recognised as receivable once probate has been granted and notification has been received. Residuary legacies are recognised as receivable once probate has been granted where sufficient information has been received, on an estimated basis as follows: cash elements are recognised at monetary value, with property and other assets, including investments, valued at probate or net realisable value. Values are reviewed and adjusted up to the point of accounts approval.

Items donated to the Commissioners for Lambeth Palace Library are recognised at the market value of the gift at the time of donation.

(h) Expenditure

The SOFA has been presented on an activity basis. Costs have been distinguished between charitable activities and those incurred to raise funds.

Expenditure and liabilities are recognised when a legal or constructive obligation exists as outlined in Section 7 of FRS 102.

The Commissioners' charitable activities are described in note 3. Direct costs and grants are allocated directly to activities and are described in more detail in notes 4 and 5. Grants are recognised when a firm commitment to provide funding is made and there is evidence of a constructive obligation to the beneficiary. Support costs are apportioned directly to the activity which they relate (as shown in note 6).

Cars for the use of bishops are normally obtained under four year leases, the full cost of which is paid at commencement. The cost of such leases is spread on a straight line basis over the period of the lease. The balance of the lease payments not yet charged to expenditure is included in prepayments.

(i) Provisions

The liability for the pre-1998 clergy pension obligation is recognised at the actuarial valuation provided by Hymans Robertson LLP. This is the best estimate of the total value of future discounted cash flows. The assumptions and methodology behind the cash flow projections are disclosed in note 15.

(j) Pensions
Pensions are described in note 16.

Defined benefit schemes of which the Commissioners are an employer or a 'responsible body' are considered to be multi-employer schemes as described in FRS 102 paragraph 28.11 and consequently are accounted for as if they were defined contribution schemes, where employer contributions payable in the year are charged to expenditure.

Where schemes have deficit recovery contribution plans in place, FRS 102 paragraph 28.11A requires the present value of these agreed payments to be recognised as a liability. Amounts paid during the year are charged against this liability.

(k) Fixed assets: tangible assets
Gains (or losses) resulting from the sale of fixed assets are recognised as income (or expenditure for losses) in endowment capital.

Costs incurred on acquiring, improving or adding to assets are capitalised. Repair and maintenance costs are charged to the SOFA in the period they are incurred.

Depreciation is charged on a straight line basis over the estimated useful life of the asset, calculated on the opening balance sheet value, on the following fixed assets:

Fixed asset	Estimated useful life
Leasehold office improvements	10 years
IT systems	5 years

No depreciation is charged on see houses and their historic content due to the anticipated high residual value, which would result in immaterial depreciation for each asset and in aggregate.

An impairment review is carried out annually and where the recoverable amount is materially less than the historic cost, the assets are impaired to the lower amount.

Operational see house properties are not revalued under FRS 102 and are recognised at their deemed cost at the date of transition.

Costs associated with the Lambeth Palace Library Project will be capitalised and subject to impairment review once planning permission has been granted.

(l) Fixed assets: Heritage assets
The Commissioners own a number of assets that they consider to be heritage assets, which are held on an ongoing basis for their contribution to knowledge and culture, in particular relating to the history of the wider Church of England. The Commissioners' heritage assets have been grouped together in the following categories:

Lambeth Palace
Lambeth Palace is recognised at its deemed historic cost of £1. The Commissioners have chosen to recognise this class of heritage asset at cost, as allowable under Section 18 of FRS 102. They have chosen to adopt this policy as whilst it is believed that the market value, both at the time of acquisition and at the balance sheet date, was significantly in excess of the deemed cost, it is not possible to obtain a reliable estimate of the market value at either date, as conventional valuation techniques are inappropriate for the unique and historical nature of the building.

Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Maintenance costs are charged to the SOFA in the period they are incurred.

Historic contents of Lambeth Palace
Historic items are recognised at cost. On transition to FRS 102, the Commissioners re-based the deemed cost of these assets to their carrying value at 31 December 2013, based on the value attributed to them in a valuation carried out in 2007.

Any additional items purchased or donated are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred. The collection is reviewed for impairment at each accounting date.

Notes to the financial statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

(l) Fixed assets: Heritage assets (continued)

Contents of Lambeth Palace Library

The trustees consider that the vast majority of items in the library would be difficult, if not impossible, to value. The library contains a number of historical books and records with no obvious market value and no comparable sale records to use as the basis for valuation. As a result, no value is reported for these assets in the charity's balance sheet.

The exception is for books, manuscripts and other items purchased or donated since 1 January 2015, which are capitalised if the cost is greater than £1,000. Items in the collection that are capitalised are stated at cost but are not depreciated as the amount of depreciation is regarded as immaterial due to their anticipated high residual value. The collection is reviewed for impairment at each accounting date.

Historic contents of former see houses

Historic items, including the Hurd Library which is on loan to the Hartlebury Castle Preservation Trust, are recognised at cost. On transition to FRS 102, the Commissioners re-based the deemed cost of these assets to their carrying value at 31 December 2013, based on the value attributed to them in a valuation carried out in 2007.

Any additional items purchased or donated since 1 January 2015 are capitalised if the cost is greater than £1,000. Maintenance costs are charged to the SOFA in the period they are incurred. The collection is reviewed for impairment at each accounting date.

(m) Fixed assets: Investments

Properties

In accordance with Section 16 of FRS 102, investment properties are recognised at cost upon acquisition and then recognised at fair value at each balance sheet date. Changes in fair value are recognised in the SOFA. Fair value is determined through reference to each property's market value in accordance with the Appraisal & Valuation Manual issued by the Royal Institution of Chartered Surveyors ("RICS").

(n) Financial instruments

The Commissioners have chosen to adopt sections 11 and 12 of FRS 102 in respect of recognition and measurement of financial instruments.

Basic financial instruments

Basic financial assets, including **cash at bank** and **trade and other receivables** are recognised and held at transaction price. They are de-recognised when the rights to the cash flows from the financial assets expire or are settled.

Listed and unlisted investments are initially measured at fair value. Such assets are subsequently held at fair value at each balance sheet date. The changes in fair value are recognised in the SOFA. The fair value of listed investments is determined using bid price in accordance with the practice of the appropriate stock exchange. Unlisted investments are valued by reference to latest dealing prices, valuations from reliable sources or net asset values.

Basic financial liabilities, including **trade and other payables** and **intra-group balances** are initially recognised at transaction price. Bank loans are subsequently measured at the amortised cost, using the effective interest rate.

Financial liabilities are de-recognised, when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Non-basic financial instruments

All non-basic financial instruments, including instruments used for hedging, are measured at fair value. Any changes to fair value are recognised in the SOFA.

Value linked loans are valued annually at portfolio level taking into account indexed values of the properties, estimated future house prices growth and income flows and the anticipated dates of repayment.

Property funds and **subsidiary undertakings**: annually valued at the Commissioners' share of the underlying net assets. Underlying assets are valued on the same bases as those held directly, that is in line with International Valuation Standards ("IVS"), on a rolling three year programme or more frequently.

Timberland (including biological assets): timberland is valued externally at least every three years at market value in line with IVS, which is calculated on the timber maturity profile, the species, the geographic location and other environmental considerations. In intermediate years it is valued by in-house professionals at brought forward market value adjusted for capitalised expenditure and decreases caused by harvesting during the year. Changes in fair value in the year resulting from both net growth and change in the market value of standing timber are reported in the gains and losses on investments in the SOFA. At point of harvesting, the carrying value of forestry assets is valued at fair value less estimated point-of-sale costs. The revenue from the sale of standing timber is recognised as income.

Indirect timberland: annually valued at the Commissioners' share of the underlying net assets.

Infrastructure: annually valued at the Commissioners' share of the underlying net assets.

All changes in fair value and gains or losses on disposal of investment assets, including related foreign currency transactions, are shown in other gains and losses in endowment capital in the SOFA.

Stock lending programme

The Commissioners' global custodian is authorised to enter into stock lending arrangements, whereby securities are loaned to external counterparties for a set period of time. The Commissioners receive cash collateral of greater value than the securities loaned from each counterparty for the duration of the loan period.

Interest is received on the reinvestment of the cash collateral held and is disclosed in note 2.

Where securities are loaned at the balance sheet date, the securities loaned are included in the balance sheet as the Commissioners retain the risks and rewards of ownership of the securities and also retain the contractual rights to any cash flows relating to the securities. The value of the securities on loan at the balance sheet date is disclosed in note 2.

Derivatives

The Commissioners use forward foreign currency and option contracts as part of their investment portfolio risk management, to reduce the impact of changes in foreign currency exchange rates in relation to their investment in overseas securities, property funds, timberland and infrastructure funds. In accordance with their investment policy, forward foreign currency, option contracts and any other derivatives are not entered into for investment gain or trading purposes.

Contracts relating to hedged assets outstanding at the balance sheet date are stated at fair value at the forward contract rate. Fair value is obtained using a pricing model where inputs are based on market data at the balance sheet date. Realised and unrealised gains and losses arising from these contracts are charged to endowment capital in the SOFA. The unrealised gain on forward currency contracts is included as a debtor, and the unrealised losses as a creditor on the balance sheet.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate.

Profits and losses on sales of overseas investments are translated at the rate ruling on the date of the transaction. Unrealised gains and losses on overseas investments arising on translation are included in the net gains and losses on realisation and on revaluation in endowment capital in other gains and losses in the SOFA.

Income received in foreign currencies is converted into sterling and recorded at the rate ruling on the date of the conversion. If retained in foreign currencies, amounts are translated at the rate ruling on the date of the transaction. Subsequent gains or losses on conversion into sterling are included in other gains and losses in the SOFA.

Current investment assets

Current investment assets are investments in treasury bills which have maturity periods of less than one year. They are held for investment purposes rather than to meet short term cash commitments as they fall due.

Cash

Cash at bank and in hand is held to meet short-term cash commitments as they fall due rather than for investment purposes and includes all cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will have a short maturity of three months or less from the date of acquisition.

Notes to the financial statements continued

For the year ended 31 December 2016

1. Accounting policies (continued)

(o) Taxation

The Commissioners, as a registered charity, are exempt from taxation on their income and gains falling within Part 11 of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that they are applied to their charitable purposes.

The Commissioners' subsidiary undertakings are non-charitable subsidiaries and are subject to taxation, but do not generally pay UK Corporation Tax because their policy is to pay taxable profits as Gift Aid to the Commissioners. Foreign tax incurred by subsidiaries operating overseas is charged as it is incurred.

Deferred taxation is recognised in the Commissioners' subsidiary undertakings on timing differences that have arisen between the recognition of gains and losses in the Financial Statements and recognition in the tax computation. A deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable tax profits from which future reversals can be deducted. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to be reversed.

In common with many other charities, the Commissioners are unable to recover the majority of Value Added Tax ("VAT") incurred on expenditure. The amount of VAT that cannot be recovered is included within the underlying cost to which it relates.

(p) Related parties

The Church of England is governed by a large number of legally independent bodies in its parishes, cathedrals and dioceses as well as at national level. These bodies are not related parties as defined in the Charities SORP or FRS 102. Transactions and balances with these bodies are accounted for in the same way as other transactions and, where material, are separately identified in the notes to the financial statements.

The Commissioners are related to ChECS, as they are a partner in this joint venture. Details are given in note 2(f). The Commissioners are also related to the following pension funds, administered by the Church of England Pensions Board: Church of England Funded Pensions Scheme; Church Administrators Pension Fund; and Church Workers Pension Fund. Details about the pension funds, including contributions paid, are given in notes 3, 9 and 16.

2. Investments

(a) Summary of movement on investments

Consolidated

	At 1 January £m	Net additions £m	Sale proceeds £m	Change in market value £m	Harvesting £m	**At 31 December £m**
Securities portfolio	4,090.6	1,749.0	(1,906.2)	838.7	–	**4,772.1**
Properties	1,562.7	27.6	(65.6)	142.9	–	**1,667.6**
Indirect property	240.5	11.5	(66.3)	30.1	–	**215.8**
Value linked loans*	118.5	0.3	(14.4)	9.1	–	**113.5**
Timberland**	256.3	22.4	(0.8)	47.5	(8.6)	**316.8**
Indirect timberland	52.9	–	–	9.7	–	**62.6**
Infrastructure	8.9	9.6	–	6.7	–	**25.2**
Total	6,330.4	1,820.4	(2,053.3)	1,084.7	(8.6)	**7,173.6**

Commissioners

	At 1 January £m	Net additions £m	Sale proceeds £m	Change in market value £m	Harvesting £m	**At 31 December £m**
Securities portfolio	3,964.7	1,624.4	(1,826.0)	803.9	–	**4,567.0**
Properties	1,455.3	27.1	(60.5)	130.6	–	**1,552.5**
Indirect property	195.1	1.2	(29.3)	28.0	–	**195.0**
Value linked loans*	118.5	0.3	(14.4)	9.1	–	**113.5**
Timberland**	113.2	2.3	–	10.9	(4.1)	**122.3**
Indirect timberland	–	–	–	–	–	**–**
Infrastructure	–	–	–	–	–	**–**
Subsidiaries	220.6	5.7	–	62.0	–	**288.3**
Total	6,067.4	1,661.0	(1,930.2)	1,044.5	(4.1)	**6,838.6**

* Includes income received on Value Linked Loans – see note 2(b)

** Timberland includes biological assets, which are described in more detail in following pages.

FRS 102 requires investments values to be shown for the charity as well as consolidated. There is no similar requirement for income and expenditure.

Future commitments are disclosed in note 18.

The significance of financial instruments to the on-going financial sustainability of the Commissioners is considered in the Financial Review and Investment Policy and Performance section of the Report of the Commissioners.

The Commissioners use forward foreign currency and option contracts as part of their investment portfolio risk management, to reduce the impact of changes in foreign currency exchange rates in relation to their investment in overseas securities, property funds, timberland and infrastructure funds. In accordance with their investment policy, forward foreign currency, option contracts and any other derivatives are not entered into for investment gain or trading purposes. Forward contracts are also used by some fund managers to manage the risk of not achieving overall performance benchmarks.

Open derivative financial instruments at the balance sheet date are included at fair value in debtors or creditors, depending on their mark to market position, and not within investment assets.

The net loss from operating the hedging programme was £11.2m (2015: surplus of £0.8m), after deducting fees of £1.2m (2015: £1.3m).

Notes to the financial statements continued

For the year ended 31 December 2016

2. Investments (continued)

(a) Summary of movement on investments (continued)

Securities portfolio

The securities portfolio consists of listed public equities, private equity investments in unlisted companies, multi asset funds, fixed income bonds, emerging market debt and private credit.

The market value of listed investments includes stock on loan of £62.0m (2015: £130.9m).

Unlisted UK equities include £0.2m invested in shares in Churches Mutual Credit Union, which is a mixed motive investment, as defined in section 21 of the SORP.

Net additions and sale proceeds during the year exclude the purchase and sale of foreign currency for the purposes of conversion and currency hedging.

Investment properties

All directly owned properties are located in the United Kingdom. The portfolio consists of rural and strategic land, residential and commercial properties. Rural land also includes mineral interests.

Indirect property

Indirect property is minority investments by the Commissioners and its subsidiaries in property partnerships, where the partnership is managed by a third party and the Commissioners receive distributions from the partnerships.

Value linked loans

Value linked loans are granted for the purchase of residential properties. On disposal of the property, the Commissioners are entitled to a share of the proceeds corresponding to the proportion of the original purchase price which was financed by the loan.

Timberland

Timberland includes land, its standing timber and other assets. Standing timber meets the definition of biological assets, as described in FRS 102. Section 34.7 of FRS 102 requires biological assets to be disclosed separately:

	Consolidated		Commissioners	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Land and other assets	**76.0**	65.7	**30.1**	28.9
Biological assets – standing timber	**240.8**	190.6	**92.2**	84.3
Total timberland	**316.8**	256.3	**122.3**	113.2

Indirect timberland

Indirect timberland is the Commissioners and its subsidiaries' investments in timberland partnerships or joint ventures, which are managed by a third party and where distributions are received from the partnerships and joint venture managers.

Infrastructure

Infrastructure is an alternative investment class, where the Commissioners' subsidiaries hold a minority interest in a partnership investing in infrastructure projects.

(b) Detail of investments and investment income

	Fair value				Investment income	
	Consolidated		Commissioners		Consolidated	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Securities portfolio						
Listed UK equities	**822.7**	915.9	**822.7**	915.9	**28.1**	29.4
Listed overseas equities	**1,733.5**	1,736.8	**1,733.5**	1,736.8	**35.2**	31.4
Unlisted UK equities	**375.0**	367.7	**370.0**	366.5	**11.3**	3.7
Unlisted overseas equities	**1,311.3**	966.8	**1,111.2**	842.1	**8.1**	9.0
Listed UK fixed interest securities	**174.2**	30.3	**174.2**	30.3	**1.0**	2.2
Listed overseas fixed interest securities	**351.8**	73.1	**351.8**	73.1	**4.1**	1.2
Unlisted overseas fixed interest securities	**3.6**	–	**3.6**	–	**–**	–
Interest on cash and stock lending income	**–**	–	**–**	–	**2.7**	2.2
Total securities	**4,772.1**	4,090.6	**4,567.0**	3,964.7	**90.5**	79.1
Investment properties						
Freehold interests	**1,661.2**	1,557.2	**1,546.1**	1,449.9	**39.7**	40.8
Leasehold properties with more than 50 years to run	**6.4**	5.5	**6.4**	5.4	**0.1**	0.4
Total investment properties	**1,667.6**	1,562.7	**1,552.5**	1,455.3	**39.8**	41.2
Indirect property						
Shared interests	**–**	–	**–**	–	**–**	–
Unquoted UK funds	**61.9**	85.2	**41.9**	44.1	**4.3**	7.0
Unquoted overseas funds	**153.9**	155.3	**153.1**	151.0	**1.1**	1.4
Quoted overseas funds	**–**	–	**–**	–	**–**	–
Total property funds	**215.8**	240.5	**195.0**	195.1	**5.4**	8.4
Value linked loans						
To provide and improve Church property and for other purposes	**30.3**	32.4	**30.3**	32.4	**1.0**	1.0
To Church of England Pensions Board	**83.2**	86.1	**83.2**	86.1	**2.7**	3.6
Total value linked loans	**113.5**	118.5	**113.5**	118.5	**3.7**	4.6
Timberland						
UK timberland	**122.3**	113.2	**122.3**	113.2	**4.8**	4.5
Overseas timberland	**194.5**	143.1	**–**	–	**8.7**	4.8
Total timberland	**316.8**	256.3	**122.3**	113.2	**13.5**	9.3
Indirect timberland						
Overseas timberland	**62.6**	52.9	**–**	–	**0.4**	0.5
Total timberland	**62.6**	52.9	**–**	–	**0.4**	0.5
Infrastructure						
Unquoted overseas funds	**25.2**	8.9	**–**	–	**0.4**	0.3
Total infrastructure	**25.2**	8.9	**–**	–	**0.4**	0.3
Subsidiaries	**–**	–	**288.3**	220.6	**–**	–
Total subsidiaries	**–**	–	**288.3**	220.6	**–**	–
Total	**7,173.6**	6,330.4	**6,838.6**	6,067.4	**153.7**	143.4
Included in unrealised gains (note 2(a))					**(3.7)**	(4.6)
Total income					**150.0**	138.8

Notes to the financial statements continued

For the year ended 31 December 2016

2. Investments (continued)

(c) Expenditure

	2016				2015			
	Direct costs £m	Internal management costs £m	Support costs (note 6) £m	Total £m	Direct costs £m	Internal management costs £m	Support costs (note 6) £m	Total £m
Securities	29.4	2.7	3.8	35.9	24.1	2.5	2.7	29.3
Properties	11.7	1.8	1.3	14.8	12.1	1.9	1.0	15.0
Indirect property	0.1	0.2	0.2	0.5	0.1	0.3	0.2	0.6
Value linked loans	–	0.1	0.1	0.2	–	0.1	0.1	0.2
Timberland	18.9	0.4	0.3	19.6	6.5	0.4	0.2	7.1
Infrastructure	–	–	–	–	–	–	–	–
Total	60.1	5.2	5.7	71.0	42.8	5.2	4.2	52.2

Direct costs include investment management fees, performance fees, property and timberland running costs and other fees.

Internal management costs include costs of employing in-house investment managers, operational support staff costs and associated department running costs.

Detail of support costs, including the methodology for allocating costs between activities, is shown in note 6 where the method of allocating these costs is described.

(d) Valuation of investments

The original cost of investments is not disclosed given the historic nature of many of the property investments.

The Commissioners have investments denominated in foreign currencies and are impacted by changes in foreign currency exchange rates. Non-sterling assets exposed to currency risk represented 53.4% (2015: 49.4 %) of the investment portfolio. However a currency overlay programme, utilising forward foreign exchange contracts, is used to hedge back into sterling 30.1% (2015: 38.6%) of these non-sterling assets.

Investment properties

The valuers of the properties were:

- Rural and strategic land properties: Bidwells
- Commercial properties: Cushman & Wakefield
- Residential properties: Jones Lang LaSalle
- Mineral portfolio: Wardell Armstrong.

Property funds

Property funds are valued independently by valuers appointed by the partnerships.

Value linked loans

All value linked loans were valued by Cushman & Wakefield.

Timberland (including biological assets)

UK timberland was valued by Bidwells. Overseas timberland was valued by local qualified valuers.

Timberland funds

Timberland is valued independently by valuers appointed by the partnerships in line with the accounting policy described in note 1(n).

Infrastructure

Infrastructure is valued in line with the accounting policy described in note 1(n).

(e) Subsidiaries

The Commissioners' principal subsidiary companies are wholly owned and are held to undertake property purchase, development and management and certain property, securities, infrastructure and timberland investments.

Registered in	Subsidiary (company number)
England and Wales	CC Trading Ltd (2080054), CC Lincoln Ltd (3687102), CC Projects (1765782), Cedarvale (2220037), CC Licensing (2245961), Quivercourt (1807330), Easton Tree Ltd (8135237) and Weston Tree Ltd (7859221)
US (Delaware)	Cherry Tree Timber LLC (5108048), Lambeth Tree LLC (5599687)
Australia	Jarh Tree Co Pty Ltd (600392667)

The Ashford Great Park Partnership, held through intermediate companies, has its principal offices at 29 Great Smith Street, London SW1P 3PS.

Summary results for the material subsidiaries are shown below:

	CC Licensing		CC Projects		CC Trading Ltd		Cedarvale		Quivercourt	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Revenue	**50.9**	17.6	**6.6**	4.8	**4.1**	8.5	**5.4**	3.2	**4.8**	11.2
Expenditure*	**(40.0)**	(7.2)	**(2.9)**	(4.6)	**(4.1)**	(8.5)	**(0.1)**	(0.1)	**(19.2)**	(1.5)
Profit/(loss)	**10.9**	10.4	**3.7**	0.2	**–**	–	**5.3**	3.1	**(14.4)**	9.7
Assets	**291.0**	192.0	**32.6**	28.9	**13.9**	14.6	**21.5**	20.8	**19.5**	40.9
Liabilities	**(232.7)**	(144.5)	**(0.2)**	(0.2)	**(7.8)**	8.5	**–**	(4.6)	**(9.9)**	(16.9)
Net Funds	**58.3**	47.5	**32.4**	28.7	**6.1**	6.1	**21.5**	16.2	**9.6**	24.0

* Includes Gift Aid payments to the Commissioners.

The Commissioners also own 80% interests in Lone Rock Timber Investments MBD-Landco Limited Partnership and Lone Rock Timber Investments MBD-Logco Limited Partnership, both of which are registered in the US. These entities are not solely controlled by the Commissioners and therefore meet the definition of "joint venture" in FRS 102 section 15, but fall within the definition of investment funds in paragraph 15.9B of FRS 102.

(f) Joint ventures

ChECS is a charitable company limited by guarantee and is a joint venture between the Commissioners, the Archbishops' Council and the Church of England Pensions Board, who are equal partners. The purpose of ChECS is to enhance the efficiency and effectiveness of the charitable national and diocesan institutions of the Church of England and of other charities with a church ethos, by facilitating the provision of cost-effective shared financial, legal and other services.

The charity was registered with the Charity Commission on 31 December 2013 and started operating from 1 April 2014. Prior to this, the responsibility for the provision of shared services was split between the three main National Church Institutions ("NCIs"). The previous management arrangements continued into the new structure.

The Commissioners' share of net assets of ChECS was £nil.

As at 31 December 2016, £30,000 was owed by the Commissioners to ChECS (2015: £258,000 owed by ChECs to the Commissioners).

The Commissioners have no associated undertakings.

Notes to the financial statements continued

For the year ended 31 December 2016

3. Charitable activities

	Grant funding £m Note 4	Direct funding £m Note 5	Support costs £m Note 6	**2016 Total £m**	Grant funding £m Note 4	Direct funding £m Note 5	Support costs £m Note 6	2015 Total £m
Mission activities	16.9	1.0	0.8	**18.7**	10.9	0.6	0.2	11.7
Diocese and ministry support	35.3	0.1	–	**35.4**	35.2	0.2	0.4	35.8
Bishops' ministry and cathedral costs	27.9	17.5	2.9	**48.3**	28.5	11.7	2.5	42.7
National payroll for clergy	–	–	0.9	**0.9**	–	–	0.9	0.9
Administering the legal framework and other	1.5	0.7	3.0	**5.2**	1.5	0.4	2.8	4.7
Cost of clergy pensions	–	121.6	0.6	**122.2**	–	122.4	0.3	122.7
Total	81.6	140.9	8.2	**230.7**	76.1	135.3	7.1	218.5
Movements on provision for clergy pensions (note 15)								
Release of provision for payment in year	–	(121.6)	–	**(121.6)**	–	(122.4)	–	(122.4)
Interest on provision	–	63.5	–	**63.5**	–	65.2	–	65.2
Change in assumptions	–	142.9	–	**142.9**	–	(21.0)	–	(21.0)
Total costs of charitable activities	81.6	225.7	8.2	**315.5**	76.1	57.1	7.1	140.3

Mission activities
Mission activities comprise direct grants to dioceses and parishes for strategic development initiatives (see Note 4 for details of individual grants).

Diocese and ministry support
Diocese and ministry support includes grants to The Archbishops' Council to assist with their support for low income dioceses that are allocated in accordance with their Selective Allocations formula in accordance with the National Institutions Measure 1998. Payments are also made directly to clergy and for national support purposes.

Bishops' ministry and cathedral costs
The Commissioners are responsible for stipends, providing housing and office space for the diocesan bishops and archbishops and for the maintenance of those buildings including Lambeth Palace. This also includes costs prior to receiving planning permission relating to the proposed Lambeth Palace Library.

The Commissioners provide diocesan bishops and archbishops with an annual block grant to cover their stipend and working costs and that of their suffragan bishops. Pensions contributions are paid from this grant to the Church of England Funded Pensions Scheme for bishops and their chaplains, and the Church Administrators Pension Fund for bishops' support staff (see note 16).

The Cathedrals Measure 1999 enables the Commissioners to make grants to cathedrals: section 21 and 22 grants are made towards the stipend and other costs of a dean and two residentiary canons of each cathedral; section 23 grants are made towards the stipend of any other clerk or salary of any lay person employed in connection with the cathedral; section 25 grants are made towards the repair of any chancel, other than that of the cathedral, which the cathedral is wholly or partly liable to repair.

Clergy pension obligation
The Commissioners are obliged to meet the costs of clergy pensions for service up to 31 December 1997. This obligation has been provided for in full; further details in note 15.

National payroll for clergy
The Church Commissioners are responsible for running the national payroll for most serving and retired clergy on behalf of dioceses, cathedrals and other Church bodies. This is a statutory responsibility of the Commissioners and one of its charitable objectives, with the cost of providing this service paid for by the Commissioners and not passed on to the Church bodies.

Administering the legal framework for pastoral reorganisation and settling the future of closed church buildings
The Commissioners have a legal and advisory role in:
- the reorganisation of parishes;
- sales and other transactions relating to clergy housing and glebe land; and
- settling the future of church buildings that have been closed for public worship.

The costs incurred while carrying out this charitable objective include staff costs, committee costs and costs associated with holding scheme hearings.

If a closed church building is sold, the proceeds are shared between the relevant diocese (two thirds) and the Commissioners (one third), to be spent on certain purposes, including offsetting the cost of the annual grant to the Churches Conservation Trust. The amount paid to the Trust is set out in the Churches Conservation Trust Order 2011, and granted to support its work in preserving church buildings closed for regular worship which are of historic and archaeological interest and architectural quality.

The Commissioners also contribute to their share of the liability for chancel repairs arising from their former and current ownership of rectorial property.

4. Grant making

All grants are made to institutions

	2016 £m	2015 £m
Mission activities		
Grant to The Archbishops' Council for Mission Development Funding	**6.6**	6.7
Grant to The Archbishops' advisors for Growth Research and Development	**1.1**	0.8
Grants to 6 (2015: 5) dioceses for Growth Research and Development	**0.2**	0.7
Grants to 21 (2015: 8) dioceses for Strategic Development Fund	**9.0**	2.7
Total grants to support mission activities	**16.9**	10.9
Diocese and ministry support		
Grant to The Archbishops' Council	**35.3**	35.2
Total grants for diocese and ministry support	**35.3**	35.2
Bishops' ministry and cathedral costs		
113 grants to bishops in 42 dioceses	**18.9**	19.3
85 grants to 42 cathedrals	**9.0**	9.2
Total grants to pay for bishops' ministry and cathedral costs	**27.9**	28.5
Administering the legal framework and other grants		
Statutory grant to Churches Conservation Trust	**1.4**	1.4
Other grants	**0.1**	0.1
Total grants for administering the legal framework	**1.5**	1.5
Total grant funding	**81.6**	76.1

A full list of grant recipients is available upon request in writing from the Commissioners' registered office.

Notes to the financial statements continued

For the year ended 31 December 2016

5. Direct funding

	2016 £m	2015 £m
Mission activities		
National research and development costs	1.0	0.6
Total mission activities	1.0	0.6
Diocese and ministry support		
Payments direct to parish clergy	0.1	0.2
Total diocesan and ministry support	0.1	0.2
Bishops' ministry and cathedral costs		
Bishops and archbishops' housing and office premises	3.4	4.9
Lambeth Palace Library running costs	1.0	0.9
Lambeth Palace Library project	1.7	0.2
Archbishops' stipends, office and working costs and other national costs	11.0	5.2
Archbishops' advisors	0.4	0.5
Total bishops' ministry and cathedral costs	17.5	11.7
Clergy pensions for service prior to 1998		
Pensions to clergy	84.7	85.6
Lump sum payments on retirement	7.8	7.5
Pensions to clergy widows and children	28.9	29.0
Total benefits under the Church of England Pensions Scheme	121.4	122.1
Benefits under the Deaconesses and Lay Workers (Pensions) Measure 1980	0.2	0.3
Total clergy pensions	121.6	122.4
Administering the legal framework		
Chancel repair liability	0.7	0.4
Total costs of administering the legal framework	0.7	0.4
Total direct costs	140.9	135.3

6. Support costs

	Investment activities £m Note 2(c)	Charitable activities £m Note 3	**2016 Total £m**	Investment activities £m Note 2(c)	Charitable activities £m Note 3	2015 Total £m
Department costs	–	2.4	**2.4**	–	1.8	1.8
Shared services	2.5	2.9	**5.4**	2.4	2.9	5.3
Governance costs	0.9	1.1	**2.0**	0.5	0.5	1.0
Pension costs (note 16):						
Interest on provision for staff pension pre 2000	2.0	2.1	**4.1**	2.1	2.1	4.2
Interest on provision for pension deficit (staff post 1999 and clergy post 1997)	0.3	0.2	**0.5**	0.2	0.4	0.6
Other changes on pension deficit provision (staff post 1999 and clergy post 1997)	–	(0.5)	**(0.5)**	(1.0)	(0.6)	(1.6)
Total support costs	5.7	8.2	**13.9**	4.2	7.1	11.3

Department costs are costs incurred by the Commissioners for administering their charitable activities. These costs include salaries and other running costs. Overheads are apportioned according to an activity based time split.

Shared services include the Commissioners' share of the costs incurred by ChECS.

Governance costs comprise staff and non-staff costs relating to the general running of the Commissioners including supporting the work of their Board and committees and audit costs paid to Grant Thornton UK LLP.

Allocation of costs

Most of the Commissioners' expenditure can be directly attributed to its various activities, however some costs are not directly attributable and need to be allocated across the Commissioners' investment and charitable activities.

Support costs are collected under the headings in the table above. Where any of these can be directly attributed to any of the investment or charitable activities they are allocated as such. The remaining costs are assigned following an allocation methodology. Costs are initially split depending on the type, by either headcount numbers, usage rates, or equally between investment and charitable activities. They are then further apportioned between the separate underlying activities in proportion to either the investment activity asset value or charitable activity expenditure.

Fees paid to Grant Thornton UK LLP (2015: Deloitte LLP) are shown in the table below:

	2016		2015	
	Grant Thornton £000	**Deloitte £000**	Grant Thornton £000	Deloitte £000
Audit of Church Commissioners	**125**	**17**	–	144
Audit of subsidiary undertakings	**55**	**–**	–	45
Audit-related assurance services	**1**	**–**	–	2
Total audit fees	**181**	**17**	–	191
Accountancy advisory services	**–**	**–**	36	–
Taxation compliance services	**–**	**137**	–	55
Taxation advisory services	**–**	**–**	–	32
Planning services	**–**	**424**	–	220
Total non-audit fees	**–**	**561**	36	307
Total fees	**181**	**578**	36	498

Notes to the financial statements continued

For the year ended 31 December 2016

7. Staff numbers and remuneration

The Commissioners are a joint employer, together with the other NCIs, of most of the staff of the NCIs. The Secretary and staff employed to manage the Commissioners' investment assets are employed directly by the Commissioners.

In addition to staff employed directly, the work of the Commissioners is supported by staff in shared service departments provided by ChECS which provides finance, HR, communications, legal, IT and internal audit services to the NCIs. The SORP requirements are that the costs of staff employed by third parties who operate on an entity's behalf should be disclosed in the accounts. In order to comply with the spirit of the SORP, the costs of all ChECS staff are shown in aggregate in the tables below – the Commissioners' share of which was £3,713,000 (2015: £3,616,000).

The cost of staff for which the Commissioners are the managing employer and for ChECS (in aggregate) was:

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2016 Number	2015 Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number
Average number employed	**34**	36	**34**	35	**144**	133
	£m	£m	**£m**	£m	**£m**	£m
Salaries	**3.6**	3.3	**1.5**	1.6	**5.6**	5.8
National Insurance costs	**0.4**	0.3	**0.2**	0.2	**0.6**	0.6
Pension contributions	**0.3**	0.3	**0.3**	0.2	**0.8**	1.0
Total cost of staff	**4.3**	3.9	**2.0**	2.0	**7.0**	7.4

Costs are restated in the prior year to include Long Term Incentive Payments ("LTIPs") and remove pension deficit contributions which are now provided for (see note 16). Salaries includes £441,000 (2015: £66,000) paid by way of termination costs to six (2015: one) individuals following a restructuring, the costs of which are accounted for in full in the year in which the restructure is announced.

Asset management and national Church functions

The cost of the planning and management of the Commissioners' assets is included in external management costs (note 3) and for the administration of national Church functions is included in support costs (note 4).

Staff loans

In addition to the amounts shown above, the Commissioners provide loans under the staff house mortgage scheme. These loans are included in loans (note 12) at £0.1m (2015: £0.2m). The scheme, which was closed to new business in 2004, has six (2015: seven) loans outstanding to six (2015: seven) members of staff.

Interest free loans are made for travel season tickets and green travel loans for the purchase of bicycles and electric scooters.

Staff emoluments

The numbers of staff whose employee benefits for the year fell in the following bands:

	Commissioners' own staff				ChECS	
	Asset management		Church functions and secretariat		Shared services	
	2016 Number	2015 Number	**2016 Number**	2015 Number	**2016 Number**	2015 Number
£60,001 to £70,000	**4**	1	**1**	1	**4**	8
£70,001 to £80,000	**1**	2	**2**	1	**5**	2
£80,001 to £90,000	**2**	1	**1**	1	**8**	7
£90,001 to £100,000	**–**	–	**–**	–	**–**	1
£100,001 to £110,000	**1**	–	**–**	–	**–**	1
£110,001 to £120,000	**1***	–	**–**	–	**–**	1
£120,001 to £130,000	**–**	–	**–**	–	**1**	1
£130,001 to £140,000	**–**	1*	**–**	–	**–**	3
£140,001 to £150,000	**1***	1*	**–**	–	**1**	2
£150,001 to £160,000	**1***	1*	**–**	1**	**–**	–
£160,001 to £170,000	**–**	2*	**1****	–	**–**	–
£170,001 to £180,000	**3***	–	**–**	–	**–**	–
£200,001 to £210,000	**–**	1*	**–**	–	**–**	–
£210,001 to £220,000	**1***	–	**–**	–	**–**	–
£240,001 to £250,000	**1***	–	**–**	–	**–**	–
£260,001 to £270,000	**–**	1*	**–**	–	**–**	–
£280,001 to £290,000	**1***	–	**–**	–	**–**	–
£300,001 to £310,000	**–**	1*	**–**	–	**–**	–
£460,001 to £470,000	**1***	1*	**–**	–	**–**	–

* Including LTIP payment
** Secretary to the Church Commissioners (Chief Executive)

Employee benefits include gross salaries and termination payments but do not include employer pension contributions.

All of the staff above are members of the Church Administrators Pension Fund (note 9). Of those managed directly by the Commissioners, 14 (2015: nine) accrue benefits under a defined contribution scheme for which contributions for the year were £151,000 (2015: £134,000). The remaining nine (2015: eight) staff accrue benefits under a defined benefit scheme. Of those managed by ChECS, nine (2015: ten) accrue benefits under a defined contribution scheme for which contributions for the year were £104,000 (2015: £118,000). The remaining nine (2015: 16) staff accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Director of Investments who earned £259,000 (2015: £255,000) and a LTIP of £202,000 (2015: £208,000) based on the long term performance of the fund. Nine (2015: eight) other members of staff received LTIPs in the year totalling £846,000 (2015: £629,000). Further details of the Commissioners' remuneration policy are included in the Governance Section of the Board's report on page 38.

The Commissioners' senior executive leadership team comprise eight individuals, three of whom are employed directly by the Commissioners and five by ChECS. Their aggregate remuneration, including LTIPs and pension contributions, is £1,343,000.

Notes to the financial statements continued

For the year ended 31 December 2016

8. Trustees' emoluments and expenses

The First Church Estates Commissioner is paid a salary in accordance with the Ecclesiastical Commissioners Act 1850, as amended by the Ecclesiastical Commissioners (Powers) Measure 1938, although he waives his entitlement to a pension. Legislative provision is made for payment of a salary to the Third Church Estates Commissioner, but the Commissioners in agreement with HM Treasury have determined that no salary should be paid. Other trustees have no entitlement to a salary or pension in their capacity as trustees.

	2016 £000	2015 £000
First Church Estates Commissioner		
Salary	**59**	59
National Insurance costs	**7**	7
Total Church Estates Commissioners' costs	**66**	66

Pensions paid to former First and Third Church Estates Commissioners of £24,000 (2015: £24,000) were charged to the staff pension provision (note 9).

The Commissioners meet the expenses incurred by the trustees in carrying out their duties. During the year, 27 (2015: 28) trustees claimed expenses or had their expenses met by the Charity totalling £21,000 (2015: £16,000) in respect of travel and subsistence.

9. Staff pensions

The Commissioners are obliged to pay pension benefits to staff, former First and Third Church Estates Commissioners, bishops' staff and staff of the Church of England Pensions Board who accrued years of pensionable service until 31 December 1999 as members of the Church Commissioners Superannuation Scheme ("CCSS").

Pension benefits earned on or after 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee.

Pensions are described in more detail in note 16.

10. Taxation

	2016 £m	2015 £m
UK Corporation Tax		
Current tax	**0.2**	–
Deferred tax	**–**	–
Total UK Corporation Tax charge	**0.2**	–
Australian Corporate Income Tax		
Current tax	**–**	–
Deferred tax	**0.2**	5.5
Total Australian Corporate Income Tax charge	**0.2**	5.5
Total tax charge	**0.4**	5.5

The Church Commissioners are a registered charity. As such, under UK tax law, they are exempt from Corporation Tax on all their Investment Income and Chargeable Gains. They are, however, subject to Corporation Tax on non-primary purpose Trading Income. A tax charge of £0.2m arose in 2016 in respect of such income. The UK resident subsidiaries of the Church Commissioners are, prima facie, subject to Corporation Tax on their income. However, all these subsidiaries have Deeds of Covenants to distribute all taxable profits to the Church Commissioners. As such distributions are tax deductible, no tax liability arises in the subsidiaries.

The overseas subsidiaries of the Church Commissioners are subject to tax in accordance with the laws of the relevant jurisdiction. A deferred tax charge of £0.2m was accrued during the year in respect of profits earned during the year in Australia (£0.7m) in respect of timberland investments. Australian Corporate Income Tax (currently 30%) is expected to be paid in the future when these timberland investments are harvested or sold. The current deferred tax liability in respect of this investment is £11.1m.

11. Tangible assets

Consolidated and Commissioners	IT systems £m	Leasehold improvements £m	Operational properties and contents £m	**Total £m**
Cost or valuation				
Balance at 1 January	1.9	2.1	95.2	**99.2**
Additions	–	–	0.1	**0.1**
Disposals	–	–	(2.3)	**(2.3)**
Balance at 31 December	1.9	2.1	93.0	**97.0**
Accumulated depreciation				
Balance at 1 January	(1.6)	(1.9)	–	**(3.5)**
Charge for the year	(0.2)	(0.2)	–	**(0.4)**
Balance at 31 December	(1.8)	(2.1)	–	**(3.9)**
Net book value				
Balance at 1 January	0.3	0.2	95.2	**95.7**
Balance at 31 December	0.1	–	93.0	**93.1**

The original cost of tangible fixed assets is not disclosed given the historic nature of many of the assets owned.

The deemed cost of operational see house properties was the valuation at the FRS 102 transition date. This valuation was carried out by Knight Frank LLP as at 31 December 2013.

Operational properties includes the contents of see houses, which were valued by Gurr Johns as at 31 December 2007.

All tangible fixed assets are located in the United Kingdom.

12. Heritage assets

Analysis of Heritage Assets

	Lambeth Palace £m	Contents of Lambeth Palace Library £m	Historic contents of Lambeth Palace £m	Historic contents of former see houses £m	**Total £m**
Balance at 1 January 2016	–	0.2	1.1	2.1	**3.4**
Additions	–	–	–	–	**–**
Balance at 31 December 2016	–	0.2	1.1	2.1	**3.4**

Lambeth Palace

Lambeth Palace has been the historic London residence of the Archbishops of Canterbury since the 13th Century. It was acquired by the Commissioners as a result of an Order in Council given in 1946 in accordance with the Episcopal Endowments and Stipends Measure 1943 and was transferred to the Commissioners at its original deemed cost. At the time of acquisition, the Commissioners' best estimate of the historic deemed cost was £1. Any developments or improvements to the building are capitalised at cost and depreciated over the improvements' useful economic life. Whilst the building continues to have operational use, being used as the Archbishop's London residence and including a team of staff employed to support him in his work, it continues to be maintained by the Commissioners as a result of its significant historical and cultural importance as an important exhibit to the public of the history of the work of the Archbishops of Canterbury and the Church of England. The grounds of Lambeth Palace are also home to the Lambeth Palace Library, the historic library and record office of the Archbishops of Canterbury and the principal repository of the documentary history of the Church of England. The Commissioners are responsible for the on-going upkeep and maintenance of the building. Maintenance costs are charged to the SOFA in the period they are incurred.

Contents of Lambeth Palace Library

Lambeth Palace Library was founded in 1610 when Archbishop Richard Bancroft bequeathed to his successors as Archbishops of Canterbury his extensive collection of books and manuscripts. Ownership of the building and contents became vested in the Ecclesiastical Commissioners in 1946 and passed subsequently to the Commissioners. Responsibility for the maintenance of Lambeth Palace Library lies with the Commissioners. The collections of Lambeth Palace Library were designated by the Museums, Libraries and Archives Council in 2005 as outstanding in their national and international importance. The Library exists to preserve this unique heritage of the Church and the nation and to make it freely available for all to study and enjoy.

Notes to the financial statements continued

For the year ended 31 December 2016

12. Heritage assets (continued)

Historic contents of Lambeth Palace

Included within heritage assets are the historical contents of Lambeth Palace. These items are held primarily for their historical and artistic value. The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents of Lambeth Palace, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2016 and the full professional valuation obtained as at 31 December 2007.

Historic contents of former see houses

Included within heritage assets are the historical contents of former see houses that are on loan to various bodies. This includes the Hurd Library and other heirlooms at Hartlebury Castle and various objects at Fulham Palace. These items are held primarily for their historical and artistic value.

The contents' fair value has been calculated based on the market value last calculated at 31 December 2007. The Commissioners have performed a review of the historic contents, which includes works of art, and are satisfied that there is no material difference between the fair value at 31 December 2016 and the full professional valuation obtained as at 31 December 2007.

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Purchases					
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace Library	–	–	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Donations	–				
Lambeth Palace	–	–	–	–	–
Contents of Lambeth Palace library	–	0.2	–	–	–
Contents of Lambeth Palace	–	–	–	–	–
Total additions	–	0.2	–	–	–

13. Debtors

	Consolidated		Commissioners	
	2016 £m	2015 £m	2016 £m	2015 £m
Trade debtors	12.0	15.4	11.0	10.5
Subsidiary undertakings	–	–	340.1	282.0
Joint venture (ChECS)	0.5	0.3	0.5	0.3
Dioceses (Clergy Stipends and Diocesan Debtors Accounts)	1.3	1.7	1.3	1.7
Loans	4.0	4.7	4.0	4.7
Other debtors	5.4	3.8	1.3	0.7
Prepayments and accrued income	84.4	11.2	85.8	12.4
Derivative open contracts	4.7	5.1	4.7	5.1
Total debtors	112.3	42.2	448.7	317.4

Consolidated trade debtors of £12.0m (2015: £15.4m) is after deducting a provision for bad and doubtful debts of £0.3m (2015: £0.4m).

Other loans, which are interest bearing and consist of mortgages and loans to Church bodies, cathedrals and staff, and car loans to clergy, are reported within debtors. Of the £4.0m total (2015: £4.7m), £2.6m (2015: £3.9m) is due after one year. Unrealised gains on derivatives financial instruments are described in note 2.

14. Creditors

	Consolidated		Commissioners	
	2016 £m	2015 (restated) £m	2016 £m	2015 (restated) £m
Trade creditors	**11.1**	11.9	**11.0**	11.8
Subsidiary undertakings	**–**	–	**25.3**	27.3
Dioceses and other Church bodies	**5.1**	6.5	**5.1**	6.5
Other creditors	**2.5**	2.3	**1.8**	1.9
Taxation and National Insurance contributions	**16.0**	15.3	**4.9**	6.3
Accruals and deferred income	**44.1**	28.7	**29.2**	20.6
Derivative open contracts	**9.9**	11.4	**10.0**	11.4
Provision – amounts due within 1 year (note 15)	**121.6**	121.6	**121.6**	121.6
Total creditors	**210.3**	197.7	**208.9**	207.4

Unrealised losses on derivatives financial instruments are described in note 2.

15. Provisions

Provision for clergy pre 1998 pension obligation

	Notes	Consolidated and Commissioners 2016 £m	2015 (restated) £m
As at 1 January		**1,710.2**	1,788.6
Release of provision for:			
Pensions paid in the year	3	**(121.6)**	(122.4)
Transfers out of scheme		**(0.2)**	(0.2)
		(121.8)	(122.6)
Changes in provision for:			
Interest on provision	3	**63.5**	65.2
Changes in assumptions and due to experience	3	**142.9**	(21.0)
		206.4	44.2
As at 31 December		**1,794.8**	1,710.2
Amounts falling due within 1 year	14	**121.6**	121.6
Amounts due after more than 1 year		**1,673.2**	1,588.6
Total		**1,794.8**	1,710.2

The provision was recognised in full for the first time in 2016 and adjusted in the prior year as a prior year adjustment.

History

Prior to 1998, the Commissioners were responsible for paying the pensions benefits to clergy who accrued years of pensionable service as members of the Church of England Pensions Scheme. By the mid-1990s this financial burden had become unsustainable and legislation was enacted to provide for new pensions schemes to be established and administered by the Church of England Pensions Board, with contributions for future service to be paid by all responsible bodies and employers (dioceses, cathedrals, the NCIs, and other church organisations). This effectively capped the Commissioners' obligation for clergy pensions for clergy for which they are not the 'responsible body' to service up until 31 December 1997 only.

Details of the Commissioners financial responsibilities in respect of their role as 'responsible body' for bishops, cathedral clergy and certain other clergy for service since 1 January 1998 are described in note 16(a).

Notes to the financial statements continued

For the year ended 31 December 2016

15. Provisions (continued)

Church of England Pensions Scheme

The Commissioners are obliged to pay pension benefits to clergy who accrued years of pensionable service until 31 December 1997 as members of the Church of England Pensions Scheme. The Scheme is administered by the Church of England Pensions Board on behalf of the Commissioners. The obligation is recognised in full using the actuarial valuation carried out by Hymans Robertson LLP, independent qualified actuaries. A full valuation is carried out every three years and it is rolled forward in other years. The last full valuation was carried out as at 31 December 2015.

The valuation uses the projected unit method and assumes all benefits including post retirement increases continue to be paid in accordance with current practice. It uses financial assumptions reflecting the term structure of interest rates and inflation. These assumptions include the prospective rate of investment returns, future increases in the RPI, the starting level of pensions and the rate of post retirement pension increases.

The principal assumptions were:

	2016 **%**	2015 %	2014 %	2013 %	2012 %
Prospective annual rate of return on investments	**4.3**	5.0	5.0	5.9	4.9
Rate of future stipend and increases in the starting pension	**3.2**	2.3	2.3	3.3	2.6
Rate of post retirement pension increases	**3.2**	2.3	2.3	3.3	2.6
Retail price inflation	**3.2**	2.3	2.3	3.3	2.6

The assumptions were made on a best estimate basis over a time period reflecting the long term nature of the fund and its objectives over 30 years.

In their assessments of the pensions obligation, Hymans Robertson LLP have used bespoke Club Vita mortality tables. In respect of future improvements in mortality rates the projection model from the 2010 Continuous Mortality Investigation has been used with advanced parameters with starting rates calibrated to the July 2012 Club Vita dataset.

16. Pensions

The legal status and accounting and disclosure requirements under FRS 102 and the SORP for each of the pension schemes is shown in the sub sections to this note below. The table below shows the pensions reserves:

	Clergy	Staff		Total
	Post 1997 service Note 16(a) £m	Pre 2000 service Note 16(b) £m	Post 1999 service Note 16(c) £m	£m
Pension reserve at 31 December 2016	**7.8**	**133.3**	**13.7**	**154.8**
Pension reserve at 31 December 2015	8.9	113.1	14.1	136.1

(a) Clergy pensions post 1997: Church of England Funded Pensions Scheme

Pensions in respect of service from 1 January 1998 are provided by the Church of England Funded Pensions Scheme, administered by the Church of England Pensions Board. The Board publishes the Scheme's financial statements, and is its custodian trustee.

The Commissioners are one of the 'responsible bodies' in the Scheme, as they pay the stipends, National Insurance and pensions costs of bishops, archbishops, bishops' chaplains and cathedral clergy.

The Scheme is considered to be a multi-employer scheme as described in Section 28 of FRS 102. This means that it is not possible to attribute the Scheme's assets and liabilities to specific employers and that contributions are accounted for as if the Scheme were a defined contribution scheme. The pension costs charged to the SOFA in the year are contributions payable plus any impact of deficit contributions (see below).

The most recent valuation of the Scheme was carried out by an independent qualified actuary using the projected unit method at as 31 December 2015. This revealed a deficit of £236 million, based on assets of £1,308 million and a funding target of £1,544 million. In light of this, the contribution rate of pensionable stipends will be changed with effect from 1 January 2018.

The contribution rate payable by the Commissioners is made up of the following components:

	From 1 January 2018 %	From 1 January 2017 %	From 1 January 2015 %
Normal contributions	**26.5**	24.3	24.6
Deficit contributions	**11.9**	14.1	14.1
Contributions towards administration expenses	**1.2**	1.2	1.2
Total contribution	**39.6**	39.6	39.9

Normal contributions relate to providing the benefits in relation to ongoing pensionable service. Deficit contributions relates to recovery of the deficit until 31 December 2025. Administration expenses are per the day-to-day expenses of running the scheme.

Section 28.11A of FRS 102 requires agreed future deficit recovery payments to be recognised as a liability. The movement in the provision is set out in the table below.

	At 1 January £m	Contributions paid £m	Interest on liability £m	Re-measurement of liability £m	**At 31 December £m**
Bishops and archbishops	4.5	(0.5)	0.1	0.1	**4.2**
Bishops and archbishops' chaplains	0.5	–	–	–	**0.5**
Cathedral clergy	3.9	(0.4)	0.1	(0.5)	**3.1**
Total	8.9	(0.9)	0.2	(0.4)	**7.8**

This liability represents the present value of future deficit contributions and has been valued using assumptions set by reference to the duration of the deficit recovery payments.

(b) Staff pensions pre 2000: Church Commissioners Superannuation Scheme

The Commissioners are obliged to pay pension benefits to staff, former First and Third Church Estates Commissioners, bishops' staff and staff of the Church of England Pensions Board who accrued years of pensionable service until 31 December 1999 as members of the Church Commissioners Superannuation Scheme ("CCSS").

Pensions that fall due after the balance sheet date are provided for in the balance sheet in accordance with Section 28 of FRS 102. The provision is estimated each year by Hymans Robertson LLP, independent qualified actuaries, with a full valuation being carried out every third year and rolled forward in other years. The last full valuation was carried out as at 31 December 2014.

Using the projected unit method, and assuming all benefits including post retirement increases continue to be paid in accordance with current practice, the provision is shown in the table below:

The movements on the provision during the year were:

	2016 £m	2015 £m
At 1 January	**113.1**	125.8
Pensions and lump sums paid	**(5.3)**	(5.8)
Interest on provision – charged to general fund	**4.1**	4.2
Actuarial (gain)/loss – charged to endowment capital	**21.4**	(11.1)
At 31 December	**133.3**	113.1

Notes to the financial statements continued

For the year ended 31 December 2016

16. Pensions (continued)

(b) Staff pensions pre 2000: Church Commissioners Superannuation Scheme (continued)

Analysis of actuarial loss charged to endowment capital:

	2016 £m	2015 £m
(Gain)/Loss due to effect of change in financial assumptions	**21.4**	(11.1)
Actuarial (gain)/loss	**21.4**	(11.1)

Financial assumptions reflecting the term structure of interest rates and inflation have been used to estimate the value of the obligation. These assumptions include the prospective rate of investment returns, future increases in the RPI, the starting level of pensions and the rate of post retirement pension increases. The principal assumptions used in estimating the provision were:

	2016 %	2015 %	2014 %	2013 %	2012 %
Discount rate (annual rate of return on AA rated corporate bonds)	**2.65**	3.75	3.40	4.3	4.4
Rate of salary increases	**4.45**	4.25	4.25	4.3	4.0
Rate of increase of pensions in payment:					
for service before 1 April 1997 (CPI)	**2.45**	2.25	2.25	2.3	2.3
for service since 1 April 1997 (RPI)	**3.45**	3.25	3.25	3.3	3.0

In their assessments of the pensions liability, Hymans Robertson LLP used bespoke Club Vita mortality tables. In respect of future improvements in mortality rates, the projection model from the 2010 Continuous Mortality Investigation has been used, with advanced parameters with starting rates calibrated to the July 2012 Club Vita dataset.

History of experience gains and losses:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Actuarial (gain)/loss	**21.4**	(11.1)	13.8	1.6	7.8

(c) Staff pensions post 1999: Church Administrators Pension Fund

Pensions in respect of service from 1 January 2000 are provided by the Church Administrators Pension Fund, administered by the Church of England Pensions Board. The Board publishes the Fund's financial statements, and is its custodian trustee.

The Commissioners are one of the employers in the Fund, as they pay the salaries, National Insurance and pensions costs of its own staff, bishops' staff and indirectly for their share of staff employed by ChECS.

The Fund has two sections: the defined benefit and the defined contributions schemes. Staff who commenced service before 1 July 2006 are members of the defined benefit section of the scheme and staff who commenced service after 30 June 2006 are members of the defined contributions section.

The defined benefit section is considered to be a multi-employer scheme as described in Section 28 of FRS 102. This means that it is not possible to attribute the Fund's assets and liabilities to specific employers and that contributions are accounted for as if the Fund were a defined contribution scheme. The pension costs charged to the SOFA in the year are contributions payable for both defined contribution and defined benefit sections, plus any impact of defined benefit deficit contributions (see below).

The most recent valuation of the Fund was carried out by an independent qualified actuary using the projected unit method at as 31 December 2014. This revealed a deficit of £25.1 million, based on assets of £96.3 million and a funding target of £121.4 million.

As a result, the employers agreed to pay £2.4 million per annum in total from 1 January 2013 over 13 years to 31 December 2025, increasing each year by 5%. The contributions to the Fund are assessed by an independent qualified actuary using the projected unit method of valuation.

Section 28.11A of FRS 102 requires agreed future deficit recovery payments to be recognised as a liability. The movement in the provision for the Commissioners' share of the agreed deficit payments is set out in the table below.

	At 1 January £m	Contributions paid £m	Interest on liability £m	Re-measurement of liability £m	**At 31 December £m**
Commissioners' staff	10.7	(1.2)	0.3	1.1	**10.9**
ChECS staff	3.4	(0.3)	–	(0.3)	**2.8**
Total	14.1	(1.5)	0.3	0.8	**13.7**

This liability represents the present value of future deficit contributions and has been valued using assumptions set by reference to the duration of the deficit recovery payments.

17. Transfers between funds

An Order was made by the Charity Commission on 19 June 2012, at the request of the trustees, to enable them to account and report income and capital returns and charitable expenditure on a total return basis.

The Order requires the unapplied total return to be calculated at the point which the Order is made, and subsequent movements are shown in the table below. The unapplied total return is the amount of the fund over and above the base level of endowment. The trustees agreed this base level should be the book value of assets of the Ecclesiastical Commissioners and the Queen Anne's Bounty when they were transferred to the Commissioners in April 1948 (£155.8m), inflated in line with RPI and deducting clergy pensions paid from capital, since the Pensions Measure 1997 became effective. The base level of the endowment at 1 January 2012 was £3,000.4m and the unapplied total return was £2,202.0m. The base value and unapplied total return together with the general fund reserve made up the total fund value of £5,237.6m at 1 January 2012.

The total return each year remains part of the endowment fund, until it is transferred to the general fund and becomes "applied total return". The transfer is shown in the table below and on the face of the SOFA. The trustees agreed the base value of the endowment should be recalculated each year to reflect the permanent diminution of the fund as clergy pensions are paid out under the Pensions Measure 1997, and inflated in line with RPI.

The value of the endowment fund at 1 January 2016 has been restated in light of the prior year adjustment in respect of the recognition of the clergy pension provision (see note 15) as shown in the table below:

	Base value of endowment £m	Unapplied total return £m	**Total endowment fund £m**	General fund £m	**Total funds £m**
At 1 January (as previously reported)	2,754.9	4,249.8	**7,004.7**	–	**7,004.7**
Recognition of clergy pension provision	–	(1,710.2)	**(1,710.2)**	–	**(1,710.2)**
At 1 January (restated)	2,754.9	2,539.6	**5,294.5**	–	**5,294.5**

Notes to the financial statements continued

For the year ended 31 December 2016

17. Transfers between funds (continued)

The clergy pension liability has been allocated to unapplied total return as the Commissioners do not have indefinite power to spend endowment on clergy pensions, but only for a seven year period ending in 2025. At that point, it is expected, but not presumed, that this power will be extended for a further seven years. As such, the base value of endowment is reduced each year by the amount of clergy pensions paid in that year with movement in the provision being taken against the unapplied total return.

	Notes	Base value of endowment £m	Unapplied total return £m	**Total endowment fund £m**	General fund £m	**Total funds £m**
At 1 January 2016 (restated)		2,754.9	2,539.6	**5,294.5**	–	**5,294.5**
Add investment return for the year:						
Income return – gross income	2	–	150.0	**150.0**	2.1	**152.1**
Income return – cost of raising funds	2	–	(71.0)	**(71.0)**	–	**(71.0)**
Capital return – investment assets		–	1,076.1	**1,076.1**	–	**1,076.1**
Capital return – current investment assets		–	1.2	**1.2**	–	**1.2**
Capital return – derivative financial instruments		–	(80.1)	**(80.1)**	–	**(80.1)**
Capital return – foreign currency		–	61.3	**61.3**	–	**61.3**
Capital return – non investment assets	11/12	2.6	–	**2.6**	–	**2.6**
Taxation payable	10	–	(0.4)	**(0.4)**	–	**(0.4)**
Total investment return during the year		2.6	1,137.1	**1,139.7**	2.1	**1,141.8**
Less						
Clergy pensions paid	3	(121.6)	–	**(121.6)**	–	**(121.6)**
Clergy pensions transferred out		(0.2)	–	**(0.2)**	–	**(0.2)**
Movement on clergy pensions provision	15					
Release of provision for payments		–	121.8	**121.8**	–	**121.8**
Change in provision for assumptions		–	(206.4)	**(206.4)**	–	**(206.4)**
Loss on defined benefit pension schemes (staff pre 2000)	16	(21.4)	–	**(21.4)**	–	**(21.4)**
Charitable expenditure: non-pensions	3	–	–	**–**	(109.1)	**(109.1)**
Total other movements during the year		(143.2)	(84.6)	**(227.8)**	(109.1)	**(336.9)**
Add indexation on base value of endowment		68.9	(68.9)	**–**	–	**–**
Application of non-applied total return		–	(107.0)	**(107.0)**	107.0	**–**
At 31 December 2016		2,683.2	3,416.2	**6,099.4**	–	**6,099.4**

18. Capital commitments and contingent liabilities

Capital commitments

	Consolidated		Commissioners	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Securities portfolio	**445.3**	292.8	**313.7**	176.6
Indirect property	**32.8**	45.5	**30.7**	31.9
Timberland	**72.5**	50.6	**–**	–
Infrastructure	**48.2**	21.7	**–**	–
Total capital commitments	**598.8**	410.6	**344.4**	208.5

The Commissioners have commitments to invest in private equity, private credit, property funds and timberland. The timing of drawdowns is dependent on the fund managers acquiring underlying assets during the investment periods of the funds.

Contingent liabilities
The Commissioners, dioceses and other Church bodies are the bodies responsible for the contributions to the Church of England Funded Pensions Scheme for clergy. In the event of defaults by any of the responsible bodies, the remaining responsible bodies, including the Commissioners, would continue to be responsible for the entire liabilities of the Scheme.

The Commissioners are joint employer, together with the other NCIs, of most of the staff of the NCIs and, as such, have a contingent liability for salaries and other employment costs in the event of a default by any of the other joint employers.

It is not practicable to reliably estimate the quantum of the above contingent liabilities.

19. Leases

Paragraph 20.30 of FRS 102 requires significant leasing arrangements to be described. The Commissioners have different types of leases in place for its investment properties, including:

Tenancy	Break terms
Residential	
Assured Shorthold Tenancies (ASTs)	Minimum 6 months then two months' notice
Assured tenancies	One month's notice
Regulated tenancies	One month's notice
Ground Rents	No break terms
Licence Agreement	1 month's notice by either parties
Rural	
Farm Business Tenancies	In general, there are no breaks until lease end date
Agricultural Holdings Act	Minimum 12 month notice period by the tenant
Licence Agreement	Will range from 1 to 3 months' notice by either parties
Commercial	
Full Repair and insurance	No break term unless specifically requested
Internal Repair and Insurance	No break term unless specifically requested
Geared Rents	No break terms
UK forestry	
Not applicable	

FRS 102 also requires the minimum future cash flow of non-cancellable operating leases and total contingent rents to be disclosed. Due the nature of the Commissioners' leases, the vast majority of residential and rural property leases are cancellable within 12 months. Commercial property leases and residential ground are non-cancellable.

20. Funds held on behalf of others

	2016 £m	2015 £m
Residential service charges, sinking funds and tenants' deposits	**11.2**	12.2
Trust funds	**7.5**	6.9
Total funds held on behalf of others	**18.7**	19.1

The Commissioners hold monies on behalf of others. The sums are not included in the Commissioners' balance sheets.

Residential service charges, sinking funds and tenants' deposits

The service charges and sinking funds are paid in advance by tenants in order that property repairs and maintenance works can be carried out.

Trust funds

The Commissioners are trustees of 40 funds, mainly restricted permanent endowment funds. Their income, £0.3m (2015: £0.3m), is applied in accordance with the terms of the trusts.

Certain other trustees are directed to pay some or all of their income to the Commissioners for specified purposes. The total amount received was £0.2m (2015: £0.2m).

Professional advisors

Bankers:	National Westminster Bank plc
Custodians:	JP Morgan Chase Bank, N.A
Auditor:	Grant Thornton UK LLP
Actuaries:	Hymans Robertson LLP
Solicitors:	Official Solicitor to the Church Commissioners, Charles Russell, Farrer & Co, Radcliffes Le Brasseur

In line with best practice for good governance the Commissioners have a policy of appointing their auditor for no more than two cycles of five years. Following the recommendation of the Audit and Risk Committee on 5 April 2016, the Board of Governors appointed Grant Thornton LLP for the external audit for the financial year ended 31 December 2016 and for the following four years.

At a meeting of the Assets Committee on 4 February 2016, it was agreed to carry out a tender exercise for the provision of banking services to the NCIs. The Assets Committee delegated authority to its Chair and Deputy Chair to represent the Commissioners in overseeing the process and deciding on the appointment. Following a tender exercise Lloyds Bank plc have been appointed Bankers replacing National Westminster Bank plc. The appointment is expected to commence during 2017.

Statement of responsibilities

The trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the charity and of the incoming resources and the application of resources of the charity for that period. In preparing the financial statements, the trustees are required to:
- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed;
- and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity and the group's transactions and disclose with reasonable accuracy at any time the financial position of the charity and the group and enable them to ensure that the financial statements comply in all material respects with the Charities (Accounts and Report) regulations 2008, the Church Commissioners measure 1947 (as amended) and the Charities Act 2011. The trustees are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the organisational and financial information included on the Commissioners' section of the Church of England website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Money available resolution

As required by the Church Commissioners Measure 1947 (as amended), at the Annual General Meeting of the Commissioners to be held on 28 June 2017, the Board of Governors will recommend that the meeting (i) receives the Annual Report and Financial Statements; (ii) notes an update on the spending plans for 2017 2019.

At its meeting on 30 March 2017 the Assets Committee, having received updated advice from its actuarial advisors Hymans Robertson LLP (as required by the Pensions Measure 1997) which is summarised on the following page, resolved (i) to inform the Board that the Commissioners' expenditure plans for 2017 could be made firm and (ii) there was no reason to amend the following spending plans for 2017–2019 to support:
- Up to £371.0m for clergy pensions.
- Up to £97.7m for non-pensions fixed-term distributions.
- Up to £318.1m for non-pensions in-perpetuity distributions.

Independent Actuaries' Report

The Commissioners hold assets ("the assets") from which they pay pensions to retired clergy ("the pensions obligation") and other licensed ministers and staff ("the pensions liability"), and provide money to support the mission and ministry of bishops, cathedrals and parishes and for other purposes ("the distribution"). The distribution is affected by the extent of the pensions obligation and pensions liability. In order to assist the Commissioners in formulating the distribution policy, we carry out a detailed review from time to time.

Our most recent detailed review was carried out as at 31 December 2015 and we carried out an annual update of this review as at 31 December 2016. The reviews involve calculating the capital value (also known as the present value) of the following three areas of future expenditure from the assets, according to their term (we call these the 'building blocks'):

1. The pensions obligation and pensions liability. As the pensions are payable throughout the lifetimes of the pensioners, the term of this area of expenditure is longevity related and not known in advance. We therefore make assumptions of future life expectancy for the purpose of calculating the capital value of the pensions obligation and pensions liability.
2. Distributions which have a fixed term, for example the distributions that have been agreed in principle over the period from 2017–2025, releasing funds designed to accelerate the Resourcing the Future reforms.
3. All other planned distributions, which are assumed to be payable in perpetuity, sub-divided into separate building blocks with differing rates of target annual increases.

Having calculated the capital values of the building blocks, we compare the total with the value of the assets held to assess whether the planned distributions are sustainable. We also calculate the maximum sustainable in-perpetuity distributions.

Many occupational pension schemes have actuarial valuations performed using significant margins for prudence. This is done so that the scheme has a funding buffer should future events prove unfavourable, in particular if the pension scheme's sponsoring employer becomes insolvent. In contrast, our calculations for the Commissioners are made on a "best estimate basis"' and do not include such margins of prudence. We consider that margins are not required, as the assets are significantly larger than the pensions obligation and pensions liability, and no further margin is necessary. Moreover, if margins were to be included, this would restrict the current in-perpetuity distributions, with the expectation that they are likely to be increased in the future by more than the planned increases. This would lead to inter-generational inequity, with the future recipients of the distribution receiving more in real terms at the expense of current recipients.

It should be noted that the distribution which the assets can support is extremely sensitive to a number of factors. These include the actual investment returns on the assets, the assumed average future investment return, actual increases in the national minimum stipend (on which the starting level of pension is based) and pensions in payment and the actual and prospective longevity of pensioners. In previous assessments, our calculations were based upon an aspiration to increase the in-perpetuity distribution over time in line with average earnings. We also considered this in our latest assessment.
The main results of our calculations were that:

(i) as at 31 December 2016, £1,795 million of the Commissioners' assets were required to meet their clergy pension obligations;
(ii) we had no objection to the package of longevity-related, fixed-term and in-perpetuity building blocks payments agreed in principle for 2017–2019 triennium following last year's full review. The affordability of this package of building blocks should be re-examined not only in detail at the next triennial assessment due as at 31 December 2018, but also on an approximate basis at the interim assessment at 31 December 2017;
(iii) before the next full assessment a decision should be made as to what actions would be taken in relation to the package of building blocks if future market conditions turn out to be adverse to the extent that the assets can no longer fully sustain the building blocks;
(iv) the Commissioners should continue to pay some of the in-perpetuity distribution, say at least between 5% and 10%, in a form that will automatically cease, or can be stopped, at relatively short notice, say within a year or two. This will put the Commissioners in a better position to reduce the distribution if necessary following the next full actuarial review in the circumstances of unfavourable future experience. We have noted that the movement towards targeted one-off grants from the start of 2017 has given increased flexibility to cut back the in-perpetuity distribution in this way.

Richard Crowhurst FIA
Peter Carver FIA CERA
For and on behalf of Hymans Robertson LLP
April 2017

List of larger investments

The Commissioners' investment policy is to hold a diversified portfolio of investments across a broad range of asset classes.

The table below shows the largest 20 direct equity holdings, and the largest 20 direct property holdings.

The table does not include pooled fund holdings, which invest in a wide range of underlying assets thus diversifying the risk.

Top 20 most valuable property holdings	Top 20 most valuable equity holdings
19-26 Long Acre & 28-30 Floral Street	Alphabet Inc
Ashford Estate	American Express Co
Canterbury Estate	AstraZenica PLC
Carlisle Estate	BP PLC
CastleLake Land	Cerner Corp
CBRE Property Fund Central Europe	Citigroup Inc
Cherry Tree	Deere & Co
Chichester Estate	GlaxoSmithKline PLC
Ely Estate	HSBC Holdings PLC
Halsall Estate	Lloyds Banking Group PLC
Huntington Estate	Mastercard Inc
Hyde Park Estate	Microsoft Corp
Jhar Tree Timber	Oracle Corp
London Lancaster Hotel, Bayswater Road	Prudential PLC
MetroCentre (10% Interest)	Royal Dutch Shell PLC
Millbank Estate	Samsung Electronics Co Ltd
Rochester Estate	Taiwan Semiconductor Manufacturing Co Ltd
South Durham Estate	Tesco PLC
South Lincolnshire	Unilever PLC
UK Timber	Vodafone Group PLC

The top 20 equity holdings represent 3.2% and the top 10 property holdings represent 14% of the Commissioners' total investable assets.

The Church Commissioners and Board of Governors

at May 2017

The Board of Governors transacts the functions and business of the Commissioners except where, by statute or through delegation by the Board, these are exercised by Committees. Except State office holders, all Church Commissioners are members of the Board of Governors. Committee members in italics are non-Commissioners.

Archbishop of Canterbury, Justin Welby **Chair**
Archbishop of York, John Sentamu

Church Estates Commissioners appointed by
HER MAJESTY
Sir Andreas Whittam Smith, First Church Estates Commissioner
Dame Caroline Spelman MP, Second Church Estates Commissioner

Church Estates Commissioner appointed by
THE ARCHBISHOP OF CANTERBURY
Andrew Mackie, Third Church Estates Commissioner

Elected by the General Synod
HOUSE OF BISHOPS
Bishop of Manchester, David Walker **Deputy Chair**
Bishop of Chichester, Martin Warner
Bishop of Birmingham, David Urquhart
Bishop of Newcastle, Christine Hardman

HOUSE OF CLERGY
Revd Canon Bob Baker
Revd Amanda Fairclough
Revd Stephen Trott

HOUSE OF LAITY
April Alexander
Canon Peter Bruinvels
Gavin Oldham
Jacob Vince

Elected by the deans
Dean of Wakefield, Jonathan Greener
Dean of Gloucester, Stephen Lake

Nominated by
HER MAJESTY
Ian Watmore
Duncan Owen
Suzanne Avery

Nominated by
THE ARCHBISHOPS OF CANTERBURY AND YORK
William Featherby QC
Jeremy Clack
Mark Woolley

Nominated by
THE ARCHBISHOPS OF CANTERBURY AND YORK
After consultation with others including the Lord Mayors of the Cities of London and York and the Vice-Chancellors of Oxford and Cambridge Universities
Graham Oldroyd
Poppy Allonby
Hywel Rees-Jones

State office holders
First Lord of the Treasury
Lord President of the Council
Lord Chancellor
Secretary of State for Culture, Media and Sport
Speaker of the House of Commons
Speaker of the House of Lords

Secretary to the Church Commissioners and Board of Governors
Andrew Brown

Assets Committee
Subject to any general rules made by the Board, has an exclusive power and duty to act in all matters relating to the management of the Commissioners' assets
Sir Andreas Whittam Smith **Chair**
Revd Amanda Fairclough
Bishop of Birmingham, David Urquhart
Gavin Oldham
Poppy Allonby
Suzanne Avery
Mark Woolley
Graham Oldroyd
Duncan Owen
Committee Secretary Andrew Brown

Audit and Risk Committee
Acts in matters relating to the external auditors, the annual accounts and internal control systems
Hywel Rees-Jones **Chair**
April Alexander
Ian Ailles
Stephen East
Jeremy Clack
Jonathan Templeman
Committee Secretary Aneil Jhumat

Bishoprics and Cathedrals Committee
Acts for the Board in matters relating to episcopal and cathedral support
Andrew Mackie **Chair**
Bishop of Chichester, Martin Warner
Bishop of Doncaster, Peter Burrows
Dean of Wakefield, Jonathan Greener
Dean of Gloucester, Stephen Lake
Revd Rosalyn Murphy
Revd Mary Bide
Jacob Vince
Canon Elizabeth (Betty) Renshaw MBE
Rosemary Butler Representative of Bishops' spouses
Committee Secretary Paul Lewis

Mission and Pastoral Committee
Acts for the Board in matters relating to pastoral reorganisation, parsonages and diocesan glebe
Andrew Mackie **Chair**
Bishop of Newcastle, Christine Hardman
Bishop of Truro, Tim Thornton
Dean of Wakefield, Jonathan Greener
Revd Canon Bob Baker
Revd Canon Stephen Evans
Ven Penny Driver
Canon Peter Bruinvels
William Featherby QC
Garth Watkins
Susan Pope
Committee Secretary Paul Lewis

Church Buildings (Uses and Disposals) Committee
Acts for the Board in matters relating to the future of church buildings closed for regular public worship
Andrew Mackie **Chair**
Revd Canon Bob Baker
Revd Canon Peter Cavanagh
Revd Stephen Trott
Revd Simon Talbott
Ian Watmore
April Alexander
John Steel
Margaret Davies
Committee Secretary Paul Lewis

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