# The Church of England Pensions Board

# Annual Report

# Year Ended
# 31 December 2019

## Contents

## Introduction from the Chair and Chief Executive

The Church of England Pensions Board provides retirement services to those who minister and work for the Church of England. As a pension provider we are at the forefront of ethical and responsible investment. As a charity we provide housing and other services to those who have given a lifetime, living out their vocation to ministry in the Church of England in its service to this nation.

Though covering the year 2019, this Annual Report is written in the shadow of the global COVID-19 emergency. We would like to pay tribute to the Board's fantastic staff who are working tirelessly to support our 40,000+ customers, many of whom are in the vulnerable categories. The Board's operations are proving resilient to the current challenge and the pension funds are invested for the long term. The current situation cannot, however, detract from the achievements of 2019.

We are pleased to report good news from the latest valuation of our largest pension scheme. The clergy scheme's statutory valuation at 31 December 2018 was a major focus of 2019. Following engagement with the Pensions Regulator, the dioceses and other participating bodies, we adopted a new Asset Led Funding (ALF) approach as the basis for valuing the scheme's liabilities, which is well-suited to a long term open pension scheme such as CEFPS. Also, the deficit on the scheme has reduced since the last valuation, and the adoption of ALF should reduce the volatility of future valuation outcomes.

In aggregate, the investment assets of the defined benefit pension schemes of which the Board is Trustee performed strongly, delivering returns of 15.5%[1] over 2019. We are though continuing to monitor current investment performance very closely, given the impact of COVID-19 on the global economy.

We believe that it is possible to invest ethically and responsibly, and deliver an excellent return. The Pensions Board works with the other Church of England National Investing Bodies and through global alliances such as Climate Action 100+. We take our role as an asset owner seriously through engagement with companies and exercising voting rights. The Board's priorities for engagement remain climate change and extractive industries. The Board co-founded the Transition Pathway Initiative and helped create the new FTSE TPI Climate Transition Index launched at the start of 2020. We look forward to finalising all of the details, and adopting this index, which will represent a major step in reducing our investments in companies not aligning their businesses to the Paris Climate Agreement. On extractives, in the wake of the Brumadinho dam disaster in January 2019, the Board has been co-chairing a global investor initiative on mining safety.

The Board's housing operations continue to develop. We completed a record 56 property acquisitions in 2019 to meet growing demand for support with retirement housing. It is good to see an increasing number of our customers accessing our charitable support services. Through the COVID-19 crisis we are working hard to keep in contact all our housing customers and help them access local support in a difficult time.

In April 2019, Jonathan Spencer retired as Chair of the Pensions Board. His decade as Chair saw our investment funds treble, a more sustainable approach to retirement housing, and a bold strategy for

[1] This excludes the return on investment assets within the Defined Contribution sections of the schemes.

engaging companies on ethical matters. We wish to put on record our thanks for his leadership and selfless devotion.

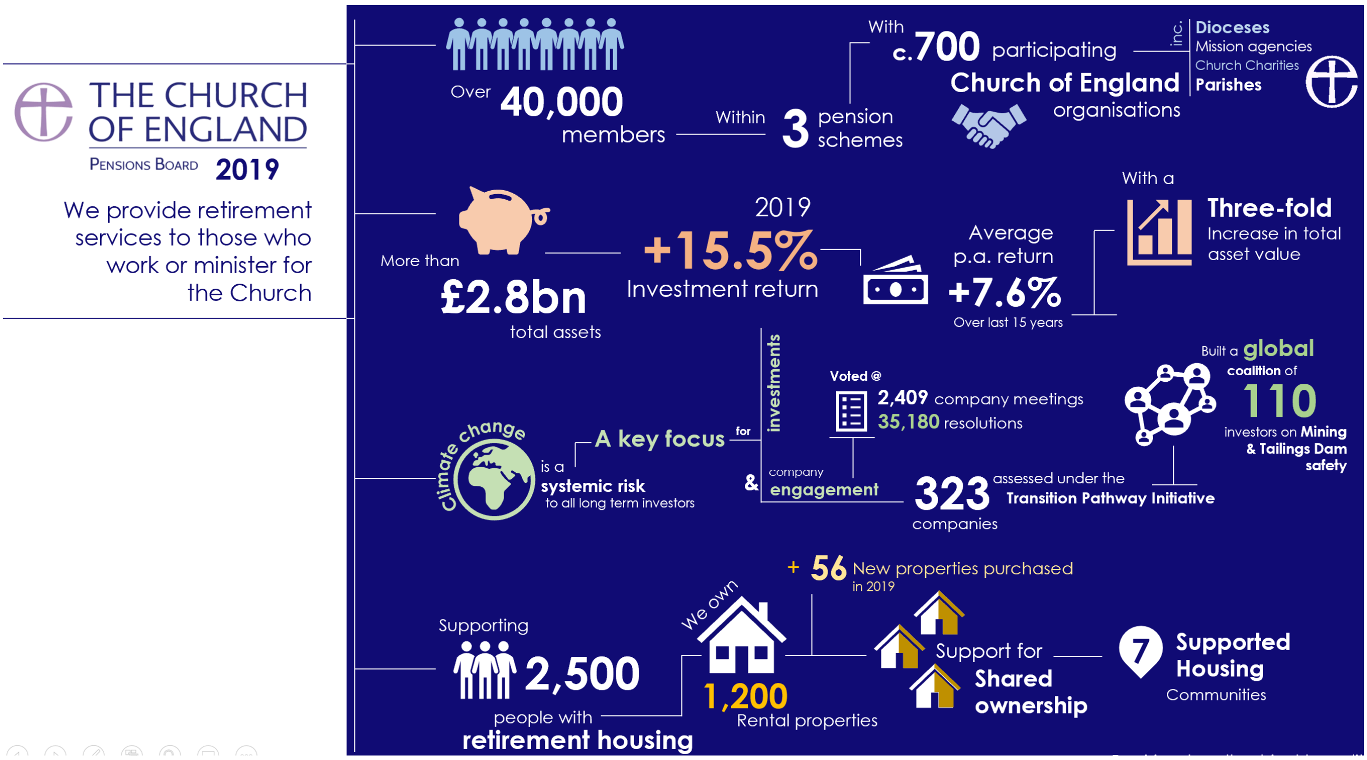
Three other trustees retired at the end of 2019 on completion of their terms. Ian Boothroyd, Alan Fletcher and Roger Mountford demonstrated exceptional commitment to all we do.

Michaela Southworth and Susan Pope were returned as new member-nominated trustees in December. Tony King also joined the Board in January 2020.

In 2026 the Pensions Board will reach its centenary. Such a milestone has prompted trustees to review future priorities and how to develop the pension funds and charitable activities to meet changing customer needs. We aim to become more self-sufficient, so we make less call on the wider Church for financial support. Part of this will be looking at opportunities for simplification to reduce costs and streamline services. This will help us ensure we have great conversations with all those we serve. We count it a privilege to be part of the Church's mission and look forward to what the next years will bring.

Clive Mather
Chair

John Ball
Chief Executive Officer



## Report of the trustees for the year ended 31 December 2019

The trustees present their annual report and financial statements of the charity for the year ended 31 December 2019. The financial statements have been prepared in accordance with the accounting policies set out in note 1 to the financial statements and comply with the Charities Act 2011, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and "Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Finance Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)" ("the SORP").

## Structure and history

The Church of England Pensions Board ("the Board") was established in 1926 by the Church Assembly (now the General Synod) by the Clergy Pensions Measure 1926, to serve as the pensions authority for the Church of England and to administer a comprehensive pension scheme for clergy. Prior to 1926 there was no proper pension system for clergy.

The Board was given powers in 1948 to provide housing for retired clergy and their widows and dependants, and in subsequent years also became trustee of various charitable funds and trusts to provide for the relief of poverty of retired clergy and their widows and dependants. In 1964 the Board became a registered charity. Since then the funds and trusts have been amalgamated and now exist as a single restricted fund: the 'General Purposes Fund'; and one linked charity for which the Board is corporate trustee: the 'Clergy Retirement Housing Trust'.

In its current form, the Board is a body corporate, a registered charity, and is governed by the Church of England Pensions Measure 2018 – the main operative provisions of which came into force on 1 March 2019. Prior to the 2018 Measure, the Board was governed by the Clergy Pensions Measure 1961 (as amended from time to time). During the period covered by these accounts it was the corporate trustee of three pension schemes:

- The Church of England Funded Pensions Scheme ("CEFPS", commonly called 'the clergy scheme');
- The Church Workers Pension Fund ("CWPF");
- The Church Administrators Pension Fund ("CAPF").

The financial statements of the three pension schemes listed above are not included in this report but are separately available.

The Board administers two other pension schemes, for which it is not a trustee: the Church of England Pensions Scheme (for clergy service prior to 1 January 1998); and the Church Commissioners Superannuation Scheme (for staff service prior to 1 January 2000). The financial affairs of these schemes can be found in the Church Commissioners' accounts. They have no impact on the financial position of the pension schemes of which the Board is trustee.

## Public benefit

The purposes of the Board are the provision of retirement services set by the Church of England for those who have served or worked for the Church. This is carried out primarily through the provision of retirement housing and through the administration of pensions.

In accordance with the requirements of s17(5) of the Charities Act 2011, in exercising their responsibilities the Board has had regard to the Charity Commission's published advice on public benefit, especially that contained in its supplementary guidance *"The Advancement of Religion for the Public Benefit"*.

Nationally, the Church, through its network of more than 12,000 parishes, 16,000 churches and 20,000 ordained and lay ministers seeks to build social capital and provide spiritual care for all those who might wish to engage with matters of faith in a Christian context. The local churches are a focus for community activity, and through resources available at their disposal, provide activities that support community development and social cohesion. These can include projects which support children, families and the elderly.

Retired clergy and their dependants often play a role in these projects. Through the provision of comprehensive pension schemes, retirement accommodation and, where applicable, direct grants to supplement their income, the Board assists clergy in retirement to continue to play a full role in the community.

## Objectives

The Board's charitable objectives are first, to provide the best possible support and care, within available resources, to those who have retired from stipendiary and lay ministry within the Church of England, and to their dependants, through the provision of retirement and supported housing, and through discretionary grants to ensure beneficiaries have a minimum income standard. Second, the Board's objective is to meet its responsibilities as administrator for the various pension schemes, as laid out in its governing documents (see Structure and History section).

The strategic objectives of the Board are:

- Effective and efficient delivery of our pension schemes
- Quality housing that our customers and funders value
- Demonstrate leadership in ethical and responsible investment
- Understand our customers, ensuring we deliver excellent service
- Model good governance and stewardship
- A great place to work for all our teams

Around one in six clergy retiring from the stipendiary ministry seek the Board's assistance with retirement accommodation. Retirement can be a stressful life event for many people and particularly so for the Church of England clergy who have lived most of their working lives in tied accommodation and for whom retirement also entails the stress of moving to a new house. The Board aims to work with clergy to assist them in this significant life transition and encourages early conversations about retirement housing and pension provision. We aim to provide an appropriate level of service over the long term, and retirement housing which is well maintained and suits its purpose.

In 2020, the Board will continue to provide these services within the resources available. We continue to shape and refine the services that are offered to ensure that they are sustainable in the future.

The charitable activities are financed by grants, gifts, legacies and investment income. All donations are placed in the General Purposes Fund unless otherwise specified. We are very grateful to those who have given donations and left legacies over the past year.

## Charitable activities of the Board

Around 2,500 individuals - primarily retired clergy and their dependants - receive housing assistance through CHARM rental, supported housing, shared ownership and the (closed) mortgage schemes.

## CHARM (Church's Housing Assistance for Retired Ministry)

The CHARM scheme is the main housing provision made by the Church of England Pensions Board. It is designed to assist retiring clergy leaving tied accommodation and who have not been able to make their own provision for somewhere to live in retirement.

The provision of housing through CHARM is a discretionary facility with the Board specifying various parameters relating to the size and type of property available. The parameters are regularly reviewed.

Information on the CHARM scheme, eligibility and access to the various options is available on the Church of England websites at www.churchofengland.org/housing.

### Rental Property

The rental option is the Board's core service, with around 1,200 properties let across England and Wales. Customers can choose from a portfolio of available properties across the country up to five years before they intend to retire and "reserve" it for their retirement.

The Board ensures that all properties are in a good state of repair. It uses stock condition surveys to plan and carry out maintenance.

Tenants who moved into their properties after 1 April 2015 pay a "target rent" based on a social housing model; tenants who already lived in a property prior to this date pay a rent which was based on their (joint) income, which is being slowly transitioned to a target rent.

The CHARM scheme is subsidised by the wider Church of England through Vote 5 of the Archbishops' Council's budget. The total grant for 2019 was £5.0m (2018: £4.8m). This support enables the Board to continue to offer target rents at a lower level than market rents. The Trustees are grateful for the financial support from the wider Church towards this work.

### Shared Ownership

The Shared Ownership option assists 105 households. Properties are bought in partnership with the customer who contributes a minimum of 25% of the property cost. The Board's maximum contribution is £150,000. Additional shares of the property can be bought by the customer who can buy outright ownership if they wish.

Customers pay a rent, based on the Board's capital share of the property, and a service charge which reflects the cost of maintaining and insuring the property. The rent is increased in line with the weighted increase in the full Church and State pension for a married couple.

### Mortgage Schemes

The mortgage schemes are closed to new applicants.

A fixed-interest mortgage option was in operation until 31 December 1982. Mortgagors had the option to pay interest on the amount loaned during the life of the loan and then on redemption repay the nominal amount of the loan, or pay one-half of the interest due during the life of the loan and on redemption repay the nominal amount of the loan together with the unpaid interest. Six loans were outstanding at the end of the year, three of which the mortgagor is paying the full interest amount on the mortgage advanced, and three of which the mortgagor is paying one-half of the interest due.

A value-linked mortgage option closed on 31 March 2008. Mortgagors pay an interest-only element on the advanced sum, with the rate of interest being subject to an annual uplift in line with increases in Church and State pensions. When the property is sold or the mortgage redeemed, the sale proceeds are divided between the mortgagor and the Board in the same proportions as when the loan was advanced. At the end of the year mortgage loans were outstanding on 576 properties (516 from the Charity and 60 from the subsidiary company CEPB Mortgages Ltd) (2018: 640 properties (580 from the Charity and 60 from the subsidiary company CEPB Mortgages Ltd)).

## Supported Housing

For more than 70 years, the Board has operated supported housing schemes for those retired clergy and their dependants who wish to live as independently as possible in a community of Christians. Some retired clergy, or their surviving spouses or civil partners, no longer feel comfortable living by themselves or find it increasingly difficult to maintain and manage a home of their own. Equally, some wish to continue living within a community where the liturgical and spiritual life of the Church of England is central and practical support is available to enrich older living.

The Board's seven supported housing communities not only provide residents with a self-contained flat but also include dining facilities, meeting spaces, libraries, a chapel and communal grounds. The Board charges for the accommodation using a rent and service charge system and operate a subsidy system to assist those of its residents who are unable to pay for those support charges which are not eligible for state assistance.

The total cost of running the supported housing operation including central overheads, is largely met by the income the Board receives through rent and service charges. The shortfall is met from grants, voluntary donations and investment income received by the General Purposes Fund. In 2019 this amounted to £1.6m (2018: £2.7m)[2]. This includes costs related to the Manormead Nursing Home which closed in 2017.

## Administration of pensions

During the period covered by this report, the Church of England Pensions Board was the trustee of three pension funds - the Church of England Funded Pension Scheme, the Church Workers Pension Fund and the Church Administrators Pension Fund.

The administration of pensions for the clergy is one of the charitable objects of the Board; this is carried out at no cost to the charitable funds since the administration costs are charged to the relevant pension fund.

In total, the pensions for more than 40,000 people, across almost 700 employers are administered by the Board. Separate reports and accounts are issued for each of the pension schemes.

## Review of 2019 activities

## CHARM

The Board continues to be able to assist around 2,500 retired clergy and their dependants through the CHARM scheme (including the historic mortgage arrangements).

The Board's strategy for the main rental scheme is to build up a portfolio of suitable properties which can be held for the long term and will be suitable for re-letting when they become vacant. This requires a transition away from historic Church Commissioner funded properties, which are sold as they fall vacant. In line with this strategy, the Board purchased 54 new rental properties during the year (2018: 38 new rental properties) and was also able to re-let a number of existing (Pension Board funded) properties to meet demand. This resulted in a net increase in the size of the rental portfolio from 1,185 at the end of 2018 to 1,192 at the end of 2019. The proportion funded by the Pensions Board increased to 78% (2018: 75%).

In addition to rental properties, the Board continued to assist customers through the shared ownership scheme. Two new shared ownership properties were purchased in 2019 (2018: 3).

The Board continued to provide supported housing through its seven supported living schemes, housing 212 residents in 2019 (2018: 206).

In 2019 we signed the contract for a new Housing Management System, an important step towards improving the quality of data that underpins our housing services and will lead to improvements to the service that we provide our customers. The System will take some time to implement and we anticipate that it will "go live" in 2021.

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[2] See note 4 for further details of the shortfall between charitable income from rent and service charges, and charitable expenditure incurred.

We have continued to provide support to our customers through our Welfare Benefits Adviser service. In 2019 almost 200 customers were provided assistance in accessing local authority support and benefits to which they are entitled.

Since the year end the Board along with every other body in the UK has been affected by the COVID-19 crisis. In respect of housing, this is resulting in a slowdown of property acquisitions and moves. It has also required non-emergency maintenance and improvements to be deferred, but we are carefully planning how to undertake these works when it is safe to do so. The Board's staff are keeping in regular contact with all our housing customers through this crisis, and we have been in close contact with stakeholders and regulatory bodies.

## Administration of Pensions

In 2019, we completed the triennial valuation of the CEFPS scheme, based on a valuation date of 31 December 2018. Despite a challenging economic environment in late 2018, the valuation outcome is positive – which is good news for members, funding bodies and the wider Church. The estimated deficit has reduced to £50m (from £236m in 2015) and the recovery period reduced by 3 years.

We also completed a review of our pension schemes' administration, identifying potential developments, including:

- online access for members,
- web access and electronic interfaces for employers, and
- greater automation of our 'back of house' processes.

We have renewed the contract with our administration systems provider (Civica) and together we have started a 2-year project to implement these developments. The Board first implemented its pensions administration software 14 years ago. The system has provided considerable resilience through the COVID-19 emergency, with staff able to maintain service levels whilst working remotely from the office. The system improvements we are now implementing will further enhance the service through more online interaction with employers and members.

During 2019 the administration of clergy Additional Voluntary Contributions (AVCs) was brought in-house, resulting in improvements in customer service and response times.

We also launched a new financial advice service to members, partnering with LV=. We recognised that as members approach retirement they face a wide range of choices. Specific financial advice is often needed, which can be difficult to find and expensive. Members can continue to choose their own financial adviser, however the service from LV= offers advice at a significant discount to typical market rates.

In 2020, our focus will be the actuarial valuations of the CWPF and CAPF schemes. We have started to prepare for this through workshops with CWPF employers participating in the Defined Benefits Section of the fund, including dioceses, mission agencies and church charities.

The total assets of the defined benefit pension schemes for which the Board is Trustee returned 15.5% over 2019[3] (2018: a negative return of 2.6%). For the fifteen years to the end of 2019, annualised returns are 7.6%.

The results of the schemes are not reflected in those of the Board and may be found in the separate annual report and accounts produced for each scheme. The table below provides summary information for the net assets of each scheme as at 31 December 2019:

| | **Church of England Funded Pension Scheme £m** | **Church Workers Pension Fund £m** | **Church Administrators Pension Fund £m** | **Total £m** |
|---|---:|---:|---:|---:|
| **Total net assets available for benefits** | 2,175 | 607 | 171 | 2,953 |

The table below provides summary information for the most recent actuarial valuation of each pension scheme:

| | **Church of England Funded Pension Scheme £m** | **Church Workers Pension Fund £m** | **Church Administrators Pension Fund £m** |
|---|---:|---:|---:|
| *Date of Valuation* | *31 Dec 2018* | *31 Dec 2016* | *31 Dec 2017* |
| Total Technical Provisions | (1,868) | (549) | (143) |
| Total net assets available for benefits | 1,818 | 506 | 130 |
| **Total pension scheme deficit** | (50) | (43) | (13) |

In line with its agreed long-term asset allocation, the Board continued its programme of diversifying the assets and sources of return for the pension schemes during the year, particularly through commitments to infrastructure equity investments. This additional diversification partly mitigated the volatility in equity and gilt markets in the final quarter of the year. The long-term asset allocation will continue to see a shift away from equities to greater diversification into alternative asset classes. This strategy underpins the new valuation methodology for the CEFPS.

Since the end of the financial year there has been a fall in scheme funding levels due to trends in global markets as a result of COVID-19. The Board is a long term investor with a well-diversified portfolio, which helps to mitigate the effects of volatility in pubic equity markets.

[3] This excludes the return on investment assets within the Defined Contribution sections of the schemes.

## The Board's Approach to Ethical & Responsible Investment

The Board actively engages with companies in which it is invested and is committed to managing its funds in a way that reflects the Church's teaching and values. The Board is the only pension provider offering schemes that fully comply with the Church of England ethical investment policies.

Climate change is a systemic risk to all long-term investors. Both an ethical and financial issue, it is a critical focus of our investment approach across all asset classes as well as our engagement with companies.

A key tool in this is the Transition Pathway Initiative (TPI) which we continue to jointly chair with the Environment Agency Pensions Fund. TPI assesses companies' preparedness for transition to a low carbon economy and is backed by investors with over $19 trillion in AUM. During 2019 we developed a new global equity index with FTSE and the LSE which was launched in early 2020. This directly incorporates assessments of companies under TPI into how we invest. This will have significant implications for our exposure to fossil fuel companies as well as increase our exposure to green revenues.

In 2019, working with the €500 billion Dutch Fund APG, we launched a major initiative to develop a new framework to support pension funds alignment of all their investments to the Paris Agreement. This is now supported by 60 funds with over €13 trillion in AUM. We believe working closely with other pension funds we can collectively drive significant climate change action in both the interests of the schemes' beneficiaries and society.

In our engagement with companies, we coordinate closely with the other National Investing Bodies, the Church Commissioners and CBF Church of England Funds. In 2019, the Board and the Church Commissioners were ranked second in the world for asset owners that contribute most to sustainable investment and corporate governance (in the IRRI survey).

We continue to engage significantly with the extractives industry. Whilst a vital sector providing many of the necessary resources for every-day life, unfortunately, when things go wrong the consequences can be catastrophic – as seen with the 2019 Brumadinho tailings dam collapse in Brazil. The Board, with the Council on Ethics of the Swedish National Pension Funds, has led global investors' response to this disaster with the goal of ensuring a new global standard is developed and implemented on tailings dam safety.

We receive advice and support from the Church's Ethical Investment Advisory Group (EIAG) on ethical investment matters and operate exclusions – e.g. in relation to gambling, alcohol, tobacco and pornography. Aligned with our climate change policy, we also restrict investments in companies generating more than 10% of revenues from thermal coal and tar sands.

In the light of COVID-19 the Pensions Board has worked with the Principles of Responsible Investment to establish two commissions on the short and long term investor response to this crisis.

## Financial Review

The Board's net income for 2019 was £5.3m (2018: £0.8m). Net income before gains on investments was £4.0m (2018: £0.2m).

Total income for 2019 was £35.1m (2018: £29.9m), with income from charitable activities being £20.5m (2018: £19.8m), which includes income from rents and service charges for CHARM properties and the supported housing schemes along with interest received in relation to mortgage properties, which together amount to £13.6m (2018: £13.6m). The remaining income from charitable activities of £6.9m (2018: £6.3m) relates to the recovery of administrative costs in respect of the pension schemes administered by the Board.

In addition to the income received through provision of its services, the Board relies upon voluntary income sources to sustain its charitable activities. Income from grants, donations and legacies was £10.9m (2018: £5.2m). This includes support from the wider Church of England, through Vote 5 of the Archbishops' Council's budget, under which a grant of £5.0m (2018: £4.8m) was made towards the provision of retirement housing. In 2019 the Board was notified that it was the residuary beneficiary of a large legacy which met the income recognition criteria at the balance sheet date and therefore has been reflected in the accounts at an estimated value of £5.2m. This largely explains the year-on-year increase in income. Total income from donations and legacies was £5.9m (2018: £0.4m) for which the Board is extremely grateful.

The Board also received investment income of £1.6m (2018: £1.9m), and profit from the sale of CHARM properties of £2.1m (2018: £3.0m) as the Board continues to develop the portfolio through sale of unsuitable properties as they become vacant, using the proceeds of sale, along with external borrowing, to fund the purchase of new properties.

Total expenditure for 2019 totalled £31.1m (2018: £29.8m), with expenditure on charitable activities totalling £31.1m (2018: £29.8m). The largest component of expenditure was on rental properties of £14.9m (2018: £13.0m) with the year on year increase reflecting major maintenance and fit-out works on acquisitions and re-lets. Expenditure on supported housing was £5.4m (2018: £6.5m), with the prior year costs reflecting a one-off impairment charge on the former nursing home property. Charitable expenditure also includes the cost of administering the pension schemes which was £6.9m (2018: £6.3m) – this is a figure which varies year to year in large part due to the level of work on statutory valuations within the year.

Net gains of £1.3m on investment funds (2018: £0.6m), explained further below, contributed to an overall increase in total funds to £128.9 (2018: £123.7m).

The value of fixed assets increased in the year to £301.3m (2018: £291.8m). The overall value of the CHARM portfolio increased by £8.2m, reflecting acquisitions and disposals in the year, whilst the value of CEPB funded properties increased to £175.0m (2018: £161.8m) largely driven by the increase in CEPB-funded housing stock in the year (with 56 additions in 2019 versus 25 disposals).

The Board's pension deficit liability was £0.8m at the end of 2019 (2018: £0.9m).

## External financing

The Board has supported the long-term financing of the CHARM scheme through the issue of two listed bonds, as well as making use of a Revolving Credit Facility.

During 2015 the Board issued a £100m Bond, of which £70m was drawn down immediately. This gave the Board access to long-term finance to purchase additional retirement properties, to secure the future of clergy housing in retirement. The Board used part of the proceeds to acquire the further economic interest in 196 CHARM rental properties which had been financed by the Church Commissioners and had previously been subject to significant restrictions. The remaining proceeds were used to repay other existing, shorter-term, borrowings.

In 2018, the Board issued a new £50m fixed rate bond in April 2018, of which £30m was drawn down immediately and was predominantly used to repay existing borrowings. This reflects the continuation of the Board's long-term financing strategy.

In 2019, the Board agreed a variation to its £50m Revolving Credit Facility, extending this arrangement to 2025.

## Charity Investments

The charity holds investments of £42.3m (2018: £40.9m), which generated income of £1.6m in the year (2018: £1.9m).

Following a review, the Board decided to terminate its investment in the CBF Investment Fund and to reinvest the proceeds in a bespoke portfolio run by Brewin Dolphin. The change was effected in 2019.

At the end of 2019 the majority of investments were held with Brewin Dolphin, the Charities Property Fund (CPF, managed by Savills) and the Property Income Trust for Charities (PITCH, managed by Mayfair Capital). The CPF and PITCH funds invest wholly in UK property, principally industrial, office and retail property. All three funds are structured as charity common investment funds, which allow investing charities to benefit from their statutory exemption from stamp duty on UK investments. The charity also holds £0.7m (2018: £0.7m) in investment properties, covering a portfolio of 6 (2018: 6) properties.

The amounts invested at the end of 2019 by the Board across the three funds are shown in the table below, along with the return generated by each investment for the Board over the year. At times, the Board's returns may differ from the funds' own returns, because of investment or disinvestment during the year, which will affect its returns.

| | Value at end 2019 £m | Allocation % | 2019 Return for the Board % |
|---|---|---|---|
| Brewin Dolphin | 12,409 | 29% | 4.3 |
| Investment Properties | 688 | 2% | 2.6 |
| Savills Charities Property Fund | 20,526 | 49% | 2.1 |
| Mayfair Capital Property Income Trust for Charities | 8,647 | 20% | 2.5 |
| Total | 42,270 | 100% | 7.1 |

The return from the CBF Church of England Investment Fund for the period in which the Board held investments in the fund was 16.4%.

The charity also holds £1.4m (2018: £1.1m) in short-term cash deposits with the CBF Deposit Fund (CBFDF, managed by CCLA Management Ltd).

Further information about the two charity property funds in which the Board is invested is provided below.

| | Fund returns net of fees | | | Yield | Net fund size |
|---|---|---|---|---|---|
| | 2019 | 2017-2019 | 2015-2019 | End 2019 | End 2019 |
| | % | % p.a. | % p.a. | % | £m |
| Savills Charity Property Fund | 2.1 | 6.4 | 7.5 | 4.2 | 1,254 |
| Mayfair Capital Property Income Trust for Charities | 2.5 | 7.5 | 8.6 | 5.4 | 585 |

## Risk Management

The Church of England Pensions Board's 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 Trustees, management and staff.

The Trustee Board reviews the strategic risk register and risk management arrangements at least 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.

Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility; with the Executive Team also taking collective oversight of risk management. 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 Audit and Risk function. The management of key risks are subject to independent review and assurance through the internal audit process, which reports to the Audit and Risk Committee.

**Principal Risks**

The principal risks, which Trustees consider most significant are –

| Risk | Key Management Actions |
|---|---|
| Significant wider economic issues resulting from events including COVID-19, (e.g. deflation, stagflation, large adjustment to property prices) which have a major impact on pension deficits or covenants on external financing. | • Regular monitoring and reporting of the external environment and scenario analysis.<br>• Diversification of the investment portfolio.<br>• Adoption of Asset Led Funding methodology for the CEFPS.<br>• Engagement with scheme funders / employers.<br>• Employer covenant monitoring arrangements.<br>• Debt covenant monitoring arrangements.<br>• COVID-19 Response Plan. |
| Failure to meet customer needs and expectations in the context of the expected significant increase in retirements | • Encouraging early customer engagement.<br>• Scenario modelling and demand surveys. |
| Legal or regulatory change resulting in a scheme becoming unviable, unacceptable to employers or unaffordable. | • Horizon scanning.<br>• Engage with regulatory bodies and policy makers.<br>• Ethics & Engagement programme. |
| Loss or misuse of personal or business critical data, or failure of key systems, leading to losses or reputational damage. | • GDPR implementation plan in place across the National Church Institutions (NCIs), including audit work to verify state of implementation.<br>• Obtained Cyber Essentials Plus certification.<br>• NCIs Business Continuity Plans and Insurance.<br>• Maintenance arrangements with suppliers. |
| Failure to comply with Landlord regulatory responsibilities resulting in injury or death to individuals | • Landlord responsibilities identified.<br>• Specific arrangements in place for Supported Housing, including third party support.<br>• Compliance actions for CHARM properties delivered by a range of third-party providers, managed and monitored by<br>• Compliance Manager.<br>• Specific COVID-19 planning undertaken. |

| Risk | Key Management Actions |
|---|---|
| Significant changes in society materially impacts on the viability of pension schemes or overstretch our housing provision. | • Annual review by Actuary<br>• Customer engagement & nudges work, including encouraging AVCs |
| CWPF Pension Builder section becomes untenable by overpromising guaranteed benefits and effectively brings down CWPF which is not a segregated scheme. | • The Board has been cautious in the way it has developed the existing bonus policy. There are separate policies for PB Classic and PB 2014 to take account of the different risks.<br>• Advice from the Scheme Actuary. |
| Covenant(s) materially weakened by a significant event within the church (e.g. failure of employer, sudden reduction in active members) leads to financial strain | • Covenant monitoring and integrated risk management.<br>• Close liaison with Archbishops' Council on wider church financial issues.<br>• Horizon scanning and ad-hoc simulation or scenario planning. |
| Failure to understand and respond to the paradigm shifts caused by climate change | • Ethics & engagement programme including links to PRI, TPI, etc.<br>• Property purchases consider climate and flood risk |
| Inability to deliver key services in the event of a major business continuity threat (e.g. COVID-19). Business Continuity, IT resilience, Cyber Security, Health & Safety Challenges etc. impact delivery of strategic objectives. | • H&S procedures for CHARM properties and supported housing<br>• Business Continuity capability tested with new emergency contact system and remote-working day. |

## Going Concern

The Board meets the cost of property purchases, fit-outs and other working capital requirements through its external borrowing, comprising a bank facility and two listed bond issues. The Board prepares annual budgets and regular re-forecasts, along with a three year financial plan in order to ensure that it can meet its spending commitments as they fall due, and fulfil the terms and conditions associated with external borrowing. In addition, the Board has also prepared a long-term business plan to consider financial viability over a longer period than that for which formal budgets and forecasts are prepared.

The Board has considered the key risks and uncertainties which impact upon immediate liquidity and longer term solvency. These include the level of anticipated demand for its services, the resilience of voluntary income streams and changes in economic conditions. It has modelled the impact of changes in these factors over time, and has considered whether it has adequate reserves and appropriate contingency plans to deal with a range of potential adverse scenarios.

The Board has specifically considered the impact of the COVID-19 pandemic on its operations, particularly with reference to the contingency plans it has put in place to respond to the emergency. The primary impact of the restrictions arising from the pandemic has been a decision to delay property acquisitions and non-essential maintenance, focusing on prioritising the safety and wellbeing of existing customers, and working with specific prospective customers to put plans in place to meet their needs where possible. The Board has adopted a remote working arrangement with respect to its officed based activities and has been able to successfully maintain its operations.

Having due regard to the above, the trustees have reasonable expectation that the Board has adequate resources to meet its spending commitments as they fall due, including the servicing and repayment of debt and compliance with loan covenants for the foreseeable future. Accordingly, the going concern basis of accounting in preparing the annual report and accounts continues to be adopted.

## Approach to Taxation

In conducting its tax affairs, the Board will:

- ensure that it conducts them not only in accordance with the letter but also the spirit of the law;
- not behave in a manner that could be considered aggressive or abusive;
- endeavour to obtain all reliefs available to it as a charity;
- ensure that all tax filings are compliant with the law and that tax payments are made in a timely manner;
- engage in dialogue with Her Majesty's Revenue & Customs ("HMRC") on a regular basis to ensure that any matters where the tax treatment is uncertain or difficult are raised and discussed at an early opportunity;
- maintain suitable processes and controls to ensure that the risk of non-compliance with filing and disclosure requirements is minimised; and
- ensure appropriate compliance with any non-UK tax regimes in relation to filing and payment obligations by paying the right amount of tax in the right place at the right time and disclosing all relevant facts and circumstances to the tax authorities and claiming reliefs and incentives where available.

## Reserves

### *Unrestricted funds*

The unrestricted funds represent expenditure incurred by the Board on salaries and working expenses subsequently recovered from the pension funds administered by the Board. The Board has no net assets in its own right as a body corporate and, consequently, no unrestricted reserves are retained.

### *Restricted funds*

Restricted income funds are to be spent or applied within a reasonable period from their receipt to further one or more, but not all of the charity's charitable purposes.

The largest restricted fund administered by the Board is the **General Purposes Fund** ("GPF") at £117.7 m (2018: £113.0m), which exists to provide for the relief of poverty among, and housing for retired clergy and church workers and their spouses/former spouses/dependants etc. This fund is considered to be restricted since the provisions for use of its resources are narrower than the statutory objects of the Board, which include the administration of pensions.

Within the GPF, the Board has earmarked funds of £7.8m (2018: £4.4m) for the provision of future property maintenance costs. The designation of this fund merely expresses the current intentions of the Trustees and has no legal effect. Legally, the funds are available for spending on any of the objects of the GPF.

The **Clergy Retirement Housing Trust** ("CRHT") is a registered charity and is a linked charity of the Board (Charity No. 236627-2). The CRHT may use its property as residences for qualified persons under the provisions of the Clergy Pensions Measure 1961 or any succeeding legislation. As a linked charity, it is accounted for as a separate restricted fund, which together with some smaller trusts is valued at £12.0m (2018: £11.5m).

## Reserves policy

Reserves are held to ensure that the Board can continue to deliver services to its beneficiaries and to meet its obligations and covenants in respect of debt financing in the event of a sustained reduction in voluntary income or other adverse scenario. The Board considers annually the level of reserves that should be maintained and takes account of the requirements of the Charities SORP and the guidance issued by the Charity Commission (Charities and reserves CC19).

Whilst it is unusual for a charity to hold reserves entirely within restricted funds, in practice the breadth of the restriction placed on the General Purposes Fund means that the trustees have a reasonable expectation that they could meet all necessary charitable expenditure of the Board from this fund, excluding the administration of pensions, the cost of which is fully recoverable from the Schemes.

For the purposes of defining an appropriate reserves policy, the Board therefore considers 'free reserves' to be the net assets of the General Purposes Fund after excluding:

- the value of programme related assets net of secured borrowings, i.e. CHARM properties (most of which are debt financed);
- other fixed assets held for charitable purposes, which cannot be quickly realised;
- the amount earmarked for property maintenance;

and after making provision for the pension liability.

The Board holds free reserves in the region of £35m - £40m, allowing it to generate annual investment income in the region of £1.5m - £2m whilst taking an investment approach which will preserve capital value. This level of reserve also gives considerable cover in the case of a one-off significant financial stress event.

The Trustees have considered the reserves policy in light of the COVID-19 pandemic and the impact on the Board's activities as well as the wider economy, and believe it continues to be appropriate. Therefore no changes have been made.

## Plans for the future

The Pensions Board has been providing retirement services to the Church of England for over 90 years. These services have changed over the years and will continue to develop to ensure that the needs of its customers are met. The Board will continue to regularly review these services using the information obtained from an understanding of its customers' needs and expectations, to improve delivery, whilst demonstrating value for money to those who provide the Board with the resources to operate. It will also continue to provide a working environment which motivates and develops its people to give of their best and take pride in working for the Church of England Pensions Board.

Our core work will continue to be serving a growing population of 40,000 pensions customers and 2,500 housing customers and working with partner employers and responsible bodies across the Church of England. This includes managing health and safety, regulatory compliance and performance monitoring.

Specific activities in our Delivery Plan for 2020 include:

- **Preparing for an increase in future demand for housing** through the purchase of additional properties (subject to market conditions) to strengthen the portfolio and provide more choice and planning for the longer term through the development and application of a new long-term financial model. (In practice, this activity is being adapted due to the unique circumstances caused by COVID-19, with priority being given to working with specific customers rather than building the portfolio.)
- **Continuing the work on a new Housing Management System** to support our asset management strategy, and ensuring value for money and high levels of customer service with a growing portfolio in the future.
- **Upgrading our Pensions administration system** enabling the introduction of more online services over time for our customers.
- **Undertaking the statutory valuations of the CAPF and the CWPF**, working with our advisers, responsible bodies, and The Pensions Regulator. The deadline for both valuations is 31 March 2021
- **Continuing investment diversification** for the CEFPS as it moves towards its long-term asset allocation target, particularly through further implementation of infrastructure and private market strategies.
- **Further developing our ethical investment and engagement work**, particularly through further support and use of the Transition Pathway Initiative (TPI) and engagement work on extractive industries. A new FTSE TPI Climate Transition Index was launched in early 2020. We are also supporting the development of a new global safety standard in the management of waste from mining.

The Board has identified three strategic priorities: simplification, engaging in great conversations, and seeking to become more self-sufficient over the long term. These priorities are manifest in various parts of our plan. An early goal is to review the governance and the complex structure of the Trustee Board. In 2019 the Board reduced the number of sub-committees. A statutory consultation on more substantial changes is intended to be carried out during 2020 under the provisions of the Legislative Reform Measure 2018.

## Structure, governance and management

## Governance

There are 20 members of the Board representing a balance of skills and expertise who are drawn from a wide range of constituencies. Following changes to the legislation affecting the membership of the Board in 2017, seven are elected by the various Houses of the General Synod and five by the members or the employers participating in the pension schemes for lay workers. One is appointed by the Church Commissioners and seven are appointed by the Archbishops of Canterbury and York, after consultation, including the Chair whose appointment is approved by General Synod. The current membership does not fully reflect these changes but will do so by 2021. A period of membership lasts for six years; retiring members may offer themselves for re-election or be reappointed.

The Board decides on the frequency of its meetings, which is typically five a year. For Board meetings a quorum is present when six people are in attendance, including at least two persons elected by the members of the pension schemes administered by the Board.

New trustees receive an induction into the work and practices of the organisation. All have access to an online database which includes outlines of their responsibilities, copies of the Rules and other documentation for each pension scheme, policies relating to the provision and operation of retirement housing assistance, and a library of past Board and committee papers.

Members of the Board have completed either fully or partially the Pensions Regulator's Trustee Toolkit, or an equivalent qualification, and regular training sessions are provided at Board meetings on a range of subject areas. . In 2019 trustee training topics included DC engagement and communication with members, various ethical investment issues, the legal status of the employer covenant, and changes to the Statement of Investment Principles.

The Board has committees to oversee the following areas: Audit and Risk, Housing, Investment, and Pensions. The Board has delegated authority to make decisions concerning these areas within its terms of reference and to make recommendations to the full Pension Board on other matters.

The Board has also delegated some of the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on page 27.

## Auditor

Following a competitive tender exercise, the Board approved a resolution appointing Crowe U.K. LLP as the auditor to the group at the June 2019 Annual General Meeting.

## Ethical Investment

The Board manages the Secretariat to the Ethical Investment Advisory Group ("EIAG") on behalf of the Church of England's national investing bodies – the Church Commissioners, the Church of England Pensions Board and the CBF Church of England funds managed by CCLA Investment Management Ltd.

## The Charity Code of Governance

The Church of England Pensions Board takes its governance responsibilities seriously and, as a large charity, aims to have a governance framework that is fit for purpose, compliant and efficient. In 2017 the new Charity Code of Governance was launched, with a recommendation that charities review their level of application and to explain any aspects of the code they were not applying. In our review, we carried out a detailed examination of each element of the code:

- Organisational purpose
- Leadership
- Integrity
- Decision making, risk and control
- Board effectiveness
- Diversity
- Openness and accountability

Our review found we apply the code with a few exceptions. The main areas where we differ from the recommendations are:

- Our Governing documentation, which as a statutory corporation is itself primary legislation, does not currently include limitation of terms by trustees, although we do exercise an informal limitation for trustees appointed to serve on the Board. This is set at two full terms (12 years) which is in excess of the recommendation in the Code of nine years. Whilst not compliant with the Code, we do measure the length of service of trustees; whilst a number of individual trustees have served for in excess of nine years, the average has not exceeded six years.

- There are a number of areas which are being reviewed to enhance our compliance. These include extending the gathering of feedback from customers, consideration of extending the aspects of diversity we monitor, and through a thorough review of our charitable services.

## Trustees and advisors

The Board has members elected and appointed by various means, which are described below. It delegates some of its business and decision making to sub-committees.

**Board members** (1 January 2019 to 16 June 2020)

**Appointed with the approval of the General Synod, by the Archbishops of Canterbury and York**
Clive Mather (Chair) (from 1 May 2019)
Dr Jonathan Spencer CB (Chair) (to 30 Apr 2019)

**Appointed by the Archbishops of Canterbury and York**
Roger Mountford (to December 2019)
Canon Nicolete Fisher (from January 2020)

**Appointed by the Archbishops of Canterbury and York after consultation with the representatives of the dioceses**
Nikesh Patel FIA

**Appointed by the Archbishops of Canterbury and York after consultation with the Chairs of the Church of England Appointments Committee and the General Synod's House of Laity**
Tony King (from January 2020)
The Revd Caroline Titley

**Appointed by the Church Commissioners** Jeremy Clack FIA

**Elected by the Employers in the Church Workers Pension Fund and the Church Administrators Pension Fund**
Richard Hubbard
Canon Sandra Newton

**Elected by the House of Clergy of the General Synod**
The Revd Fr Paul Benfield
The Revd Nigel Bourne
The Revd Peter Ould
The Ven David Stanton

**Elected by the House of Laity of the General Synod**
Roger Boulton FIA
Canon Nicolete Fisher (to December 2019)
Alan Fletcher FCII (Vice Chair) (to December 2019)
Canon Emma Osborne
Bill Seddon

**Elected by the members of the Church Workers Pension Fund**
Ian Boothroyd (to December 2019)
Susan Pope (from January 2020)
Michaela Southworth

**Elected by the members of the Church Administrators Pension Fund**
Maggie Rodger

**Elected by the House of Bishops of the General Synod**
The Rt Revd Alan Wilson, Bishop of Buckingham

**Committee Members** (as at 16 June 2020)

### Audit and Risk Committee

Maggie Rodger (Chair)
Richard Hubbard
The Revd Peter Ould
Susan Pope (from March 2020)
The Ven David Stanton (to January 2020)
Helen Ashley Taylor (non-trustee) (from February 2019)
Caron Bradshaw (non-trustee) (from February 2019)

### Board Development Committee (to October 2019)

Canon Nicolete Fisher (Chair)
Roger Boulton FIA
The Revd Nigel Bourne
Canon Sandra Newton

### Housing Committee

Canon Sandra Newton (Chair)
Canon Nicolete Fisher
Tony King (from March 2020)
The Revd Caroline Titley
The Revd Alan Wilson
Jonathan Gregory (non-trustee)
Tom Paul (non-trustee) (from March 2020)
Henrietta Podd (non-trustee) (to October 2019)
Lawrence Santcross (non-trustee)

### Investment Committee

Roger Boulton FIA (Chair from January 2020)
Alan Fletcher FCII (Chair) (to December 2019)
Jeremy Clack FIA
Roger Mountford (to December 2019)
Canon Emma Osborne
Nikesh Patel FIA
Bill Seddon
Simon Baynes (non-trustee) (to February 2019)
Matthew Beesley (non-trustee)
Deb Clarke (non-trustee)
Jonathan Rogers (non-trustee)

### Pensions Committee

Richard Hubbard (Chair) (from January 2020)
Roger Boulton FIA (Chair) (to December 2019)
The Revd Fr Paul Benfield
Ian Boothroyd (to December 2019)
The Revd Nigel Bourne
Canon Sandra Newton (to December 2019)
Alan Fletcher FCII (to December 2019)
Maggie Rodger
Michaela Southworth (from March 2020)

### Treasury Committee (to October 2019)

Roger Mountford (Chair)
Canon Sandra Newton
Henrietta Podd (non-trustee)
The Ven David Stanton
The Revd Caroline Titley

## Attendance by Trustees at meetings of the Board and its Committees

The table below sets out the attendance of trustees at meetings of the Board and its Committee during 2019. Where a member served for part of the year, the number of meetings that they could have attended is shown in brackets.

| Trustee | Board (5) | Audit and Risk (4) | Housing (4) | Investment (4) | Pensions (3) |
|---|---|---|---|---|---|
| Clive Mather | 3(3) | | | | |
| Dr Jonathan Spencer | 2(2) | | | | |
| The Revd Fr Paul Benfield | 4 | | | | 2 |
| Ian Boothroyd | 4 | | | | 3 |
| Roger Boulton | 3 | | | 4 | 3 |
| Jeremy Clack | 1 | | | 3 | |
| Canon Nicolete Fisher | 4 | | 3 | | |
| Alan Fletcher | 5 | | | 4 | 3 |
| Richard Hubbard | 5 | 4 | | | |
| Roger Mountford | 4 | | | 1 | |
| Canon Sandra Newton | 5 | | 4 | | 3 |
| Canon Emma Osborne | 4 | | | 3 | |
| The Revd Peter Ould | 4 | 2 | | | |
| Nikesh Patel | 3 | | | 3 | |
| Maggie Rodger | 5 | 4 | | | 3 |
| Bill Seddon | 3 | | | 3 | |
| Michaela Southworth | 4 | | | | |
| The Ven David Stanton | 2 | 1 | | | |
| The Revd Caroline Titley | 5 | | 4 | | |
| The Rt Revd Alan Wilson | 3 | | 2 | | |

## Reference and administrative information

| | |
|---|---|
| Charity number | 236627 |
| Principal office | Church House, London SW1P 3PS |
| Chief Executive | John Ball |
| Actuary | Aaron Punwani, Lane Clark and Peacock LLP |
| Independent auditor | Crowe U.K. LLP |
| Bankers | Lloyds Bank |
| | National Westminster Bank plc |
| Corporate financial advisor | Traderisks Ltd |
| Investment Advisers | Mercer Ltd |
| Investment Managers | Brewin Dolphin<br>Savills Investment Management Ltd<br>Mayfair Capital Investment Management Ltd |

Enquiries

Enquiries should be addressed to:

Church of England Pensions Board 29 Great Smith Street London SW1P 3PS

Alternatively, enquiries may be made by email to cepbfeedback@churchofengland.org
or by telephone to 020 7898 1890.

## Management

The day-to-day management of the Board's activities is delegated to the Executive Team, which is led by the Chief Executive.

**Staff Remuneration and Executive Pay**

Other than staff employed to work in the supported housing schemes, all staff in the Pensions Board, and those working for Church of England Central Services who provide support functions to the Board, are covered by a unified pay policy that operates across all the National Church Institutions. The policy is designed to ensure the same level of pay for all staff in posts with work of equal value which is based on a comprehensive job evaluation scheme, with staff being placed in one of 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 use a range of appropriate external data tools and internal dedicated resource 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 each year.

Certain senior roles, including that of the Chief Executives, sit outside the banding system, as the skill set required to fulfil the role is not readily measured within the NCIs' standard job evaluation system. Salaries for these roles are set individually with reference to the wider market place, typically comparing to the charity and public sector market, and 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 as the rest of the staff enjoy.

The annual salary for the highest paid member of staff was £143,000 (2018: £140,000), 13 (2018: 10) times the salary earned by the lowest paid member of staff and 5 (2018: 5) times the median salary.

Pensions Staff employed by the National Church Institutions 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 and any personal contribution that they make.

Staff employed by the Board directly, mainly in the supported housing schemes, are eligible to join the Church Workers Pension Fund.

In common with the other National Church Institutions, the Pensions Board became an accredited with the Living Wage Foundation in October 2019. This formalised an extant commitment.

## Approval

The Trustees Report was approved by the Trustees on 16 June 2020 and signed on its behalf by:

Clive Mather
Chair

## Statement of Trustees' responsibilities in relation to the financial statements

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 which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period.

In preparing these 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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards, comprising FRS 102, 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008. They are also responsible for safeguarding the assets of the charity 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 charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

## Independent auditor’s report to the Church of England Pensions Board and the General Synod of the Church of England

### Opinion

We have audited the financial statements of The Church of England Pensions Board (the “Parent Charity”) and its subsidiaries (the “Group”) for the year ended 31 December 2019, which comprise:

- the consolidated Statement of Financial Activities for the year ended 31 December 2019;
- the consolidated and Parent Charity only Balance Sheets at 31 December 2019;
- the consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and of the Parent Charity’s affairs as at 31 December 2019 and of the Group’s profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law);
- the Parent Charity financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the Charities Act 2011.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The trustees’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’s or the parent charity’s ability to continue to adopt the

going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

*Materiality*

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £3m, based on 1% of the Group's total assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate, performance materiality may be reduced to a lower level, such as for related party transactions.

We agreed with the Audit and Risk Committee to report to it all identified errors in excess of £150k. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

*Overview of the scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the trustees made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. All subsidiaries were audited directly and there were no component auditors.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and component level to respond to the risks, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the group and charity financial statements. Our tests included, but were not limited to, the review of financial statement disclosures, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the trustees that represented a risk of material misstatement due to fraud.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

| ***Key audit matter*** | ***How the scope of our audit addressed the key audit matter*** |
|---|---|
| *Going concern* | |
| The trustees' going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern<br><br>The impact of the COVID-19 outbreak has required all entities, including charities, to reassess their financial position and their ability to continue to operate as a going concern. This requires consideration of a number of factors including updating the charity's budgets and forecasts and a consideration of scenarios. | Management prepared a detailed paper setting out their assessment of the Board's ability to continue as a going concern including a summary of the preliminary actions surrounding the outbreak of COVID-19. The assessment covers the period to 31 December 2022.<br><br>We have discussed this with the Board's management in order to fully understand their assessment including the underlying assumptions applied.<br><br>In addition to this we have:<br>• reviewed the period used by Trustees to assess the ability of the Group to continue as a going concern;<br>• examined budgets and forecasts prepared by management covering the period of the going concern assessment including the impact of COVID-19;<br>• reviewed the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year; and<br>• Reviewed any other information or documentation which the Trustees have used in their going concern assessment.<br><br>Following this work we agree with the trustees' conclusion that the going concern basis continues to be appropriate in preparing the financial statements and that adequate additional disclosures have been included in the financial statements to support this conclusion. |

| *Key audit matter* | *How the scope of our audit addressed the key audit matter* |
|---|---|
| *Fixed asset impairment assessment*<br><br>The Group holds significant levels of property assets with a total of £235.0m held at 31 December 2019.<br><br>These properties are classed as programme related investments since they generate income in furtherance of the Group's charitable objectives. As such, these properties are not revalued and are rather held at cost with an annual review for potential impairment.<br><br>Each year-end, management perform a full impairment review which considers whether any properties within the portfolio should be impaired. This review utilises a range of valuation sources and applies a significant element of management judgment. | We reviewed management's overall impairment assessment and performed our own audit work on the process, agreeing items to supporting evidence where possible including verification of the house price indices used within the impairment model to third party documentation.<br><br>In addition to this, for a sample of individual properties we compared the property's carrying value to the sale value of any similar properties in the same area.<br><br>Following this work, we have determined that it is appropriate that no impairment charge is recognised in relation to the Board's properties held at 31 December 2019. |

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

**Other information**

The trustees are responsible for the other information. The other information comprises the information included in the trustees' annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Trustees' Report**

Under the Charities Act 2011 we are required to report to you if, in our opinion the information given in the Trustees' Report is inconsistent in any material respect with the financial statements. We have no exceptions to report arising from this responsibility.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require us to report to you if, in our opinion:

- the information given in the financial statements is inconsistent in any material respect with the trustees' report; or
- sufficient accounting records have not been kept by the parent charity; or
- the 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

**Responsibilities of the trustees for the financial statements**

As explained more fully in the trustees' responsibilities statement set out on page 29, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charity or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the charity's trustees, as a body, in accordance with Part 4 of the Charities (Accounts and Reports) Regulations 2008. 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 the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

**Crowe U.K. LLP**

Statutory Auditor

London

16 June 2020

# Consolidated statement of financial activities of the Church of England Pensions Board for the year ended 31 December 2019

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | Note | Unrestricted funds | Restricted funds | Total | Unrestricted funds | Restricted funds | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income from:** | | | | | | | |
| Grants, donations and legacies | 2 | - | 10,879 | **10,879** | - | 5,246 | **5,246** |
| Investment income | 3 | - | 1,616 | **1,616** | - | 1,879 | **1,879** |
| Charitable activities | 4 | 6,883 | 13,630 | **20,513** | 6,274 | 13,550 | **19,824** |
| Other income: gain on sale of fixed assets | | - | 2,116 | **2,116** | - | 2,990 | **2,990** |
| Total income | | 6,883 | 28,241 | **35,124** | 6,274 | 23,665 | **29,939** |
| **Expenditure on:** | | | | | | | |
| Charitable activities | 4 | (6,883) | (24,199) | **(31,082)** | (6,274) | (23,489) | **(29,763)** |
| Raising funds | 5 | - | (23) | **(23)** | - | (4) | **(4)** |
| Total expenditure | | (6,883) | (24,222) | **(31,105)** | (6,274) | (23,493) | **(29,767)** |
| Total income less expenditure before gain on investments | | - | 4,019 | **4,019** | - | 172 | **172** |
| Net gain on investments | 9 | - | 1,316 | **1,316** | - | 628 | **628** |
| **Net income** | | - | **5,335** | **5,335** | **-** | **800** | **800** |
| **Other recognised gains and (losses)** | | | | | | | |
| Other (losses) / gains: adjustment to pension provision | 8 | - | (79) | **(79)** | - | 471 | **471** |
| Total other gains | | - | (79) | **(79)** | - | 471 | **471** |
| Transfers between funds | 15 | - | - | **-** | - | - | **-** |
| **Net movement in funds** | | **-** | **5,256** | **5,256** | **-** | **1,271** | **1,271** |
| **RECONCILIATION OF FUNDS** | | | | | | | |
| Total funds brought forward at 1 January | | - | 123,669 | **123,669** | - | 122,398 | **122,398** |
| Net movement in funds in year | | - | 5,256 | **5,256** | - | 1,271 | **1,271** |
| **Total funds carried forward at 31 December** | 15 | **-** | **128,925** | **128,925** | **-** | **123,669** | **123,669** |

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

The notes on pages 40 to 57 form part of these financial statements.

Note – all figures within the consolidated statement of financial activities are the same as for the charity-only statement of financial activities.

# Consolidated balance sheet of the Church of England Pensions Board as at 31 December 2019

| | Note | 2019 Consolidated | | | 2018 Consolidated | | |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | Funded by CC* | Funded by CEPB** | **Total** | Funded by CC* | Funded by CEPB** | **Total** |
| **FIXED ASSETS** | | | | | | | |
| Investment assets | 9 | - | 42,270 | **42,270** | - | 40,939 | **40,939** |
| Tangible assets - supported housing and IT | 10 | - | 24,053 | **24,053** | - | 24,075 | **24,075** |
| Tangible assets - CHARM | 11 | 60,011 | 174,961 | **234,972** | 65,040 | 161,781 | **226,821** |
| Total fixed assets | | 60,011 | 241,284 | **301,295** | 65,040 | 226,795 | **291,835** |
| **CURRENT ASSETS** | | | | | | | |
| Debtors | 12 | - | 6,736 | **6,736** | - | 2,007 | **2,007** |
| Short term deposits | | - | 1,421 | **1,421** | - | 1,061 | **1,061** |
| Cash at bank and in hand | | - | 2,968 | **2,968** | - | 4,267 | **4,267** |
| Total current assets | | - | 11,125 | **11,125** | - | 7,335 | **7,335** |
| **CURRENT LIABILITIES** | | | | | | | |
| Creditors: amounts falling due within one year | 13 | - | (5,352) | **(5,352)** | - | (5,523) | **(5,523)** |
| Loans repayable on sale of fixed assets | 13 | (60,011) | (758) | **(60,769)** | (65,040) | (1,037) | **(66,077)** |
| Total current liabilities | | (60,011) | (6,110) | **(66,121)** | (65,040) | (6,560) | **(71,600)** |
| Net current (liabilities)/assets | | (60,011) | 5,015 | **(54,996)** | (65,040) | 775 | **(64,265)** |
| Total assets less current liabilities | | - | 246,299 | **246,299** | - | 227,570 | **227,570** |
| **NON-CURRENT LIABILITIES** | 13 | - | (116,599) | **(116,599)** | - | (103,037) | **(103,037)** |
| Net assets excluding pension provision | | - | 129,700 | **129,700** | - | 124,533 | **124,533** |
| Pension deficit provision | 8 | - | (775) | **(755)** | - | (864) | **(864)** |
| **NET ASSETS** | | **-** | **128,925** | **128,925** | **-** | **123,669** | **123,669** |
| **FUNDS OF THE CHARITY** | | | | | | | |
| Total unrestricted funds | 15 | - | - | - | - | - | - |
| Restricted funds (excl. pension reserve) | 15 | - | 129,700 | **129,700** | - | 124,533 | 124,533 |
| Pension reserve | 15 | - | (775) | **(775)** | - | (864) | (864) |
| Total restricted funds | 15 | - | 128,925 | **128,925** | - | 123,669 | 123,669 |
| **TOTAL CHARITY FUNDS CARRIED FORWARD AT 31 DECEMBER** | | **-** | **128,925** | **128,925** | **-** | **123,669** | **123,669** |

*Funded by the Church Commissioners
**Funded by the Church of England Pensions Board
(See Note 11 for more details)

The notes on pages 40 to 57 form part of these financial statements.

These financial statements were approved by the trustees on 16 June 2020 and signed on their behalf by:

Clive Mather
Chair

## Charity only balance sheet of the Church of England Pensions Board as at 31 December 2019

| | Note | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | | Funded by CC* | Funded by CEPB** | **Total** | Funded by CC* | Funded by CEPB** | **Total** |
| **FIXED ASSETS** | | | | | *RESTATED* | *RESTATED* | |
| Investment assets | 9 | - | 42,283 | **42,283** | - | 40,952 | **40,952** |
| Tangible assets - supported housing and IT | 10 | - | 24,053 | **24,053** | - | 24,075 | **24,075** |
| Tangible assets - CHARM | 11 | 54,685 | 174,556 | **229,241** | 59,604 | 161,376 | **220,980** |
| Total fixed assets | | 54,685 | 240,892 | **295,577** | 59,604 | 226,403 | **286,007** |
| **CURRENT ASSETS** | | | | | | | |
| Debtors | 12 | 5,326 | 7,139 | **12,465** | 5,436 | 2,233 | **7,669** |
| Short term deposits | | - | 1,421 | **1,421** | - | 1,061 | **1,061** |
| Cash at bank and in hand | | - | 2,960 | **2,960** | - | 4,254 | **4,254** |
| Total current assets | | 5,326 | 11,520 | **16,846** | 5,436 | 7,548 | **12,984** |
| **CURRENT LIABILITIES** | | | | | | | |
| Creditors: amounts falling due within one year | 13 | - | (5,355) | **(5,355)** | - | (5,344) | **(5,344)** |
| Loans repayable on sale of fixed assets | 13 | (60,011) | (758) | **(60,769)** | (65,040) | (1,037) | **(66,077)** |
| Total current liabilities | | (60,011) | (6,113) | **(66,124)** | (65,040) | (6,381) | **(71,421)** |
| Net current (liabilities)/assets | | (54,685) | 5,407 | **(49,278)** | (59,604) | 1,167 | **(58,437)** |
| Total assets less current liabilities | | - | 246,299 | **246,299** | - | 227,570 | **227,570** |
| **NON-CURRENT LIABILITIES** | 13 | - | (116,599) | **(116,599)** | - | (103,037) | **(103,037)** |
| Net assets excluding pension provision | | - | 129,700 | **129,700** | - | 124,533 | **124,533** |
| Pension deficit provision | 8 | - | (775) | **(775)** | - | (864) | **(864)** |
| **NET ASSETS** | | **-** | **128,925** | **128,925** | **-** | **123,669** | **123,669** |
| **FUNDS OF THE CHARITY** | | | | | | | |
| Total unrestricted funds | 15 | - | - | - | - | - | - |
| Restricted funds (excl. pension reserve) | 15 | - | 129,700 | **129,700** | - | 124,533 | 124,533 |
| Pension reserve | 15 | - | (775) | **(775)** | - | (864) | (864) |
| Total restricted funds | 15 | - | 128,925 | **128,925** | - | 123,669 | 123,669 |
| **TOTAL CHARITY FUNDS CARRIED FORWARD AT 31 DECEMBER** | | **-** | **128,925** | **128,925** | **-** | **123,669** | **123,669** |

*Funded by the Church Commissioners
**Funded by the Church of England Pensions Board

The notes on pages 40 to 57 form part of these financial statements.

# Consolidated cash flow statement of the Church of England Pensions Board for the year ended 31 December 2019

| Cash flow from operating activities: | Note | 2019 £'000 | 2018 £'000 |
|---|---|---|---|
| Net movement in funds (as per the statement of financial activities) | | 5,256 | 1,271 |
| Adjustments for: | | | |
| Depreciation and impairment – supported housing and IT systems | 10 | 599 | 2,150 |
| Amortisation – Santander arrangement fee | 13 | 33 | 33 |
| Amortisation – CHARM Finance PLC bond set-up costs | 13 | 28 | 25 |
| Gains on investments | 9 | (1,316) | (628) |
| Dividends, interest and rents from investments | 3 | (1,616) | (1,879) |
| Gains on disposal of tangible assets – CHARM | | (2,116) | (2,990) |
| Movement in pension liability | 8 | (89) | (642) |
| Movement in debtors | 12 | (4,729) | 915 |
| Movement in creditors: amounts due within less than one year | 13 | (171) | (79) |
| Net cash (used in) operating activities | | (4,121) | (1,824) |
| **Cash flow from investing activities:** | | | |
| Cash flows from investing activities: | | | |
| Dividends, interest and rents from investments | 3 | 1,616 | 1,879 |
| Proceeds from the sale of tangible assets – CHARM properties | 11 | 10,499 | 11,739 |
| Purchase of tangible assets – CHARM properties | 11 | (16,533) | (11,697) |
| Purchase of tangible assets – supported housing | 10 | (577) | (65) |
| Proceeds from the sale of investments | 9 | (11,662) | 20 |
| Purchase of investments | 9 | 12,059 | - |
| Proceeds from the sale of assets held for sale | | - | 750 |
| Net cash generated from investing activities | | (4,598) | 2,626 |
| **Cash flows from financing activities:** | | | |
| Repayment of loans from Church Commissioners | 13 | (5,029) | (4,989) |
| Repayment of dioceses' share of rental properties | 13 | (279) | (13) |
| Additional (repayment to) /funding from Santander | 13 | 13,500 | (26,350) |
| CHARM Finance PLC 2018 Bond - loan from RLAM | 13 | - | 30,000 |
| CHARM Finance PLC 2018 Bond - capitalised set-up costs | 13 | - | (306) |
| Net cash (used in) financing activities | | 8,192 | (1,658) |
| Change in cash and cash equivalents in the year | | (527) | (856) |
| Cash and cash equivalents at the beginning of the year | | 5,328 | 6,184 |
| Cash and cash equivalents at the end of the year | | 4,801 | 5,328 |

**Cash and cash equivalents and net debt comprise the following balances**:

| | At 1 January £'000 | Cash Flows £'000 | At 31 December £'000 |
|---|---|---|---|
| Cash at bank and in hand | 4,267 | (1,299) | 2,968 |
| Short term deposits | 1,061 | 360 | 1,421 |
| Cash held by investment manager | - | 412 | 412 |
| Total cash and cash equivalents | 5,328 | (527) | 4,801 |
| Bond financing | (100,000) | - | (100,000) |
| Loan from Santander | (4,000) | (13,500) | (17,500) |
| Total net debt | (98,672) | (14,027) | (112,699) |

The notes on pages 40 to 57 form part of these financial statements.

# Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2019

## 1. Accounting policies

### a) Legal status

The Church of England Pensions Board ("the Board") is a body corporate established in 1926 but now governed by the Church of England Pensions Measure 2018. It is a registered charity in England and Wales (Charity No. 236627) and is regulated by the Charity Commission.

The Charity's address is: 29 Great Smith Street, London, SW1P 3PS.

### b) Basis of preparation

The consolidated and charity-only financial statements have 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 financial statements 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 financial statements have been prepared to give a true and fair view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a true and fair view. This departure has involved following Accounting and Reporting by Charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

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

The financial statements have been prepared on the historical cost basis (except for the revaluation of investments and where cost is deemed to be the revaluation amount at date of transition) and on the accruals basis.

The financial statements contain the financial information for the Church of England Pensions Board which is structured as follows:

- Unrestricted Funds - representing expenditure incurred by the Board on salaries and working expenses subsequently recovered in full from the pension funds administered by the Board.
- Restricted Funds - these funds have narrower purposes than that of the Board.

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

### c) Basis of consolidation

The consolidated statement of financial activities ("SOFA") and the balance sheet include the financial information of the Board and its subsidiary undertakings (CEPB Developments Ltd, CEPB Mortgages and CHARM Finance plc). The subsidiaries have been consolidated on a line by line basis. Intra-group balances and transactions are eliminated on consolidation.

The Board has chosen not to present its non-consolidated statement of financial activities separately as the numbers are the same as for the consolidated equivalent. The Board has also taken advantage of the exemption conferred by FRS 102 Section 1 not to prepare a charity-only cash flow statement.

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

### d) Going concern

The trustees have reasonable expectation that the Church of England Pensions Board has adequate resources to continue its activities for the foreseeable future. Accordingly they continue to adopt the going concern basis of accounting in preparing the annual report and accounts. Further details of going concern are included in the report of the trustees, on page 17.

### e) Income

All income is recognised once the Board has entitlement to the income, it is probable that the income will be received and the amount of income receivable can be measured reliably.

*i) Grants, donations and legacies*

Donations are accounted for when received. Grants are recognised when the Board is entitled to receive them and revenue recognition criteria of entitlement, probability and measurement have been met. Gift Aid receivable is included in income when there is a valid declaration from the donor. 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 and are recognised 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, if material, adjusted up to the point of financial statement approval.

In the case of donated properties, these are valued at market value and recognised within Donations.

*ii) Investment income*

Income from investments is recognised on an accruals basis.

## 1. Accounting policies (continued)

*iii) Income from charitable activities*
Income from charitable activities represents rent from rental properties, rent and service charge from shared ownership properties, income from mortgaged properties and fees and service charges from supported housing schemes, which are all recognised on the accruals basis.

*iv) Other income*
Other income is recognised when the Board is entitled to receive it and revenue recognition criteria of entitlement, probability and measurement have been met.

**f) Expenditure**
All expenditure is accounted for on the accruals basis. Expenditure and liabilities are recognised when a legal or constructive obligation exists as outlined in Section 7 of FRS 102. The SOFA has been presented on an activity basis. Costs have been distinguished between charitable activities and those incurred to raise funds.

*i) Charitable activities*
Direct costs and grants are allocated directly to activities. Grants payable are recognised when the grant is formally approved by the Board and has been communicated to the recipient.

*ii) Support costs*
Costs include shared service costs (finance, IT, HR, legal, internal audit), department running costs and governance costs. They are allocated across the charitable activities and raising funds as detailed in notes 4 and 5. Governance costs relate to the general running of the Board, which include costs associated with the strategic, as opposed to day-to-day, management of the Board's activities, and compliance with constitutional and statutory requirements.

**g) Pensions**
Staff pensions are described in note 8. Defined benefit schemes 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.

**h) Fixed assets**
Rental properties, shared ownership properties, mortgaged properties and supported housing properties generate income from the furtherance of the charity's objects. As such, they are not considered to be investment properties but are classed as programme related investments, which under the SORP, do not need to be revalued.

Where fixed assets were purchased with significant restrictions as a result of agreements with the funder such that the Board has a right of use of the asset for the lifetime of a beneficiary of the charity but the risks and rewards relating to capital value accrue entirely to the lender, these assets are shown in a separate category. Proceeds on eventual sale of these properties are not accounted for by the Board as they are received as agent for the lender and are used to settle the corresponding liability.

*i) Rental properties*
Properties are held at original cost or for properties received as gifts, the notional cost equivalent to the market value. Funding arrangements are explained in note 11.

Costs relating to the repair and maintenance of properties are charged to the SOFA in the year incurred.

No depreciation is charged on long leasehold or freehold properties due to the long life and the high residual value of properties which would result in immaterial depreciation for each asset and in aggregate.

An impairment review is carried out annually and where materially different from historic cost, the properties are carried at recoverable amount (being the higher of fair value less costs to sell and value in use).

*ii) Shared ownership properties*
These properties are purchased by the Board and the resident buys a 90-year lease for a share in the property (at least 25%) and pays a rent and a service charge on the proportion of the property that they do not own. Residents can purchase further shares in their property if their financial circumstances change, and the equity interests are adjusted accordingly.

The Board holds each property at its equity percentage of the original cost, subject to an impairment review. An impairment review is carried out annually and where materially different from historic cost, the Board's proportion of each property is carried at recoverable amount (being the higher of fair value less costs to sell and value in use).

No depreciation is charged on leasehold or freehold shared ownership properties due to the long life and the high residual value of properties which would result in immaterial depreciation for each asset and in aggregate.

# Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2019

## 1. Accounting policies (continued)

*iii) Mortgaged properties*
Mortgaged properties were purchased by the Board under a scheme that closed to new business in 2008. These mortgages operate as value linked loans, where the Board's equity interest in a property is the amount loaned to the resident (up to 95% of the property value) and the resident's equity interest is the amount funded directly by the resident. If a resident pays off part of their loan, the equity interests are adjusted accordingly.

On the sale of a property, the Board and the resident receive proceeds in the same proportion as their equity interests.

The Board's interest is therefore classified as a tangible fixed asset and not as a financial instrument, as the rights attaching are more closely linked to the ownership of a share of a property. The Board accounts for each property at its equity percentage of original cost, subject to an impairment review. An impairment review is carried out annually and where materially different from historic cost, the Board's proportion of each property is carried at recoverable amount (being the higher of fair value less costs to sell and value in use).

*iv) Supported housing schemes and nursing home*
The properties and their associated land are held at deemed cost. Freehold land is not depreciated. The buildings are depreciated.

Fixtures, fittings, plant and equipment are held at original cost to the Board less depreciation.

Depreciation is charged on the following basis:

| ***Tangible asset*** | ***Basis*** | ***Rate*** |
|---|---|---|
| Freehold buildings | Reducing balance | 2.5% per annum |
| Fixtures, fittings, plant and equipment | Straight line | 10-25 years |

*v) Investment properties*
Investment properties are held at fair value. Valuations are carried out every year in accordance with the Appraisals & Valuation Manual issued by the Royal Institute of Chartered Surveyors. No depreciation is charged.

*vi) IT systems*
IT systems are held at original cost to the Board less depreciation charged on a straight line basis over 5 years. Systems are capitalised while under construction until implementation and at that stage depreciation commences.

*vii) Gains (or losses) from sale of fixed assets*
Gains (or losses) resulting from the sale of fixed assets are recognised in income (or expenditure). Gains or losses resulting from the sale and revaluation of investment assets are recognised in the SOFA in a separate section before net income/expenditure.

**i) Loans**
The Board applies the measurements provisions of FRS 102 paragraphs PBE34.90-92 to all its concessionary loans. Loans from the Church Commissioners are measured at the amount received from the Commissioners. See notes 11 and 13 for more information.

The loan from Santander is a basic financial instrument and measured at transaction price (less transactions costs). Subsequently, it is measured at amortised cost using the effective interest method. Arrangement fees are deducted from the transaction price and are amortised over 15 years (July 2010 to July 2025).

The loan from CHARM Finance PLC to the Charity is a basic financial instrument and is measured at transaction price (less transactions costs). Subsequently, it is measured at amortised cost using the effective interest method. Arrangement fees are deducted from the transaction price and are amortised over the length of the facility.

The Bond liabilities relate to the corporate bonds issued by CHARM Finance PLC, and are basic financial instruments measured initially at the proceeds of issue less transaction costs directly attributable to the issue of the Bonds. After initial recognition the liabilities are measured at amortised cost using the effective interest method with transaction costs being amortised over the length of the facility.

**j) Financial instruments**
The Board has chosen to adopt sections 11 & 12 of FRS 102 in respect of financial instruments which are not public benefit entity concessionary loans.

***Basic financial instruments***
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.

**k) Subsidiary undertakings**
Investment in the Board's subsidiary companies are held at cost less accumulated impairment losses.

# Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2019

### 1. Accounting policies (continued)

**l) Taxation**

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

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

**m) Related parties**

The Church of England comprises a large number of legally independent bodies in its parishes, cathedrals and dioceses as well as at national level. These bodies are not related to the Board as defined in the Charities SORP or chapter 33 of FRS 102: Related parties disclosures. 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 Church of England Pensions Board is related to ChECS, as it is a partner in this joint venture. Details are given in Note 17.

**n) Funds**

In line with the SORP, the Board segregates its funds between those that are restricted and those that are unrestricted.

Unrestricted funds are funds received by the Board that are available for use at the discretion of the Board in pursuing the general charitable objectives of the charity.

Restricted funds are funds received by the Board for particular purposes and are to be used in accordance with those purposes. An analysis of restricted funds is provided in note 15.

**o) Significant judgements and estimates**

The Board's key judgements, which have a significant effect on the amounts recognised in the financial statements, are described in the accounting policies and are summarised below:

• Carrying value of investment properties and tangible assets – judgements in respect of appropriate valuation methods used for the assets of the Charity. Further details are disclosed in notes 9 to 11.

The Board's key estimates, which have a significant effect on the amounts recognised in the financial statements, are described in the accounting policies and are summarised below:

• Residuary legacies - estimation required for residuary legacies receivable once probate has been granted.
• Pension deficit provision - estimations surrounding the methodology used in the calculation of the Charity's defined benefit pension deficit provision. Further details are disclosed in note 8.
• Support costs – estimation surrounding the methodology used in the apportionment of support costs between the restricted and unrestricted funds.

### 2. Income from grants, donations and legacies

| | | 2019 | 2018 |
|---|---|---|---|
| | Note | £'000 | £'000 |
| Grants from: | | | |
| The Archbishops' Council | 4 | 5,046 | 4,806 |
| Other grants | | 23 | 23 |
| Total grants | | 5,069 | 4,829 |
| | | | |
| Donations | | 158 | 118 |
| Legacies | | 5,652 | 299 |
| | | | |
| **Total income from grants, donations and legacies** | | **10,879** | **5,246** |

The Archbishops' Council makes grants from money provided by the dioceses under the General Synod Vote 5, towards the costs of the CHARM scheme. All income from grants, donations and legacies was attributable to restricted funds.

### 3. Investment income

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Dividends | 1,582 | 1,824 |
| Rental income from investment properties | 10 | 12 |
| Interest on cash | 24 | 43 |
| **Total income from investments** | **1,616** | **1,879** |

All income from investments of £1,616,000 (2018: £1,879,000) was attributable to restricted funds.

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 4. Charitable activities

| | Notes | Rental properties | Shared ownership | Mortgage properties | Supported housing & nursing care | Other charitable activities | Total restricted funds | Unrestricted funds Pension Schemes | 2019 Total | 2018 Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income from charitable activities:** | | | | | | | | | | |
| Rent received | | 6,846 | 551 | - | 1,103 | - | **8,500** | - | **8,500** | **8,314** |
| Service charge received | | - | 93 | - | 2,732 | - | **2,825** | - | **2,825** | **2,795** |
| Income from mortgage properties | | - | - | 2,305 | - | - | **2,305** | - | **2,305** | **2,441** |
| Support costs recharge | | - | - | - | - | - | **-** | 6,883 | **6,883** | **6,274** |
| **Total income from charitable activities** | | 6,846 | 644 | 2,305 | 3,835 | - | **13,630** | 6,883 | **20,513** | **19,824** |
| **Expenditure on charitable activities:** | | | | | | | | | | |
| Financing costs (interest and commitment fee) | | 5,723 | 434 | 2,246 | - | - | **8,403** | - | **8,403** | **8,208** |
| Grant making | | | - | - | - | 107 | **107** | - | **107** | **113** |
| Property costs (repairs, insurance and other costs) | | 7,406 | 31 | 116 | 46 | - | **7,599** | - | **7,599** | **6,045** |
| Support costs | 6 | 1,772 | 591 | 394 | 1,181 | - | **3,938** | 6,883 | **10,821** | **9,939** |
| Amortisation of arrangement fees | | 62 | - | - | - | - | **62** | - | **62** | **59** |
| Service charge costs | | - | 39 | - | 2,559 | - | **2,598** | - | **2,598** | **2,619** |
| Nursing care costs | | - | - | - | 283 | - | **283** | - | **283** | **333** |
| Supported Housing and other direct costs | | - | - | - | 778 | - | **778** | - | **778** | **468** |
| Depreciation and impairment charges | 10 | - | - | - | 599 | - | **599** | - | **599** | **2,150** |
| **Total expenditure on charitable activities** | | 14,963 | 1,095 | 2,756 | 5,446 | 107 | **24,367** | 6,883 | **31,250** | **29,934** |
| **Unwinding of pension deficit on charitable activities** | | (74) | (26) | (18) | (50) | - | **(168)** | - | **(168)** | **(171)** |
| **Total expenditure including pension deficit movement in year** | | 14,889 | 1,069 | 2,738 | 5,396 | 107 | **24,199** | 6,883 | **31,082** | **29,763** |

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 4. Charitable activities (continued)

For comparative purposes, details of 2018 charitable income and expenditure are set out below:

| | Notes | Rental properties | Shared ownership | Mortgage properties | Supported housing & nursing care | Other charitable activities | Total restricted funds | Unrestricted funds Pension Schemes | 2018 Total |
|---|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Income from charitable activities:** | | | | | | | | | |
| Rent received | | 6,666 | 538 | - | 1,110 | - | **8,314** | - | **8,314** |
| Service charge received | | - | 87 | - | 2,708 | - | **2,795** | - | **2,795** |
| Income from mortgage properties | | - | - | 2,441 | - | - | **2,441** | - | **2,441** |
| Fees received for nursing care | | - | - | - | - | - | **-** | - | **-** |
| Support costs recharge | | - | - | - | - | - | **-** | 6,274 | **6,274** |
| **Total income from charitable activities** | | 6,666 | 625 | 2,441 | 3,818 | - | **13,550** | 6,274 | **19,824** |
| **Expenditure on charitable activities:** | | | | | | | | | |
| Financing costs (interest and commitment fee) | | 5,375 | 448 | 2,385 | - | - | **8,208** | - | **8,208** |
| Grant making | | - | - | - | - | 113 | **113** | - | **113** |
| Property costs (repairs, insurance and other costs) | | 5,885 | 16 | 132 | 12 | - | **6,045** | - | **6,045** |
| Support costs | 6 | 1,649 | 550 | 367 | 1,099 | - | **3,665** | 6,274 | **9,939** |
| Amortisation of arrangement fees | | 59 | - | - | - | - | **59** | - | **59** |
| Service charge costs | | - | 77 | - | 2,542 | - | **2,619** | - | **2,619** |
| Nursing care costs | | - | - | - | 333 | - | **333** | - | **333** |
| Supported Housing and other direct costs | | - | - | - | 468 | - | **468** | - | **468** |
| Depreciation and impairment charges | 10 | - | - | - | 2,150 | - | **2,150** | - | **2,150** |
| **Total expenditure on charitable activities** | | 12,968 | 1,091 | 2,884 | 6,604 | 113 | **23,660** | 6,274 | **29,934** |
| **Unwinding of pension deficit on charitable activities** | | (77) | (26) | (17) | (51) | - | **(171)** | **-** | **(171)** |
| **Total expenditure including pension deficit movement in year** | | 12,891 | 1,065 | 2,867 | 6,553 | 113 | **23,489** | 6,274 | **29,763** |

The deficit on charitable activities is funded through a combination of specific and general voluntary income, investment income, and realised gains on disposal of investments and property. In the year ended 31 December 2019 grants of £5,046,000 were received from the Archbishops' Council towards the CHARM scheme (2018: £4,806,000). In addition, the Board's broader charitable activities were funded through voluntary income of £5,833,000 (2018: £440,000), Investment income of £1,616,000 (2018: £1,879,000) and gains on disposal of property of £2,116,000 (2018: £2,990,000).

**Income & Expenditure from charitable activities:**

***Rental Properties***
The Archbishops' Council, from money provided by the dioceses under the General Synod Vote 5, makes grants towards the costs of the CHARM scheme, being the excess of direct expenditure and interest payable over maintenance contributions receivable from residents.

Rent from tenancies starting after 1 April 2015 are target rents based on the value of the property and are subsidised so that they are more affordable than market rents. Rent from tenancies before this are based on the occupant's ability to pay. Residents pay for moving costs, furnishings and white goods, contents insurance and on-going utility and council tax costs. The Board pays for repairs and on-going maintenance of the properties.

### 4. Charitable activities (continued)

There are a small number of properties that are let on the open market at market rents during short periods when a property is not occupied by residents eligible for the CHARM scheme. At 31 December 2019 there were 23 (2018: 23) such tenancies.

All tenancies fall into the definition of operating leases as set out in FRS 102 section 20 and clarified in the Housing SORP 2014 paragraph 10.3 (which though the Board does not apply, it does look to this guidance for clarification where the Charities SORP and FRS 102 are silent on particular issues). All tenancies are cancellable, either on death or notice of the resident and are not assignable.

***Shared Ownership***
Residents pay rent based on the Board's share of the ownership of the property and the cost of buildings insurance.

For some properties bought before 1 April 2014, residents also pay a service charge towards the repairs and maintenance of properties. For properties bought after 1 April 2014, or where residents have opted, the responsibility for repairs and maintenance lies with the resident.

***Mortgage Properties***
The mortgage scheme offered value linked loans to retired clergy and closed to new business in 2008. Mortgagees pay an interest-only amount on the capital advanced.

A small number of loans pre-dating the 1983 CHARM mortgage scheme remain, where a fixed amount of interest is paid based on the capital advanced. At 31 December 2019, the number of such loans in place was 5 (2018: 6).

***Supported Housing & Nursing Care***
Some residents in the schemes receive subsidies from the Board's charitable funds. The cost of running the schemes is not met fully by rent and service charge fees. The nursing home closed in March 2017 however the Board continues to subsidise the nursing care of former residents of the nursing home. The operating deficit is met from the Board's charitable funds.

***Other charitable activities***
Grants are payable to augment the income of those retired clergy and clergy widow(er)s whose income falls below a certain standard, which is reviewed annually.

### 5. Raising funds

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Investment management costs (direct costs) | 23 | 4 |
| **Total cost of raising funds** | **23** | **4** |

### 6. Support costs

Support costs include department running costs and governance costs, plus charges for using shared services operated by ChECS. They are included in charitable expenditure (note 4) and are apportioned to the various charitable activities to which they relate.

| | Restricted funds | | | | | Unrestricted funds | Total |
|---|---|---|---|---|---|---|---|
| | Rental properties | Shared ownership | Mortgage properties | Supported housing and nursing care | Total | Pension schemes | 2019 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Housing department | 1,070 | 357 | 238 | 713 | 2,378 | - | 2,378 |
| Executive and Secretariat | 111 | 37 | 24 | 74 | 246 | 264 | 510 |
| Governance costs | 56 | 19 | 13 | 37 | 125 | 175 | 300 |
| Pensions department | - | - | - | - | - | 3,043 | 3,043 |
| Investments department | - | - | - | - | - | 1,998 | 1,998 |
| Shared services | 535 | 178 | 119 | 357 | 1,189 | 1,403 | 2,592 |
| **Total support costs** | **1,772** | **591** | **394** | **1,181** | **3,938** | **6,883** | **10,821** |
| **2018** | | | | | | | |
| **Total support costs** | **1,650** | **550** | **366** | **1,099** | **3,665** | **6,274** | **9,939** |

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 6. Support costs (continued)

For comparative purposes, details of 2018 support costs are set out below:

| | Restricted funds | | | | | Unrestricted funds | Total |
|---|---|---|---|---|---|---|---|
| | Rental properties | Shared ownership | Mortgage properties | Supported housing and nursing care | Total | Pension schemes | 2018 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Housing department | 974 | 325 | 216 | 649 | 2,164 | - | 2,164 |
| Executive and Secretariat | 128 | 42 | 28 | 84 | 282 | 316 | 598 |
| Governance costs | 60 | 20 | 14 | 41 | 135 | 168 | 303 |
| Pensions department | - | - | - | - | - | 3,071 | 3,071 |
| Investments department | - | - | - | - | - | 1,530 | 1,530 |
| Shared services | 488 | 163 | 108 | 325 | 1,084 | 1,189 | 2,273 |
| **Total support costs** | **1,650** | **550** | **366** | **1,099** | **3,665** | **6,274** | **9,939** |

***Housing department costs***

These costs are allocated on a 'per head' basis: costs of housing staff are allocated 45% to rental properties, 30% to supported housing schemes and nursing care, 10% to mortgages and 15% to shared ownership.

***Executive and Secretariat and shared service costs***

Centrally incurred management and shared service costs are allocated between pension schemes and the charity on a 'per head' basis. The charity's housing share is then allocated 45% to rental properties, 30% to supported housing schemes and nursing care, 10% to mortgages and 15% to shared ownership.

***Governance costs***

Governance costs comprise staff and non-staff costs relating to the general running of the Board, including supporting the work of the Board and its Committees. Trustees (and co-opted members) of the Board are reimbursed for travel expenses incurred whilst on official business but are not entitled to any other remuneration or allowances. In the year to 31 December 2019, 13 (2018: 15) trustees claimed a total of £14,000 (2018: £15,000). Governance costs other than external audit costs are allocated between pension schemes and the charity on a 'per head' basis. The charity's housing share is then allocated 45% to rental properties, 30% to supported housing schemes and nursing care, 10% to mortgages and 15% to shared ownership.

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| External audit (including VAT) | 70 | 83 |
| Internal audit | 49 | 46 |
| Board and committee meetings | 6 | 6 |
| **Total governance costs** | **125** | **135** |

Total fees paid (excluding VAT) to Crowe U.K. LLP (2018: PricewaterhouseCoopers LLP) are shown below:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| Audit of CEPB and its subsidiary undertakings | 58 | 69 |
| **Total audit fees relating to current year for CEPB and its subsidiaries** | **58** | **69** |
| Advisory work in relation to bond issue (included within Bond issue transaction costs) | - | 25 |
| **Advisory work in relation to bond issue (included within Bond issue transaction costs)** | **-** | **25** |
| Audit of Pension Schemes | 96 | 97 |
| **Total audit fees relating to current year for Pension Schemes** | **96** | **97** |

***Pensions department costs***

Expenses are incurred by the Board for administering the pension schemes. These costs are recovered from the pension schemes by charging an administration fee to each scheme.

***Investment department costs***

Expenses are incurred by the Board for managing the investment portfolio of the Church of England Investment Fund for Pensions through which the pension schemes hold investments. These costs are recovered by the Board as part of the administration fee the Board charges each pension scheme.

***Shared service costs***

Shared services are provided by Church of England Central Services. Expenses incurred by the Board for administering the Pension Funds are either charged directly to the activity to which they relate or are allocated to the funds in proportion to staff costs, number of data processes or other relevant criteria.

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 7. Staff numbers and costs

The Chief Executive and staff employed to work in the supported housing schemes and the nursing home (closed March 2017) are employed directly by the Board. The Board is joint employer, together with the other National Church Institutions (the NCIs), of most of the staff of the NCIs. In addition to staff employed directly, the work of the Board is supported by staff in shared service departments who provide finance, HR, communications, legal, IT and internal audit services. Since 1 April 2014 they have been employed by a separate NCI, Church of England Central Services (ChECS). Prior to this they had one of the three main NCIs as managing employer and their costs were shown only in the relevant NCI's financial statements.

The SORP requires that the costs of staff employed by third parties who operate on the organisation's behalf be disclosed in the financial statements. 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 Board's share of which was £1,622,000 (2018: £1,619,000).

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

| | Pensions Board own staff | | | | | | | | | | ChECS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing | | Pensions and Investments | | Secretariat | | Supported housing and nursing home | | Total | | Shared services | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Average number employed | 32 | 29 | 38 | 33 | 3 | 4 | 98 | 100 | 171 | 166 | 165 | 161 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Salaries | 1,315 | 1,127 | 1,831 | 1,591 | 264 | 263 | 1,383 | 1,391 | 4,793 | 4,372 | 7,463 | 7,099 |
| National Insurance costs | 143 | 121 | 207 | 181 | 32 | 32 | 94 | 90 | 476 | 424 | 820 | 784 |
| Pension contributions | 184 | 166 | 255 | 225 | 38 | 40 | 181 | 180 | 658 | 611 | 1,796 | 1,673 |
| **Total cost of staff** | **1,642** | **1,414** | **2,293** | **1,997** | **334** | **335** | **1,658** | **1,661** | **5,927** | **5,407** | **10,079** | **9,556** |
| **Total chargeable to Charitable Funds** | **1,642** | **1,414** | **-** | **-** | **154** | **160** | **1,658** | **1,661** | **3,454** | **3,235** | | |

Included in staff costs is £27,000 (2018: £0) paid by way of redundancy costs to 3 (2018: zero) individuals following a restructuring. Restructuring costs are accounted for in full in the year in which the restructure is announced.

The number of staff whose total employee benefits for the year fell in the following bands were:

| | Pensions Board own staff | | | | | | | | ChECS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Housing | | Pensions and Investments | | Secretariat | | Supported housing schemes and nursing home | | Shared services | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| £60,001 to £70,000 | - | - | 3 | 2 | 1 | 1 | - | - | 13 | 12 |
| £70,001 to £80,000 | 1 | 1 | 1 | 2 | - | 1^ | - | - | 5 | 5 |
| £80,001 to £90,000 | - | - | 1 | - | - | - | - | - | 5 | 5 |
| £90,001 to 100,000 | - | - | 1 | 1 | - | 1 | - | - | 4 | 3 |
| £100,001 to 110,000 | - | - | - | 1 | - | - | - | - | 1 | - |
| £110,001 to 120,000 | - | - | 3 | 2 | - | - | - | - | - | - |
| £120,001 to £130,000 | - | - | - | - | - | - | - | - | 1 | - |
| £130,001 to £140,000 | - | - | - | - | - | - | - | - | - | 2 |
| £140,001 to £150,000 | - | - | - | - | 1 | - | - | - | - | 1 |
| £150,001 to £160,000 | - | - | - | - | - | - | - | - | 1 | - |

^ *Includes Chief Executive (started July 2018)*

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

Most staff above were members of the Church Administrators Pension Fund. Of those directly managed by the Board, 8 (2018: 9) staff accrued benefits under a defined contributions scheme for which contributions for the year were £90,000 (2018: 106,000). The other 4 (2018: 3) staff accrued benefits under a defined benefit scheme. Of those managed by ChECS, 24 (2018:22) staff accrue benefits under a defined contribution scheme for which contributions for the year were £256,000 (2018: £217,000). The remaining 6 (2018: 6) staff members accrue benefits under a defined benefit scheme.

The highest paid member of staff earned £143,000 (2018: £115,000). Further details of the Board's remuneration policy are included in the Management section of the Board's report, on page 27. The Board's executive leadership team comprises 10 individuals (2018: 10), 7 (2018: 7) of whom are employed directly by the Board and 3 (2018: 3) by ChECS. The aggregate remuneration for these 10 individuals, including National Insurance and pension contributions, was £1,119,000 (2018: £1,142,000).

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

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 8. Staff pensions

***Staff employed jointly by the National Church Institutions***

*Pension benefits from Service up to 31 December 1999*
These are met by the Church Commissioners for England, so no costs or liability are reflected by the Board.

*Pension benefits from Service from 1 January 2000*
Benefits for staff arising from service from 1 January 2000 are provided by the Church Administrators Pension Fund ("CAPF").

The participating employers are responsible for making contributions of £390,000 (2018: £210,000) towards the administration costs of the CAPF. The Board's share of these costs was £49,000 (2018: £35,000).

Staff who were in service as at 30 June 2006 are members of the defined benefit section of the CAPF. This is considered to be a multi-employer scheme as described in FRS 102 paragraph 28.11 and consequently is accounted for as if it were a defined contribution scheme, where employer contributions payable in the year are charged to expenditure.

The contributions to the CAPF are assessed by an independent qualified actuary using the projected unit method of valuation. A valuation of the scheme is carried out once every three years, the most recent having been carried out as at 31 December 2017. This revealed a deficit of £13.3m, based on assets of £129.8m and a funding target of £143.1m. The level of additional contributions to be made by the employers was £2,667,723 per annum from 1 January 2018 to 30 April 2023, increasing each year by 3.3%.

The Board's share of this agreed deficit recovery plan is provided for. The provision is measured at its net present value. The table below shows the movement on the provision:

| | **CEPB staff** | **Share of ChECS staff** | **2019** | **CEPB staff** | **Share of ChECS staff** | **2018** |
|---|---|---|---|---|---|---|
| Provision at 1 January | 527 | 337 | **864** | 1,003 | 503 | **1,506** |
| Contributions Paid | (118) | (63) | **(181)** | (132) | (58) | **(190)** |
| Interest charged on provision | 9 | 4 | **13** | 13 | 6 | **19** |
| Adjustment to net present value of provision | 59 | 20 | **79** | (357) | (114) | **(471)** |
| **Provision at 31 December** | **477** | **298** | **775** | **527** | **337** | **864** |

Staff who joined after 20 June 2006 are members of the defined contributions section of the CAPF. Employer contributions payable in the year are charged to expenditure.

***Staff employed directly by the Board (mainly in supported housing schemes)***
Pension benefits for staff in supported housing managerial positions are provided for by a defined benefit section of the Church Workers Pension Fund ("CWPF"). The scheme is considered to be a multi-employer scheme as described in FRS 102 paragraph 28.11 and consequently is accounted for as if it were a defined contribution scheme, where employer contributions payable in the year are charged to expenditure.

The contributions to the Fund are assessed by an independent qualified actuary using the projected unit method of valuation. The last full valuation of the Fund, as at 31 December 2016, showed an overall deficit of £29.4m (2013: £12.9m). The deficit recovery period is agreed with each participating employer in the scheme. In 2019, the Board's share of the deficit contributions of £26,000 were paid and £6,000 administration fees were charged to expenditure.

Pension benefits for other staff are provided for by a defined contribution scheme in CWPF, where employer contributions payable in the year are charged to expenditure.

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 9. Investment assets

| GROUP | At 1 January 2019 | Additions | Disposals | Gains/(losses) | Cash held by investment managers at 31 December 2019 | At 31 December 2019 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| UK investment funds | 40,259 | 11,662 | (12,059) | 1,308 | 412 | 41,582 |
| UK investment properties | 680 | - | - | 8 | - | 688 |
| **Consolidated total investment assets** | **40,939** | **11,662** | **(12,059)** | **1,316** | **412** | **42,270** |

| CHARITY | At 1 January 2019 | Additions | Disposals | Gains/(losses) | Cash held by investment managers at 31 December 2019 | At 31 December 2019 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| UK investment funds | 40,259 | 11,662 | (12,059) | 1,308 | 412 | 41,582 |
| UK investment properties | 680 | - | - | 8 | - | 688 |
| Investment in subsidiary | 13 | - | - | - | - | 13 |
| **Charity's total investment assets** | **40,952** | **11,662** | **(12,059)** | **1,316** | **412** | **42,283** |

Funds were managed by CCLA, Savills, Mayfair and Brewin Dolphin. Investment funds were held as follows:

| | 2019 | 2018 |
|---|---|---|
| | £'000 | £'000 |
| CCLA Investments | - | 10,419 |
| Savills | 20,526 | 20,952 |
| Mayfair | 8,647 | 8,888 |
| Brewin Dolphin | 12,409 | - |
| **Total** | **41,582** | **40,259** |

**Subsidiaries**
The Board owns 100% of CEPB Developments Ltd, a dormant company limited by shares, held to undertake property and building development at the supported housing schemes and nursing home, and CEPB Mortgages Ltd, a company limited by guarantee, held to administer mortgages on behalf of the Board. Both companies are registered at 29 Great Smith Street, London, SW1P 3PS.

The Board also owns 100% of CHARM Finance PLC, a company limited by share capital of £50,000 (of which £12,500 has been paid up by the Board), held as a special purpose vehicle which in August 2015 provided £70m of funds to the Board via the issue of £100m of 3.126% Secured Bonds (including £30m in principal amount of Retained Bonds) due August 2048. In April 2018 CHARM Finance PLC provided a further £30m of funds to the Board via the issue of £50m of 3.509% Secured Bonds (including £20m in principal amount of Retained Bonds) also due in 2048. These funds are being used to secure current and future obligations for clergy housing in retirement.

The financial results of the Subsidiaries are detailed in Note 16.

**Joint ventures**
ChECS is a charitable joint venture between the Church 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 NCIs. The previous management arrangements continued into the new structure.

The Board's share of net assets and net income of ChECS was £nil (2018: £nil). As at 31 December 2019, £146,000 was owed by the Board to ChECS (2018: £72,000 owed by the Board to ChECS).

The Pensions Board have no associated undertakings.

**UK investment properties**
The valuers of the investment properties were Savills LLP.

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 10. Tangible assets – Supported housing and IT systems

| Consolidated and charity | At 1 January 2019 | Additions | Disposals | Charge in year | Impairment | At 31 December 2019 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| *Supported Housing land and buildings* | | | | | | |
| Cost | 27,292 | - | - | - | - | 27,292 |
| Depreciation | (4,253) | - | - | (506) | - | (4,759) |
| Net book value | 23,039 | - | - | (506) | - | 22,533 |
| *Fixtures and fittings* | | | | | | |
| Cost | 4,101 | 283 | - | - | - | 4,384 |
| Depreciation | (3,065) | - | - | (93) | - | (3,158) |
| Net book value | 1,036 | 283 | - | (93) | - | 1,226 |
| *IT systems (under construction)* | | | | | | |
| Cost | - | 294 | - | - | - | 294 |
| Net book value | - | 294 | - | - | - | 294 |
| Total supported housing and IT systems | 24,075 | 577 | - | (599) | - | 24,053 |

IT systems represents the capitalised costs incurred in respect of the construction of the new Housing Management System and a major upgrade to the Pensions Administration System. No depreciation charge is incurred whilst the assets are under construction.

### 11. Tangible assets – CHARM properties

The Board owns a number of different types of properties which it uses to fulfil its charitable objective: to provide retirement housing for retired clergy (CHARM).

| Consolidated | Book value at 1 January 2019 | Additions | Disposals | Book value at 31 December 2019 | *No. of properties at 1 January 2019* | *Additions* | *Disposals* | *No. of properties at 31 December 2019* |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | | | | |
| **Rental properties** | | | | | | | | |
| Funded by CC | 27,605 | - | (2,234) | 25,371 | *296* | - | *(28)* | *268* |
| Funded by PB | 154,404 | 16,008 | (2,631) | 167,781 | *889* | *54* | *(19)* | *924* |
| **Rental properties total** | **182,009** | **16,008** | **(4,865)** | **193,152** | ***1,185*** | ***54*** | ***(47)*** | ***1,192*** |
| **Shared ownership properties** | | | | | | | | |
| Funded by CC | 3,785 | - | (234) | 3,551 | *39* | - | *(2)* | *37* |
| Funded by PB | 6,554 | 233 | (430) | 6,357 | *72* | *2* | *(6)* | *68* |
| **Shared ownership properties total** | **10,339** | **233** | **(664)** | **9,908** | ***111*** | ***2*** | ***(8)*** | ***105*** |
| **Mortgaged properties** | | | | | | | | |
| Funded by CC | 33,650 | - | (2,561) | 31,089 | *627* | - | *(64)* | *563* |
| Funded by PB | 823 | - | - | 823 | *13* | - | - | *13* |
| **Mortgaged properties total** | **34,473** | **-** | **(2,561)** | **31,912** | ***640*** | **-** | ***(64)*** | ***576*** |
| **Totals** | | | | | | | | |
| *Properties with significant restrictions (funded by Church Commissioners)* | *65,040* | - | *(5,029)* | *60,011* | *962* | - | *(94)* | *868* |
| *Properties without significant restrictions (funded by the Pensions Board)* | *161,781* | *16,241* | *(3,061)* | *174,961* | *974* | *56* | *(25)* | *1,005* |
| **Total** | **226,821** | **16,241** | **(8,090)** | **234,972** | ***1,936*** | ***56*** | ***(119)*** | ***1,873*** |

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 11. Tangible assets – CHARM properties (continued)

| **Charity only** | Book value at 1 January 2019 | Additions | Disposals | Book value at 31 December 2019 | *No. of properties at 1 January 2019* | *Additions* | *Disposals* | *No. of properties at 31 December 2019* |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | | | | |
| **Rental properties** | | | | | | | | |
| Funded by CC | 27,605 | - | (2,234) | 25,371 | *296* | *-* | *(28)* | *268* |
| Funded by PB | 154,404 | 16,008 | (2,631) | 167,781 | *889* | *54* | *(19)* | *924* |
| **Rental properties total** | **182,009** | **16,008** | **(4,865)** | **193,152** | ***1,185*** | ***54*** | ***(47)*** | ***1,192*** |
| **Shared ownership properties** | | | | | | | | |
| Funded by CC | 3,785 | - | (234) | 3,551 | *39* | *-* | *(2)* | *37* |
| Funded by PB | 6,554 | 233 | (430) | 6,357 | *72* | *2* | *(6)* | *68* |
| **Shared ownership properties total** | **10,339** | **233** | **(664)** | **9,908** | ***111*** | ***2*** | ***(8)*** | ***105*** |
| **Mortgaged properties** | | | | | | | | |
| Funded by CC | 28,214 | - | (2,451) | 25,763 | *571* | *-* | *(64)* | *507* |
| Funded by PB | 418 | - | - | 418 | *9* | *-* | *-* | *9* |
| **Mortgaged properties total** | **28,632** | **-** | **(2,451)** | **26,181** | ***580*** | ***-*** | ***(64)*** | ***516*** |
| **Totals** | | | | | | | | |
| *Properties with significant restrictions (funded by Church Commissioners)* | *59,604* | *-* | *(4,919)* | *54,685* | *906* | *-* | *(94)* | *812* |
| *Properties without significant restrictions (funded by the Pensions Board)* | *161,376* | *16,241* | *(3,061)* | *174,556* | *970* | *56* | *(25)* | *1,001* |
| **Total** | **220,980** | **16,241** | **(7,980)** | **229,241** | ***1,876*** | ***56*** | ***(119)*** | ***1,813*** |

*During the year, a review was undertaken of the presentation of the CC-funded properties in the Board's own financial statements. The fixed assets shown in the Charity-only table above include only those mortgage loans made directly by the Board, for which CC-funding was received. Loans made by the Board to CEPB Mortgages Ltd, but ultimately funded by CC, are reflected in current debtors. See note 12. The related mortgages issued by CEPB Mortgages Ltd are shown in the Consolidated fixed assets table.*

***Financing and restriction***

Historically, the Board's own properties were funded from trusts and legacies. From 1983 until July 2010 most of the rental, shared ownership and mortgaged properties purchased were financed by loans from the Church Commissioners. Under this arrangement, the legal ownership of each property lay with the Board but a significant part of the economic interest lay with the Commissioners. In the case of mortgaged and shared ownership properties, the Commissioners' economic interest was in the same proportion as the amount of financing they provided compared to the purchase price. Purchases were recognised at cost and the loan from the Commissioners recognised at an equal amount within creditors. If the property were sold, an amount equal to the proceeds (for mortgaged and shared ownership properties, in the same proportion as the financing they provided compared to the purchase price) would be repayable. This arrangement meant that the Commissioners retained a significant degree of financial control over the properties they funded, and on a property becoming vacant, determined if and when it was sold and for how much.

Since the end of the Commissioners' funding arrangement, financing for purchases of new rental or shared ownership properties has been provided through three sources. Firstly in 2010 the Board put in place a loan facility with Santander. Secondly in 2015 the Board was loaned £70,000,000 from its subsidiary CHARM Finance PLC, which raised funds through the issue of a listed bond. Thirdly in 2018 the Board was loaned £30,000,000 from its subsidiary CHARM Finance PLC, which raised funds through the issue of a second listed bond. Further details of both facilities are provided in Note 13.

Of the £70,000,000 loaned to the Board in 2015, £41,841,000 was used to purchase the economic interest in 196 properties which had originally been funded by the Commissioners. The Commissioners have retained a right to receive any profit on disposal of any of the 196 properties up to August 2025, over the agreed purchase price of that property, and in 2019 three (2018: two) properties were sold by the Board, with £69,000 (2018: £125,000) paid to the Church Commissioners as a result of this agreement. In the opinion of the trustees however, as the remainder of these properties have been identified for long-term use by the Charity, it is not expected that many further payments will accrue to the Church Commissioners as a result of this arrangement.

In addition to these arrangements, 48 rental properties were purchased with contributions from dioceses and others, where the contributions are repayable when the property is sold, as either a simple repayment or in the same proportion as the original contribution to the purchase price, depending on the agreement made. The Board recognises the full cost of the property and also recognises a liability for the amount contributed (see note 13).

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 12. Debtors

| | Consolidated | | Charity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 478 | 607 | 478 | 606 |
| Subsidiary undertakings | - | - | *5,730 | * 5,840 |
| Prepayments and accrued income | 5,794 | 822 | 5,793 | 645 |
| Joint venture (ChECS) | 146 | 37 | 146 | 37 |
| Other debtors | 318 | 541 | 318 | 541 |
| **Total** | **6,736** | **2,007** | **12,465** | **7,669** |

***** Loans from the Church of England Pensions Board to CEPB Mortgages Ltd are repayable when the properties associated with them are sold. This is categorised as a current debtor for the Charity in line with FRS 102 section 4.7. See Note 13 for more details.

### 13. Creditors

| Current liabilities: | Consolidated | | Charity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Amounts falling due within one year | | | | |
| Trade creditors | 1,821 | 2,234 | 1,820 | 2,233 |
| Accruals and deferred income | 2,290 | 3,203 | 2,290 | 3,025 |
| Tax creditor | 26 | 27 | 26 | 27 |
| Joint venture (ChECS) | - | - | - | - |
| Other creditors | 1,215 | 59 | 1,219 | 59 |
| **Total amounts falling due within one year:** | **5,352** | **5,523** | **5,355** | **5,344** |
| Concessionary loans repayable on sale of fixed assets | | | | |
| Loans from Church Commissioners for: | | | | |
| - rental properties | 25,371 | 27,605 | 25,371 | 27,605 |
| - shared ownership properties | 3,551 | 3,785 | 3,551 | 3,785 |
| - mortgage properties | 31,089 | 33,650 | 31,089 | 33,650 |
| Diocesan and other creditors | 758 | 1,037 | 758 | 1,037 |
| **Total loans repayable on sale of fixed assets** | **60,769** | **66,077** | **60,769** | **66,077** |
| **Total current liabilities** | **66,121** | **71,600** | **66,124** | **71,421** |

Loans from the Church Commissioners are repayable when the properties associated with them are sold. The trigger for the repayment is the sale of the property and the proceeds are passed in full to the Church Commissioners. Properties are sold when residents vacate rented properties, shared ownership properties are sold and mortgages are redeemed. These assets are classified as fixed assets and are included in note 11.

FRS 102 section 4.7 states that where the repayment of a creditor cannot unconditionally be deferred for more than a year, it must be classed as a current liability. Even though experience has shown that loans from the Church Commissioners will be repaid steadily over a timeline substantially longer than one year, they meet this definition and as a result are included within current liabilities.

The terms of these concessionary loans are: for loans granted prior until 31 March 1993 the initial interest rate was 3%, increasing in line with RPI each April; for loans granted from 1 April 1993 the initial interest rate was 4%, increasing in line with RPI each April.

The same current liability classification has been applied to the Diocesan loans to the Pensions Board.

### 13. Creditors (continued)

| Non-current liabilities: | Consolidated | | Charity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Bond liabilities – 2015 Bond | 70,000 | 70,000 | - | - |
| Bond liabilities – 2018 Bond | 30,000 | 30,000 | - | - |
| Bond liabilities – capitalised bond set-up costs | (718) | (746) | - | - |
| Intra-group liability – loan repayable to CHARM Finance PLC | - | - | 100,000 | 100,000 |
| Intra-group liability – capitalised bond set-up costs | - | - | (718) | (746) |
| Loan from Santander | 17,500 | 4,000 | 17,500 | 4,000 |
| Loan from Santander - capitalised set-up costs | (183) | (217) | (183) | (217) |
| **Total** | **116,599** | **103,037** | **116,599** | **103,037** |

The two bonds, issued by subsidiary undertaking CHARM Finance plc, were issued to finance the growth and development of the CHARM scheme. Transaction costs of £509,000 were incurred in respect of the 2015 bond, and £306,000 in respect of the 2018 bond. At 31 December 2019, the amortised cost of the set-up fees incurred (predominantly legal and financial advice fees) for both bonds was £718,000 (2018: £746,000).

For the 2015 bond, interest due up to August 2017 was based on the initial interest rate of 3.126% adjusted for changes in CPI (subject to a 4% cap and a floor of zero). Since August 2017 the applicable interest rate has risen to 3.154%. Repayment of the bond is due in five equal instalments of £14m due in August of 2038, 2041, 2043, 2045 and 2048 respectively. The bond is secured by a fixed charge over 442 properties held by the Charity.

For the 2018 bond, interest due is based on the fixed interest rate of 3.509%. Repayment of the bond is due in three instalments on 12 November 2044, 12 November 2046 and 12 April 2048. The bond is secured by a fixed charge over 211 properties held by the Charity.

The following table details the maturity of the bond-related contractual payments as at 31 December 2019:

| | 2015 Bond | | 2018 Bond | |
|---|---|---|---|---|
| **Period** | **Interest due** | **Capital repayment** | **Interest due** | **Capital repayment** |
| | £’000 | £’000 | £’000 | £’000 |
| Due to end December 2019 | 797 | - | 141 | - |
| Due within one year (to end December 2020) | 2,254 | - | 1,055 | - |
| Due within five years (to end December 2024) | 9,106 | - | 4,216 | - |
| Due after five years | 41,753 | 70,000 | 22,659 | 30,000 |
| **Total** | **53,910** | **70,000** | **28,071** | **30,000** |

The intra-group liability due by the charity to CHARM Finance plc mirrors the terms of the bonds noted above.

The charity has a loan facility with Santander through Abbey National Treasury Services PLC which at December 2019 was secured by fixed charges over 118 properties (2018: 123 properties) owned by the charity, with occupied market value of £29,000,000 (2018: £29,000,000). The loan is repayable, subject to terms and conditions, at June 2025.

The cost of the Santander arrangement fee of £500,000 (1% of the loan facility) is offset against the loans and is being amortised over 15 years. At 31 December 2019, the amortised cost was £183,000 (2018: £217,000).

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 14. Financial Instruments

| | Note | Consolidated 2019 £'000 | Consolidated 2018 £'000 | Charity 2019 £'000 | Charity 2018 £'000 |
|---|---|---|---|---|---|
| **Financial assets at fair value through statement of financial activities** | | | | | |
| Listed non-current investments | 9 | 42,270 | 40,939 | 42,283 | 40,952 |
| **Total financial assets** | | 42,270 | 40,939 | 42,283 | 40,952 |

### 15. Funds

| Consolidated and charity | Balance at 1 January 2019 £'000 | Income £'000 | Expenditure £'000 | Investment gains £'000 | Other gains £'000 | Transfers £'000 | Balance at 31 December 2019 £'000 |
|---|---|---|---|---|---|---|---|
| **Unrestricted funds** | - | 6,883 | (6,883) | - | - | - | - |
| **Total unrestricted funds** | - | 6,883 | (6,883) | - | - | - | - |
| **Restricted funds:-** | | | | | | | |
| General Purposes Fund: | | | | | | | |
| - General Funds | 108,597 | 27,666 | (19,815) | 942 | - | (7,500) | 109,890 |
| - Earmarked – Property Maintenance | 4,429 | - | (4,091) | - | - | 7,500 | 7,838 |
| Clergy Retirement Housing Trust & other trusts | 11,507 | 575 | (484) | 374 | - | - | 11,972 |
| **Total restricted funds (excl. pension reserve)** | 124,533 | 28,241 | (24,390) | 1,316 | - | - | 129,700 |
| **Pension reserve** | (864) | - | 168 | - | (79) | - | (775) |
| **Total funds** | **123,669** | **35,124** | **(31,105)** | **1,316** | **(79)** | **-** | **128,925** |

For comparative purposes, the table below shows the movement on funds for the year ending 31 December 2018:

| Consolidated and charity | Balance at 1 January 2018 £'000 | Income £'000 | Expenditure £'000 | Investment gains £'000 | Other gains £'000 | Transfers £'000 | Balance at 31 December 2018 £'000 |
|---|---|---|---|---|---|---|---|
| **Unrestricted funds** | - | 6,274 | (6,274) | - | - | - | - |
| **Total unrestricted funds** | - | 6,274 | (6,274) | - | - | - | - |
| **Restricted funds:-** | | | | | | | |
| General Purposes Fund: | | | | | | | |
| - General Funds | 108,809 | 22,216 | (20,885) | 657 | - | (2,200) | 108,597 |
| - Earmarked – Property Maintenance | 4,635 | - | (2,406) | - | - | 2,200 | 4,429 |
| Clergy Retirement Housing Trust & other trusts | 10,460 | 1,449 | (373) | (29) | - | - | 11,507 |
| **Total restricted funds (excl. pension reserve)** | 123,904 | 23,665 | (23,664) | 628 | - | - | 124,533 |
| **Pension reserve** | (1,506) | - | 171 | - | 471 | - | (864) |
| **Total funds** | **122,398** | **29,939** | **(29,767)** | **628** | **471** | **-** | **123,669** |

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 15. Funds (continued)

***Unrestricted funds***
The **unrestricted funds** represent expenditure incurred by the CEPB on salaries and working expenses subsequently recovered from the pension funds administered by the Board. The CEPB has no net assets or liabilities in its own right as a body corporate.

***Restricted funds***
The **General Purposes Fund ("GPF")** is the largest charitable fund administered by the Church of England Pensions Board, covering the provision, maintenance & management of homes of residence for retired clergy and church workers and their spouses/former spouses/dependants, etc.

Within restricted funds, the Trustees have earmarked an amount for property maintenance. £7.5m (2018: £2.2m) was transferred from the restricted general fund to the earmarked Property Maintenance fund to allow for additional property maintenance work.

The **Clergy Retirement Housing Trust ("CRHT")** is a registered charity (Charity No. 236627-2) and is a linked charity of the Board. As a linked charity, it is accounted for as a restricted fund. The charitable object of the CRHT is to use its property as residences for those persons who are qualified for such residence by virtue of the provisions of the Clergy Pensions Measure 1961 or any succeeding legislation.

Below is a summary of the assets and liabilities of each fund as at 31 December 2019:

| FUND | Fixed Assets | Current Assets | Current Liabilities | Non-Current Liabilities | SUB TOTAL | Provision for Pension Liability | NET ASSETS |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Unrestricted funds | 94 | 955 | (1,049) | - | **-** | - | **-** |
| **Restricted Funds:** | | | | | | | |
| General Purposes Fund | 290,508 | 8,952 | (65,133) | (116,599) | **117,728** | (775) | **116,953** |
| Clergy Retirement Housing Trust & other trusts | 10,693 | 1,218 | 61 | - | **11,972** | - | **11,972** |
| **Total** | 301,295 | 11,125 | (66,121) | (116,599) | **129,700** | (775) | **128,925** |

For comparative purposes, the table below provides a summary of the assets and liabilities of each fund as at 31 December 2018:

| FUND | Fixed Assets | Current Assets | Current Liabilities | Non-Current Liabilities | SUB TOTAL | Provision for Pension Liability | NET ASSETS |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Unrestricted funds | - | 1,194 | (1,194) | - | **-** | - | **-** |
| **Restricted Funds:** | | | | | | | |
| General Purposes Fund | 281,191 | 5,261 | (70,389) | (103,037) | **113,026** | (864) | **112,162** |
| Clergy Retirement Housing Trust & other trusts | 10,644 | 880 | (17) | - | **11,507** | - | **11,507** |
| **Total** | 291,835 | 7,335 | (71,600) | (103,037) | **124,533** | (864) | **123,669** |

### 16. Subsidiary results

The Board owns 100% of CEPB Developments Ltd, a dormant company limited by shares, held to undertake property and building development at the supported housing schemes, and CEPB Mortgages Ltd, a company limited by guarantee, held to administer mortgages on behalf of the Board. Both companies are registered at 29 Great Smith Street, London, SW1P 3PS.

The Board also owns 100% of CHARM Finance PLC (incorporated and acquired 17 July 2015), a company limited by share capital of £50,000 (of which £12,500 has been paid up by the Board), held as a special purpose vehicle which in August 2015 provided £70m of funds to the Board via the issue of £100m of 3.126% Secured Bonds (including £30m in principal amount of Retained Bonds) due August 2048. In April 2018 CHARM Finance PLC provided a further £30m of funds to the Board via the issue of £50m of 3.509% Secured Bonds (including £20m in principal amount of Retained Bonds) also due in 2048. These funds are being used to secure current and future obligations for clergy housing in retirement.

Summaries of the Board's significant subsidiaries' results are shown below:

# Notes to the financial statements of the Church of England Pensions Board
# For the year ended 31 December 2019

### 16. Subsidiary results (continued)

| | CEPB Mortgages | | CHARM Finance PLC | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Revenue | 335 | 346 | 3,371 | 3,025 |
| Expenditure | (335) | (346) | (3,371) | (3,025) |
| **Result** | - | - | - | - |
| | | | | |
| Total Assets | 5,731 | 5,841 | 100,246 | 100,191 |
| Total Liabilities | (5,730) | (5,840) | (100,233) | (100,178) |
| **Net Assets** | 1 | 1 | 13 | 13 |

### 17. Related Parties

**Subsidiary companies**
The Board received £335,000 from CEPB Mortgages (2018: £346,000) in respect of mortgage interest received by the Company. At the balance sheet date, CEPB Mortgages owed the Board £5,731,000 (2018: £5,840,000) in respect of mortgage loans repayable.

The Board paid £3,326,000 to CHARM Finance PLC in 2019 in respect of bond interest paid by the Company (2018: £2,825,000). At the balance sheet date, the Board owed CHARM Finance PLC £99,282,000 (2018: £99,254,000) in respect of loans repayable in relation to the 2015 and 2018 bonds.

**Joint ventures**
Church of England Central Services (ChECS) is a joint venture between the Church Commissioners, the Archbishops' Council and the Church of England Pensions Board, and therefore a related party of the Board. More information can be found in Note 9.

**Pension Schemes**
Details of amounts paid to the pension schemes are disclosed in note 8.

**Other payments to related parties**
The Board received £6,250 from Savills Investment Management in 2019 (2018: £10,500). Alan Fletcher, the Chair of the Board's Investments Committee (to December 2019), sits on Savills' advisory committee for the Charities Pension Fund. A position on Savills' committee is a remunerated position, however, for the duration of his tenure as a Trustee, Alan Fletcher has forgone this remuneration and instead has asked Savills to pay the fees directly to the Board.

### 18. Post balance sheet event

Subsequent to the year end, listed investment markets experienced substantial volatility associated with uncertainties linked to the COVID-19 virus pandemic. The Board's investments are held in a variety of individual investments valued on a daily basis, pooled funds valued on a monthly or quarterly basis, and investment properties valued annually. Therefore, it is not possible to quantify with reasonable certainty the effect of COVID-19 on the portfolio as a whole since the event took place. The long term impact on investment values is currently unknown. The Board has no beneficial interest in the investments of the pension schemes for which it is Trustee, so the effects of COVID-19 on the investments of the pension schemes are considered within their annual reports.

COVID-19 has also impacted the residential property market, resulting in greater uncertainty over market prices. However, given positive movements in residential house price indices in the period from 1 January to 31 May 2020 and the Board's policy to hold these assets at cost rather than market value, it is considered unlikely that the CHARM portfolio is materially impaired.

The Board is also exposed to falls in listed investment markets and changes in actuarial assumptions linked to market data through its participation in the Church Workers Pension Fund and the Church Administrators Pension Fund. However, this will not have a direct impact on the Board's balance sheet because it accounts for these schemes as if they were defined contribution schemes. Any changes to contributions or deficit recovery arrangements will be considered as part of the next triennial actuarial review of the schemes.

# CEPB Annual Report & Accounts

Final Audit Report 2020-06-16

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|---|---|
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