The
Church of England
Pensions Board

Annual Report

Year ended 31 December 2017

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Chairman's Introduction

During 2017 we continued to deliver retirement services to the Church of England and particularly those who work for or serve it. It was a year in which we delivered on the decisions taken in previous years, and one which, in the latter part brought shock and sadness to the Board and its staff.

Towards the end of 2016 we took the extremely difficult decision to close Manormead Nursing Home and so the early part of 2017 was focussed on ensuring that our former residents and their families were well supported as they moved to new homes.

We continue to assist around 2,500 retired clergy households through our CHARM housing scheme, and this year have seen an increasing number of people approach us well in advance of retirement to consider their options and where appropriate reserve a property. Our focus is on responding to user needs, at what can be a difficult time in their lives, and providing good quality, affordable homes. 2017 saw the development of a new asset strategy as well as considerable work to access further financing which culminated in the issue of a new £50m fixed rate bond in April 2018.

Each year we carry out a valuation of one of the pension schemes for which we act as trustee. At the end of 2016, it was the turn of the Church Worker's Pensions Fund. Formally, this fund operates as a centralised occupational pension scheme for over 450 employers of lay staff connected with the ministry and mission of the Church of England, including diocesan offices, and lay staff working within parishes, amongst others. It is a complex scheme with several sections and has grown considerably over recent years as employers have looked for a pension fund which fulfilled the requirements of the Government's desire to see all employees enrolled in an appropriate pension scheme. Due to changed economic circumstances some employers faced the prospect of an unanticipated negative impact on the funding position of their section of the fund. We agreed with each employer a plan to address the funding of their sections and completed the valuation early in 2018.

Ethical investment considerations are very important to us when investing the pension funds. The Transition Pathway Initiative (TPI) on climate change continues to gain momentum and now has the support of asset owners and funds that together have over £6 trillion in assets under management, up from £2 trillion at the start of the year. TPI is a joint initiative by the National Investing Bodies of the Church of England and the Environment Agency Pension Fund. Working together, we exercise significant influence over the behaviour of a huge range of other investors.

Late in 2017, we announced, in conjunction with other Church investors, a new policy on investing in extractive industries. The new policy acknowledges the positive contribution that mining can make to development and the material that it provides for many of the products in modern life. However, it also highlights that extractives companies are particularly vulnerable to poor governance and ethical controversy, and harmful, long-lasting impacts on communities and the environment.

It was with great sadness that we learned of the sudden and unexpected death of Bernadette Kenny, our Chief Executive Officer in October 2017. Bernadette was a much-valued colleague, friend and inspirational role model who had led the Board for over six years. During this time she brought about real change in the way we delivered our services and in how we engaged with our customers and stakeholders.

At the end of 2017 we lost the services of several Board members who either stepped down or did not stand for re-election. These were Canon David Froude, who had chaired the Audit and Risk Committee for many years, Jane Bisson and Brian Wilson. During the year, the Revd Paul Boughton stepped down from the Board owing to ill health; we sadly learnt of his death in early 2018. We are grateful for their service and contributions to the Board and its committees.

During 2018 we will be focussing on the staff pension fund and preparing for the clergy funded scheme's valuation at the end of the year. We will also look forward to welcoming new members of the Board and a new Chief Executive to shape and refine the retirement services we offer to ensure that they are sustainable for the future.

Jonathan Spencer
Chairman

Report of the trustees for the year ended 31 December 2017

The trustees present their annual report and financial statements of the charity for the year ended 31 December 2017. 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") published on 16 July 2014.

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 Clergy Pensions Measure 1961 (as amended from time to time). It is the corporate trustee of four pension schemes:

- The Church of England Funded Pensions Scheme;
- Clergy (Widows and Dependants) Pension Fund;
- The Church Workers Pension Fund;
- The Church Administrators Pension Fund.

The financial statements of the four pension schemes are not included in this report.

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 firstly 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. Secondly, 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:

- To manage the pension schemes efficiently and effectively, applying an investment strategy that maximises its ability to meet all liabilities.
- To provide quality retirement housing.
- To understand its customers' needs and expectations and use this to design and deliver better services.
- To ensure that the Board follows best practice in its corporate governance.
- To achieve value for money from the resources the Board is given to deliver its services.
- To achieve a sustainable return on its investment funds, acting in accordance with the National Investing Bodies' ethical policies

At least one in four clergy retiring from the stipendiary ministry seek the Board's assistance with retirement accommodation. Retirement is a difficult process for the majority of people, but made more difficult for the Church of England clergy who have lived the majority of their working lives in tied accommodation.

The Board aims to ensure that they are able to provide an appropriate level of service over the long term, and that their retirement housing is well maintained and suits its purpose.

In 2018, the Board will continue to provide these services within the resources available to them. 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.

Charitable activities of the Board:

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.

Under CHARM there are several options, some of which have now been closed and are no longer available. Through the various options around 2,500 retired clergy and their dependants receive assistance.

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 www.cepb.org.uk or from housingservices@churchofengland.org.

- Rental Property
The rental option is the Board's core product, with around 1,200 retired clergy and their dependants in this section of the scheme. Customers can choose from a portfolio of properties across the country that become vacant during the 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 carried out by Sanctuary Housing Association, its maintenance service provider, 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 and are now making a very slow transition 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 2017 was £4.6m (2016: £4.4m).

- Shared Ownership
The Shared Ownership option assists around 112 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 likely 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 706 properties (641 from the Charity and 65 from the subsidiary company CEPB Mortgages Ltd).

Supported Housing and Nursing Care

For over sixty years, the Board has been providing supported housing for those retired clergy and their dependants who wish to live as independently as possible in a community of Christians and to have a range of support services. 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.

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 charge 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 not met fully 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 2017 this amounted to £0.6m (2016: £0.6m).

The Board closed its nursing and dementia care home, Manormead, in March of 2017. This extremely difficult decision was taken in light of the difficulties the Board had experienced for some time in recruiting and retaining nursing staff, and more recently in recruiting new care staff to the team. A heavy reliance on temporary and agency staff meant that the Board could not guarantee that the service would be safe and sustainable in the long term. The net deficit incurred in relation to the Manormead nursing home for 2017 was £1.2m (2016: £1.0m) and reflects the cost of closure, along with the continuing provision of financial support to enable former residents to receive appropriate care from other service providers.

Administration of pensions

The Church of England Pensions Board is the trustee of four pension funds - the Church of England Funded Pension Scheme, the Clergy (Widows and Dependants) Pension Fund, 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 around 40,000 people, across more than 520 employers are administered by the Board. Separate reports and accounts are issued for the pension schemes and are available on the website www.cepb.org.uk.

Review of 2017 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 current 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 20 new rental properties during the year, but was also able to re-let a number of existing (Pension Board funded) properties to meet demand. This resulted in a net reduction in the size of the rental portfolio from 1,216 properties at the end of 2016, to 1,196 at the end of 2017, however the proportion funded by the Pensions Board increased to 74% (2016: 71%).

In addition to rental properties, the Board continued to assist customers in buying properties under a shared ownership arrangement, purchasing shares in four new properties during the year. Customers are also able to purchase additional shares in these properties, and four customers took advantage of this option during the year.

The main focus of 2017 was the development of a new asset management strategy for the entire range of housing in the portfolio in order to adopt a more structured approach, as well as aligning with the CHARM strategy which focused on improving the Board's offer to customers and increasing its capabilities within the department. The purpose of the Asset Management Strategy is to provide a structured framework within which the Board can:

- Enhance customer experience
- Provide good quality homes
- Ensure robust and transparent processes are adopted to manage expenditure and provide demonstrable audit trails
- More effectively manage and mitigate risks
- Maintain and enhance a core capability to manage and direct the asset management programme
- Demonstrate best value-for-money having regard to economy, efficiency and effectiveness, together with the optimum level of resources to achieve this
- Ensure that the supply chain complies with the Board's ethical values and social responsibility commitments

Supported Housing and Nursing Care
The Board continued to provide supported housing through its seven supported living schemes, housing 208 residents in 2017 (2016: 232).

The closure of Manormead nursing home was inevitably a significant focus for 2017. The initial part of the closure plan centred around supporting staff, residents and their families through a difficult and emotional process, ensuring that residents had choice about alternative nursing care and that the transition to new homes was as smooth and worry free as possible. All residents were successfully relocated by February 2017 and the Board continued to work with them and their families during the subsequent months in order to ensure that appropriate placements had been chosen and that people were settled into their new homes. These customers will be supported by the Board for the remainder of their lives.

Administration of pensions
During the year the Board completed the initial work on the Church Workers Pension Fund (CWPF) valuation effective as at 31st December 2016. A covenant review was carried out of the major sponsors of the Defined Benefit Scheme (DBS) section and the Board consulted with participating employers about proposed assumptions and communicated the initial results. The Board also discussed potential deficit recovery plans with those employers in the DBS section who were in deficit at the valuation date.

Significant work began in connection with the long-term sustainability of the Church of England Funded Pension Scheme ("CEFPS" - the Clergy pension scheme) as an open defined benefit scheme. This included:

- looking at alternative actuarial funding models and associated assumptions which are more closely aligned to the Board's investment strategy, and,
- completing a major integrated risk review that including stress testing and modelling of the long-term development of the scheme's funding position and the financial position of the major sponsors.

The assets of the pension schemes administered by the Board returned 9.4% over 2017, which was significantly ahead of target returns of RPI+3% p.a. (7.1% over 2016). This followed the exceptionally strong investment return for 2016 of 21.2% across all scheme assets. Net returns for the schemes' assets, after fees and costs, over the last 15 years are now 9% p.a., which is equivalent to RPI+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 2017:

	Church of England Funded Pension Scheme	Clergy (Widows and Dependants) Pension Fund	Church Workers Pension Fund	Church Administrators Pensions Fund	Total
	£m	£m	£m	£m	£m
Total net assets available for benefits	1,841	26	547	152	**2,565**

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

	Church of England Funded Pension Scheme	Clergy (Widows and Dependants) Pension Fund	Church Workers Pension Fund	Church Administrators Pensions Fund	Total
	£m	£m	£m	£m	£m
Date of valuation	*31-Dec-15*	*31-Dec-15*	*31-Dec-16*	*31-Dec-14*	
Total technical provision	(1,544)	(25)	(549)	(121)	**(2,239)**
Total net assets available for benefits	1,308	25	506	96	**1,935**
Total pension scheme deficit	**(236)**	**-**	**(43)**	**(25)**	**(304)**

The Board continued their programme of diversifying the assets and sources of return for the pension schemes during the year. In particular, the Board made several commitments to infrastructure equity investments, which is an asset class with long term attractions for the pension schemes, having good levels of stable income and prospects for capital growth, as well as including a good proportion of operational assets in environmentally beneficial areas, such as renewable energy generation, waste management and water supply.

The Board agreed a new ten-year asset allocation target for its growth assets at the end of the year. This will see its allocation to public equities fall significantly over that time-frame, as it looks to continue to diversify investments and as its schemes mature.

The Board has management responsibility for the Church's Ethical Investment Advisory Group (the EIAG) and its Engagement Team, both of which also serve the Church Commissioners and the Trustees of the CBF Investment Funds. A significant development here has been the creation and support, in collaboration with the Church Commissioners, the Environment Agency's pension scheme, the London School of Economics and FTSE Russell, of the Transition Pathway Initiative (TPI). This is a tool that allows asset owners and investors to monitor how companies are helping the transition to a low carbon economy, and in turn helps companies to improve their environmental performance. This has been an extraordinarily successful global public initiative, and its signatories now have close to seven trillion US Dollars of assets under management in total.

Financial Review

The Board's net income for 2017 was £3.4m (2016: £1.8m). Net income before gains on investments was £0.9m (2016: £0.6m).

Total income for 2017 was consistent with the previous year at £28.8m (2016: £28.4m). Income from charitable activities was £19.9m (2016: £19.6m), and includes income from rents and service charges for CHARM properties, the supported living schemes and the nursing home (prior to closure) along with interest received in relation to mortgage properties, which together amount to £13.7m (2016: £14.9m). The reduction in restricted charitable income reflects the closure of the nursing home and the impact of mortgage redemptions in the year, partially offset by the annual uplift of rent and service charges. The remaining income from charitable activities of £6.2m (2016: £4.7m) relates to the recovery of administrative costs in respect of the pension schemes administered by the Board. This includes an amount of £0.6m charged in respect of previous periods.

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 £6.2m (2016: £6.2m). This includes support from the wider Church of England, through Vote 5 of the Archbishops' Council's budget, under which a grant of £4.6m (2016: £4.4m) was made towards the provision of retirement housing. A further £1.6m (2016: £1.9m) income from donations and legacies was received from individual supporters, for which the Board is extremely grateful.

The Board also received investment income of £1.7m (2016: £1.8m), and profit from the sale of CHARM properties of £1.0m (2016: £0.7m) 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 2017 totalled £27.9m (2016: £27.8m), with expenditure on charitable activities totalling £27.9m (2016: £27.8m). The largest component of expenditure was on rental properties of £12.4m (2016: £11.9m) with the increase from the previous year reflecting additional expenditure on major works and repairs in order to maintain lettable standards across the portfolio. This was offset by a reduction in expenditure on supported housing and nursing home care to £5.9m (2016: £6.9m) reflecting the closure of Manormead Nursing Home in March 2017.

Unrealised gains of £2.5m on investment funds (2016: £1.1m), explained further below, contributed to an overall increase in total funds of £3.6m to £122.4m (2016: £118.8m).

The value of fixed assets remained stable at £290.4m (2016: £291.1m). Whilst the overall value of the CHARM portfolio fell by £2.6m, reflecting acquisitions and disposals in the year, the value of CEPB funded properties increased to £153.8m (2016: £149.2m) as historic Church Commissioner funded properties continue to be sold as they fall vacant, and the portfolio is replenished with properties that meet the requirements of the CHARM scheme, funded through external financing.

The impact of the ongoing change in funding is also reflected in the Board's liabilities, as loans repayable to the Church Commissioners reduced to £70.0m at the end of 2017 (2016: £77.3m) but non-current liabilities increased by £6.3m to £99.6m (2016: £93.3m) as external financing is used to facilitate new property purchases.

The Board's pension deficit liability was £1.5m at the end of 2017 (2016: £1.9m).

External financing

During 2014 the Board started to consider the long-term financing of CHARM, resulting in the issue of 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.

During 2017, the Board started the process of obtaining further financing to continue to support the development of the CHARM scheme. This culminated in the issue of a new £50m fixed rate bond in April 2018, of which £30m was drawn down immediately and was predominantly used to repay existing borrowings.

Investments
The charity holds investments of £40.3m (2016: £37.9m), which generated income of £1.7m in the year (2016: £1.8m).

The majority of investments £39.6m (2016: £37.2m) are currently with the CBF Investment Fund (CBFIF, managed by CCLA Management Ltd), the Charities Property Fund (CPF, managed by Savills) and the Property Income Trust for Charities (PITCH, managed by Mayfair Capital). The CBFIF is a balanced fund that invests across a range of asset classes, including equities, bonds and property. 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 (2016: £0.7m) in investment properties, covering a portfolio of 6 (2016: 6) properties.

The amounts invested at the end of 2017 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 2017 £m	Allocation %	2017 Return for the Board %
CBF Investment Fund	10.5	26.1	13.4
Investment Properties	0.7	1.7	8.9
Savills Charities Property Fund	20.4	50.6	10.0
Mayfair Capital Property Income Trust for Charities	8.7	21.6	11.8
Total	40.3	100.0	11.2

The charity also holds £0.7m (2016: £1.1m) in short-term cash deposits with the CBF Deposit Fund (CBFDF, managed by CCLA Management Ltd).

The CBF Investment Fund had another year of strong returns with a total return of 13.4%, with continuing strength in equity markets being the most significant contributor.

2017 was a stronger year for property returns than 2016, with the AREF/IPD All Balanced Property Fund Index returning 10.2%. Capital values of properties in the index rose by 5.4% over the year, in contrast to the previous year's fall of 2.8%. The PITCH and CPF funds returned 11.8% and 10.0% respectively in 2017, maintaining their strong long term record.

Following the review and restructuring of the Charity's investments in 2014 to focus on UK commercial property investment, for its high and sustainable income, the Board undertook a further review of the investment arrangements in 2017. The Board intends to maintain the charitable funds' high weighting to property in the future, believing the asset class to deliver good returns over time, with most of it coming from rental income, which tends to be very stable helped by most properties held in the funds having upward only rent reviews.

The recent returns of the three main funds in which the Board invests, and their income yields and sizes, are shown below:

	Fund returns (net of fees)			Yield	Fund size
	2017 % p.a.	2015-2017 % p.a.	2013-2017 % p.a.	End 2017 %	End 2017 £m
CBF Investment Fund	13.4	11.7	12.5	3.3	1,326
Savills Charities Property Fund	10.0	9.5	11.4	4.6	1,256
Mayfair Capital Property Income Trust for Charities	11.8	10.8	11.5	5.6	467

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.

Individual departments and identified risk owners are responsible for the identification, assessment and review of risks which fall in their area of responsibility. Risks are prioritised using an agreed scoring methodology and are assessed at an inherent and residual level. The risk management process is facilitated and monitored by the 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 & Risk Committee.

The Board reviews the risk register and risk management arrangements at least annually. The Board is supported by the Audit & 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.

Principal Risks

The principal risks, which Trustees consider most significant are:

Risk	*Key Management Actions*
Significant wider economic issues (deflation, stagflation, large adjustment to property prices) have a major impact on pension deficits or covenants on external financing	• *Diversification of the investments portfolio* • *Regular monitoring by management and Actuaries on scheme performance, economic risk scenarios and external trend data* • *Continuous engagement with scheme funders / employers.* • *Implementation of appropriate investment risk mitigation activities.* • *Employer covenant monitoring arrangements* • *Debt covenant monitoring arrangements*
Issue or occurrence which gives rise to significant reputational impact on the Pensions Board leading to loss of confidence/support on part of customers, sponsors, stakeholders etc	• *Robust policies and procedures and effective compliance monitoring internal control evaluation arrangements* • *Externally contracted services subject to regular and detailed performance review and oversight.* • *Effective staff and trustee recruitment and performance management procedures.*
Significant changes in society (e.g. mortality rates) materially impacts on the viability of pension schemes	• *Annual actuarial review to identify trends and risk scenarios* • *Monitoring of wider industry developments and views* • *Changes in mortality rates are built into actuarial assumptions*
Significant legislative or legal/regulatory change means a scheme (pension or housing) may no longer be viable	• *Horizon scanning capability, supported by professional advice from external advisors.* • *Maintain good relationships with stakeholders etc., ensuring that they are up to date with developments, their impact and possible mitigations.* • *Pensions Committee role in monitoring of legal and regulatory environment*
External crisis event makes systems/services undeliverable	• *Comprehensive business continuity plans, policies and procedures which are subject to regular review and testing.* • *Significant upgrades to IT infrastructure and robustness* • *IT controls and processes- helpdesk support and back-up routines* • *Service Level Agreement for IT support subject to annual review*
Failure to comply with Landlord responsibilities resulting in injury or death to individuals	• *Landlord responsibilities identified across portfolio* • *Supported Housing has third party H&S provider, portal, policy manual, risk assessments and tracked action, monthly checks by Ops Managers and H&S company* • *CHARM properties- compliance actions delivered by a range of 3rd party providers, managed and monitored by Property Services* • *Data held on systems are monitored monthly*

Going concern

The trustees have considered the potential financial impact of the risks to which the Board is exposed, its ability to address those risks and to mitigate their impact should they materialise. They have reviewed the Board's financial plans for the next 12 months, and its long-term business plan, evaluating whether it has adequate reserves and appropriate contingency plans to deal with a range of adverse scenarios. Having made this assessment, 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. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual report and accounts.

Approach to Taxation

In conducting their tax-affairs the Board will:

- ensure that they conduct 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 them as charities;
- 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 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 £111.9m (2016: £109.2m), 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 £4.6m (2016: £4.0m) 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 £10.5m (2016: £9.5m).

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.

Plans for the future

In 2018, the Pensions Board will have 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.

The Delivery Plan for 2018 in relation to the provision of Housing services includes the following objectives:

- **To implement the new asset strategy.** This is dependent on the implementation of an appropriate housing management system to enable the Board to manage and report on its own data easily, both people & property, so that it can be used to help shape the strategy for the future.
- **To develop a Choice Based Lettings portal.** This is also linked to the implementation of a housing management system which will allow its customers to see available properties via the Board's website, be able to bid for them and arrange viewing; and able to reserve their property of choice well in advance of retirement.

In terms of the Board's role in administering the pension schemes, the Board will complete the CWPF valuation before the statutory deadline of 31st March 2018. This will include agreeing recovery plans with those employers with deficits in their section of the DBS section at the valuation date and completing the new Schedule of Contributions.

The Board also aims to complete the valuation for the Church Administrators Pension Fund during 2018. The valuation date is 31st December 2017 which gives a statutory deadline of 31st March 2019.

The Board will continue to work on the long-term sustainability of funding for CEFPS begun in 2017 and aims to have an alternative funding approach available for use at the next valuation which is due at 31st December 2018. This will of course be subject to Board agreement, consultation with major sponsors and other interested parties including the Pensions Regulator.

Following on from work the Board carried out in 2017 it will make new sustainable equity, infrastructure equity and private debt investments for the pension schemes in the first half of 2018. The Board will consider private equity and further debt investments for the schemes during 2018. The Board will continue to develop its ethical approach to a wide-range of investment issues, developing new policies and updating older ones, on behalf of the wider Church. The Board also looks forward to working with a restructured Ethical Investment Advisory Group from this year on.

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 Chairman 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. If required, decisions are taken by a simple majority with the Chairman having the casting vote. 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 and copies of the rules and other documentation for each pension scheme, and policies relating to the provision and operation of retirement housing assistance.

The majority of 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.

The Board has committees to oversee the following areas: Audit and Risk, Housing, Investment, Pensions and Board Development. 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 19.

Ethical Investment

The Board also 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 role of the EIAG supported by the Secretariat is to advise the national investing bodies on ethical investment policies. In addition the secretariat supports the Church Commissioners and the Church of England Pensions Board directly to:

- engage with companies on ethical issues; and
- oversee proxy voting at company general meetings.

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 2017 to 27 June 2018)

Appointed with the approval of the General Synod, by the Archbishops of Canterbury and York
Dr Jonathan Spencer CB (Chairman)

Appointed by the Archbishops of Canterbury and York
Roger Mountford
Nikesh Patel *(from March 2018)*
Caroline Titley *(from March 2018)*

Appointed by the Archbishops of Canterbury and York after consultation with the representatives of the dioceses
Canon David Froude ACIB *(to 31 December 2017)*

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 Bishops of the General Synod
The Rt Revd Alan Wilson, Bishop of Buckingham

Elected by the House of Clergy of the General Synod
The Revd Fr Paul Benfield
The Revd Paul Boughton ACA *(to September 2017)*
The Revd Nigel Bourne
The Revd Peter Ould *(from December 2017)*
The Revd Canon David Stanton

Elected by the House of Laity of the General Synod
Jane Bisson *(to 31 December 2017)*
Roger Boulton FIA
Canon Nicolete Fisher
Alan Fletcher FCII (Vice Chair)
Emma Osborne
Bill Seddon *(from 1 January 2018)*
Brian Wilson FIA *(to 31 December 2017)*

Elected by the members of the Church Workers Pension Fund
Ian Boothroyd
Ian Clark

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

Committee Members (as at 27 June 2018)

Audit and Risk Committee
Maggie Rodger (Chair)
Richard Hubbard *(from February 2018)*
David Hunt FCA *(co-opted)*
The Revd Peter Ould *(from February 2018)*
The Ven Canon David Stanton

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

Pensions Committee
Roger Mountford (Chair) *(to 18 April 2018)*
Roger Boulton FIA (Chair) *(from 18 April 2018)*
The Revd Fr Paul Benfield
Ian Boothroyd
Canon Sandra Newton
Alan Fletcher FCII
Maggie Rodger

Trustees and advisors (continued)

Housing Committee
Canon Sandra Newton (Chair)
Ian Clark
Canon Nicolete Fisher
Jeremy Gray *(co-opted)*
Jonathan Gregory *(co-opted -from 1 January 2018)*
Henrietta Podd *(co-opted)*
Lawrence Santcross *(co-opted -from 1 January 2018)*
Caroline Titley *(from March 2018)*
The Rt Revd Alan Wilson

Investment Committee
Alan Fletcher FCII (Chair)
Simon Baynes *(co-opted)*
Roger Boulton FIA
Jeremy Clack FIA
Roger Mountford
Emma Osborne
Nikesh Patel *(from March 2018)*
Matthew Beesley *(co-opted)*
Jonathan Rodgers *(co-opted)*

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 Committees during 2017. Where a member only 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 (3)	Board Develop-ment (5)	Housing (3)	Investment (4)	Pensions (4)
Dr Jonathan Spencer	5		5			
Canon Sandra Newton	3		4	3		2
The Revd Fr Paul Benfield	4					3
Jane Bisson	4	2				
Ian Boothroyd	5	3				4
The Revd Paul Boughton	2 (3)					
Roger Boulton	3		3		4	
The Revd Nigel Bourne	5		2	3		
Jeremy Clack	4				0	
Ian Clark	5			3		
Canon Nicolete Fisher	4		5	3		
Alan Fletcher	3				4	2
Canon David Froude	5	2 (2)		2		
Richard Hubbard	5				4	
Roger Mountford	2				2	4
Emma Osborne	5				4	
The Revd Peter Ould	1 (1)					
Maggie Rodger	5	1 (1)				4
The Revd Canon David Stanton	5	2				
The Rt Revd Alan Wilson	4			1		
Brian Wilson	4					4

Reference and administrative information is shown below:

Charity number	236627
Principal office	Church House, London SW1P 3PS
Chief Executive	John Ball (from 2 July 2018)
Actuary	Aaron Punwani, Lane Clark and Peacock LLP
Independent auditors	PricewaterhouseCoopers LLP
Bankers	Lloyds Bank
	National Westminster Bank plc
Corporate financial advisor	Traderisks Ltd
Investment Advisers	Mercer Ltd
Investment Managers	CCLA Investment Management Ltd Savills Investment Management Ltd 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 pbhcustomerservices@churchofengland.org, or by telephone to 020 7898 1890.

Management

Staff Remuneration and Executive Pay

Other than staff employed to work in the supported housing schemes and nursing home, 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 £155,000 (2016: £153,000), 10 (2016: 10) times the salary earned by the lowest paid member of staff and 5 (2016: 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 to work in the supported housing schemes and nursing home are eligible to join the Church Workers Pension Fund.

Approval

The Trustees Report was approved by the Trustees on 27 June 2018 and signed on its behalf by:

Jonathan Spencer
Chairman

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

Report on the audit of the financial statements

Opinion

In our opinion The Church of England Pensions Board's group financial statements and charity financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the charity's affairs as at 31 December 2017 and of the group's profit and cash flows for the year then ended;
- 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); and
- have been prepared in accordance with the requirements of section 144 of the Charities Act 2011 and Regulation 8 of The Charities (Accounts and Reports) Regulations 2008).

We have audited the financial statements, included within the Financial statements (the "Annual Report"), which comprise: the consolidated and charity only balance sheets as at 31 December 2017; the consolidated statement of financial activities and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the charity.

We have provided no non-audit services to the group or the charity in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Context

The Church of England Pensions Board is a charity established in order to provide housing for retired clergy and their widows and dependents, as well as being the trustee for various charitable funds and trusts. The charity is also the trustee of, and performs the administrative functions on behalf of, four pension schemes.

Overview

Materiality

- Overall group and charity materiality: £3,000,000 based on 1% of total assets.

Audit Scope

- Our audit included full scope audits of the charity and both of its subsidiaries, CHARM Finance plc and CEPB Mortgages Ltd.

Key audit matters

- Projections for future financial performance and position
- Fixed asset impairment assessment

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.

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 significant component level to respond to the risk, 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. As in all of our audits 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 the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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 our audit addressed the key audit matter***
Projections for future financial performance and position The group has a significant level of long-term debt liabilities on the balance sheet (£99.6m), which require servicing and which if called in would require the group to sell a large proportion of their property portfolio. These properties are held as security against the liabilities. Management have prepared future forecasts of the consolidated statement of financial activities, balance sheet and cash flow statement to demonstrate their continuing ability to service their debt liabilities and not breach the covenants contained within these debt agreements, over a period of five years.	We have assessed the mathematical accuracy of management's model and agreed the underlying forecasts to an appropriate level of approval. We have evaluated any assumptions used within the model, such as the discount rates, to third party information and confirmed that they fall within an appropriate range of assumption. We have considered the historical reliability of management's forecasts by comparing budgeted performance against actual performance. We have performed sensitivities on the model provided by management and discussed the results of these sensitivities with management, to confirm that an appropriate level of downside has been considered within the future business plans.

Key audit matter	*How our audit addressed the key audit matter*
	Based on our procedures, we are satisfied that the group will continue to be able to service its debt liabilities and will not be in breach of its debt covenants over the period assessed.
Fixed asset impairment assessment The group holds a large number of properties on the balance sheet (£224.6m), which it uses to meet its charitable objective of providing housing to retired clergy. These properties are accounted for at cost, and management performs an impairment assessment by reference to UK property price movements and any other impairment indicators to evaluate whether any of the properties require an impairment to be recognised.	We have verified the house price indices used within the impairment model with reference to external third party sources. We have performed testing of a sample of individual properties, comparing the carrying value of those properties against recent property sales of similar properties in the same area. As a result of our work, we determined that it was appropriate that no impairment charge was recognised in relation to the properties held on the balance sheet.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the charity, the accounting processes and controls, and the industry in which they operate.

The group consists of the charity and two subsidiaries, CHARM Finance plc and CEPB Mortgages Ltd. We perform full scope audits of all 3 components of the group, and materiality applied to the two subsidiaries is statutory materiality for those subsidiaries, which is lower than an allocated materiality based on the group audit materiality would be.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Charity and Group financial statements
Overall materiality	£3,000,000.
How we determined it	1% of total assets.
Rationale for benchmark applied	The group's overall charitable activities are to provide housing to retired clergy, and it uses its fixed asset base to achieve this. Therefore, we deem total assets to be an appropriate benchmark.

All components were audited to a local statutory audit materiality that was also less than our overall group materiality. The range of materiality allocated across components was £3,000,000 to £126,500.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £150,000 (group and charity audits) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 and 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and charity's ability to continue as a going concern.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The trustees are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

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.

Responsibilities for the financial statements and the audit

Responsibilities of the trustees for the financial statements
As explained more fully in the Statement of Trustees' responsibilities in relation to the financial statements set out on page 21, the trustees are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The trustees are also responsible for such internal control as they 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 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 group or the charity or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the charity's trustees as a body in accordance with section 144 of the Charities Act 2011 and regulations made under section 154 of that Act (Regulation 24 of The Charities (Accounts and Reports) Regulations 2008) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Charities Act 2011 exception reporting

Under the Charities Act 2011 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- sufficient accounting records have not been kept by the charity; or
- the charity financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We have been the auditors of The Church of England Pensions Board since its inception in 1926, through a number of legacy PricewaterhouseCoopers LLP firms. The date at which EU audit legislation rotation rules apply is 28 August 2015, being the date on which CHARM Finance plc issued a £70m bond on the London Stock Exchange.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 June 2018

PricewaterhouseCoopers LLP is eligible to act, and has been appointed, as auditor under section 144(2) of the Charities Act 2011.

Consolidated statement of financial activities of the Church of England Pensions Board for the year ended 31 December 2017

	Notes	2017 Unrestricted funds	2017 Restricted funds	2017 Total	2016 Unrestricted funds	2016 Restricted funds	2016 Total
		£'000	£'000	£'000	£'000	£'000	£'000
Income from:							
Grants, donations and legacies	2	-	6,160	**6,160**	-	6,246	**6,246**
Investment income	3	-	1,748	**1,748**	-	1,842	**1,842**
Charitable activities	4	6,181	13,705	**19,886**	4,736	14,904	**19,640**
Other income: gain on sale of fixed assets		-	1,045	**1,045**	-	709	**709**
Total income		6,181	22,658	**28,839**	4,736	23,701	**28,437**
Expenditure on:							
Charitable activities	4	(5,584)	(22,300)	**(27,884)**	(4,736)	(23,081)	**(27,817)**
Raising funds	5	-	(50)	**(50)**	-	(6)	**(6)**
Total expenditure		(5,584)	(22,350)	**(27,934)**	(4,736)	(23,087)	**(27,823)**
Total income less expenditure before gain on investments		597	308	**905**	-	614	**614**
Net gain on investments	9	-	2,460	**2,460**	-	1,144	**1,144**
Net income		**597**	**2,768**	**3,365**	**-**	**1,758**	**1,758**
Other recognised gains/(losses)							
Other gains/(losses): adjustment to pension provision	8	-	271	**271**	-	(56)	**(56)**
Total other gains and (losses)		-	271	**271**	-	(56)	**(56)**
Transfers between funds	15	(597)	597	-	**-**	**-**	**-**
Net movement in funds		**-**	**3,636**	**3,636**	**-**	**1,702**	**1,702**
RECONCILIATION OF FUNDS							
Total funds brought forward at 1 January		-	118,762	**118,762**	-	117,060	**117,060**
Net movement in funds in year		-	3,636	**3,636**	-	1,702	**1,702**
Total funds carried forward at 31 December		**-**	**122,398**	**122,398**	**-**	**118,762**	**118,762**

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

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 2017

	Notes	2017 Consolidated £'000 Funded by CC*	2017 Consolidated £'000 Funded by CEPB**	2017 £'000 Total	2016 Consolidated £'000 Funded by CC*	2016 Consolidated £'000 Funded by CEPB**	2016 £'000 Total
FIXED ASSETS							
Investment assets	9	-	40,331	**40,331**	-	37,871	**37,871**
Tangible assets - supported housing and IT	10	-	26,160	**26,160**	-	26,748	**26,748**
Tangible assets - CHARM	11	70,029	153,844	**223,873**	77,269	149,189	**226,458**
Total fixed assets		70,029	220,335	**290,364**	77,269	213,808	**291,077**
CURRENT ASSETS							
Debtors	12	-	2,922	**2,922**	-	2,459	**2,459**
Short term deposits		-	716	**716**	-	1,081	**1,081**
Cash at bank and in hand		-	5,468	**5,468**	-	3,242	**3,242**
Asset held for sale		-	750	**750**	-	-	**-**
Total current assets		-	9,856	**9,856**	-	6,782	**6,782**
CURRENT LIABILITIES							
Creditors: amounts falling due within one year	13	-	(5,602)	**(5,602)**	-	(5,448)	**(5,448)**
Loans repayable on sale of fixed assets	13	(70,029)	(1,050)	**(71,079)**	(77,269)	(1,142)	**(78,411)**
Total current liabilities		(70,029)	(6,652)	**(76,681)**	(77,269)	(6,590)	**(83,859)**
Net current (liabilities)/assets		(70,029)	3,204	**(66,825)**	(77,269)	192	**(77,077)**
Total assets less current liabilities		-	223,539	**223,539**	-	214,000	**214,000**
NON-CURRENT LIABILITIES	13	-	(99,635)	**(99,635)**	-	(93,333)	**(93,333)**
Net assets excluding pension provision		-	123,904	**123,904**	-	120,667	**120,667**
Defined benefit pension scheme liability	8	-	(1,506)	**(1,506)**	-	(1,905)	**(1,905)**
NET ASSETS		**-**	**122,398**	**122,398**	**-**	**118,762**	**118,762**
FUNDS OF THE CHARITY							
Total unrestricted funds		-	-	-	-	-	-
Restricted funds (excl. pension reserve)	15	-	123,904	123,904	-	120,667	120,667
Pension reserve	15	-	(1,506)	(1,506)	-	(1,905)	(1,905)
Total restricted funds	15	-	122,398	122,398	-	118,762	118,762
TOTAL CHARITY FUNDS CARRIED FORWARD AT 31 DECEMBER		**-**	**122,398**	**122,398**	**-**	**118,762**	**118,762**

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

These financial statements were approved by the trustees on 27 June 2018 and signed on their behalf by:

Dr Jonathan Spencer
Chairman

Charity only balance sheet of the Church of England Pensions Board as at 31 December 2017

	Notes	2017			2016		
		£'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	-	40,344	**40,344**	-	37,884	**37,884**
Tangible assets - supported housing and IT	10	-	26,160	**26,160**	-	26,748	**26,748**
Tangible assets - CHARM	11	70,029	147,519	**217,548**	77,269	142,031	**219,300**
Total fixed assets		70,029	214,023	**284,052**	77,269	206,663	**283,932**
CURRENT ASSETS							
Debtors	12	-	9,218	**9,218**	-	9,599	**9,599**
Short term deposits		-	716	**716**	-	1,081	**1,081**
Cash at bank and in hand		-	5,456	**5,456**	-	3,229	**3,229**
Asset held for sale		-	750	**750**	-	-	**-**
Total current assets		-	16,140	**16,140**	-	13,909	**13,909**
CURRENT LIABILITIES							
Creditors: amounts falling due within one year	13	-	(5,574)	**(5,574)**	-	(5,430)	**(5,430)**
Loans repayable on sale of fixed assets	13	(70,029)	(1,050)	**(71,079)**	(77,269)	(1,142)	**(78,411)**
Total current liabilities		(70,029)	(6,624)	**(76,653)**	(77,269)	(6,572)	**(83,841)**
Net current assets/(liabilities)		(70,029)	9,516	**(60,513)**	(77,269)	7,337	**(69,932)**
Total assets less current liabilities		-	223,539	**223,539**	-	214,000	**214,000**
NON-CURRENT LIABILITIES	13	-	(99,635)	**(99,635)**	-	(93,333)	**(93,333)**
Net assets excluding pension provision		-	123,904	**123,904**	-	120,667	**120,667**
Defined benefit pension scheme liability	8	-	(1,506)	**(1,506)**	-	(1,905)	**(1,905)**
NET ASSETS		**-**	**122,398**	**122,398**	**-**	**118,762**	**118,762**
FUNDS OF THE CHARITY							
Total unrestricted funds		-	-	-	-	-	-
Restricted funds (excl. pension reserve)	15	-	123,904	123,904	-	120,667	**120,667**
Pension reserve	15	-	(1,506)	(1,506)	-	(1,905)	**(1,905)**
Total restricted funds	15	-	122,398	122,398	-	118,762	**118,762**
TOTAL CHARITY FUNDS CARRIED FORWARD AT 31 DECEMBER		**-**	**122,398**	**112,398**	**-**	**118,762**	**118,762**

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

Consolidated cash flow statement of the Church of England Pensions Board for the year ended 31 December 2017

Reconciliation of net income before other gains and losses to net cash used in operating activities

	Notes	2017 £'000	2016 £'000
Net income for the year (as per the statement of financial activities)		3,365	1,758
Adjustments for:			
Depreciation – supported housing and IT systems	10	672	674
Amortisation – Santander arrangement fee	13	33	34
Amortisation – CHARM Finance PLC bond set-up costs	13	19	18
Gains on investments	9	(2,460)	(1,144)
Dividends, interest and rents from investments	3	(1,748)	(1,842)
Gains on disposal of tangible assets – CHARM	11	(1,045)	(709)
Movement in pension liability	8	(128)	(157)
Movement in debtors	12	(463)	(618)
Movement in assets held for sale		(750)	-
Movement in creditors: amounts due within less than one year	13	154	64
Net cash (used in) operating activities		(2,351)	(1,922)

Cash flow statement

	Notes	2017 £'000	2016 £'000
Net cash used in operating activities		(2,351)	(1,922)
Cash flows from investing activities:			
Dividends, interest and rents from investments	3	1,748	1,842
Proceeds from the sale of tangible assets – CHARM properties	11	9,374	7,652
Purchase of tangible assets – CHARM properties	11	(5,744)	(16,134)
Purchase of tangible assets – supported housing	10	(84)	(122)
Proceeds from the sale of investments	9	-	147
Purchase of investments	9	-	(86)
Net cash generated from/(used in) investing activities		5,294	(6,701)
Cash flows from financing activities:			
Repayment of loans from Church Commissioners	13	(7,240)	(6,039)
Repayment of dioceses' share of rental properties	13	(92)	-
Additional funding from Santander	13	6,250	14,350
Net cash (used in)/generated from financing activities		(1,082)	8,311
Change in cash and cash equivalents in the year		1,861	(312)
Cash and cash equivalents at the beginning of the year		4,323	4,635
Cash and cash equivalents at the end of the year		6,184	4,323

Analysis of cash and cash equivalents	2017 £'000	2016 £'000
Cash at bank and in hand	5,468	3,242
Short term deposits	716	1,081
Total cash and cash equivalents	6,184	4,323

Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2017

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 1961 Clergy Pensions Measure and subsequent Measures. 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) issued on 16 July 2014 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) for the year ended 31 December 2017. 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.

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 adjusted up to the point of financial statement approval.

Gifts in kind are valued at an amount equivalent to the basis of the value of the gift to the Charity at the time of their receipt, and are included in the SOFA. In the case of properties, these are valued at market value.

ii) Investment income

Income from investments is recognised on an accruals basis.

Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2017

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 a firm commitment to provide funding is made and there is evidence of a constructive obligation to the beneficiary.

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 2017

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 and office equipment

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 liability relates to the corporate bond issued by CHARM Finance PLC, and is a basic financial instrument measured initially at the proceeds of issue less transaction costs directly attributable to the issue of the Bond. After initial recognition the liability is 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

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

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

Financial liabilities, including trade and other payables and inter-group balances are initially recognised at transaction price. Bank loans are subsequently measured at the amortised cost, using the effective interest rate. Financial liabilities are derecognised, when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Notes to the financial statements of the Church of England Pensions Board for the year ended 31 December 2017

1. Accounting policies (continued)

k) 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.

l) 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.

m) 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.

n) Significant judgements and estimates

The Board's key judgements and 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 liabilities - estimations surrounding the recognition of the Charity's defined benefit pension deficit liabilities. Further details are disclosed in note 8.
• Carrying value of investment assets 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.

2. Income from grants, donations and legacies

	Note	2017 £'000	2016 £'000
Grants from:			
The Archbishops' Council	4	4,577	4,359
Other grants		26	44
Total grants		4,603	4,403
Donations		346	670
Legacies		1,211	1,173
Total income from grants, donations and legacies		**6,160**	**6,246**

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 of £6,160,000 (2016: £6,246,000) was attributable to restricted funds.

3. Investment income

	2017 £'000	2016 £'000
Dividends	1,719	1,822
Rental income from investment properties	15	15
Interest on cash	14	5
Total income from investments	**1,748**	**1,842**

All income from investments of £1,748,000 (2016: £1,842,000) was attributable to restricted funds.

Notes to the financial statements of the Church of England Pensions Board
For the year ended 31 December 2017

4. Charitable activities

	Notes	Rental properties	Shared ownership	Mortgage loans	Supported housing & nursing home	Other charitable activities	Total restricted funds	Unrestricted funds Pension Schemes	2017 Total	2016 Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income from charitable activities:										
Rent received		6,487	544	-	1,122	-	**8,153**	-	**8,153**	**7,986**
Service charge received		-	62	-	2,776	-	**2,838**	-	**2,838**	**2,814**
Income from mortgage properties		-	-	2,576	-	-	**2,576**	-	**2,576**	**2,776**
Fees received for nursing homes		-	-	-	138	-	**138**	-	**138**	**1,229**
Support costs recharge		-	-	-	-	-	**-**	6,181	**6,181**	**4,736**
Other charitable income		-	-	-	-	-	**-**	-	**-**	**99**
Total income from charitable activities		6,487	606	2,576	4,036	-	**13,705**	6,181	**19,886**	**19,640**
Expenditure on charitable activities:										
Financing costs (interest and commitment fee)		4,881	410	2,515	-	-	**7,806**	-	**7,806**	**8,010**
Grant making		-	-	-	-	90	**90**	-	**90**	**123**
Property costs (repairs, insurance and other costs)		5,821	22	125	51	-	**6,019**	-	**6,019**	**5,443**
Support costs	6	1,676	555	371	1,112	-	**3,714**	5,584	**9,298**	**8,618**
Amortisation of arrangement fees		52	-	-	-	-	**52**	-	**52**	**52**
Service charge costs		-	46	-	2,490	-	**2,536**	-	**2,536**	**2,635**
Nursing home costs		-	-	-	1,041	-	**1,041**	-	**1,041**	**2,056**
Supported Housing and other direct costs		-	-	-	498	-	**498**	-	**498**	**362**
Depreciation charge		-	-	-	672	-	**672**	-	**672**	**674**
Total expenditure on charitable activities		12,430	1,033	3,011	5,864	90	**22,428**	5,584	**28,012**	**27,973**
Unwinding of pension deficit on charitable activities		(58)	(19)	(13)	(38)	-	**(128)**	-	**(128)**	**(156)**
Total expenditure including pension deficit movement in year		12,372	1,014	2,998	5,826	90	**22,300**	5,584	**27,884**	**27,817**

Notes to the financial statements of the Church of England Pensions Board
For the year ended 31 December 2017

4. Charitable activities (continued)

2016 Summary	Rental properties	Shared ownership	Mortgage loans	Supported housing & nursing home	Other charitable activities	Total restricted funds	Unrestricted funds Pension Schemes	2016 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total income from charitable activities	6,286	707	2,776	5,135	-	**14,904**	4,736	**19,640**
Total expenditure on charitable activities	(11,907)	(1,088)	(3,148)	(6,815)	(123)	**(23,081)**	(4,736)	**(27,817)**

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 2017 grants of £4,577,000 were received from the Archbishops' Council towards the CHARM scheme (2016: £4,359,000). In addition, the Board's broader charitable activities were funded through voluntary income of £1,557,000 (2016: £1,843,000), Investment income of £1,748,000 (2016: £1,842,000) and gains on disposal of property of £1,045,000 (2016: £709,000).

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.

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 2017 there were 31 (2016: 22) 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 comply with, 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 2017, the number of such loans in place was 6 (2016: 6).

Supported Housing & Nursing Home
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

	2017	2016
	£'000	£'000
Investment management costs (direct costs)	50	6
Total cost of raising funds	**50**	**6**

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 home	Total	Pension schemes	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing department	1,016	335	224	672	2,247	-	2,247
Executive, and Secretariat	115	38	26	77	256	272	528
Governance costs	65	22	15	43	145	173	318
Pensions department	-	-	-	-	-	2,661	2,661
Investments department	-	-	-	-	-	1,181	1,181
Shared services	480	160	106	320	1,066	1,297	2,363
Total support costs	**1,676**	**555**	**371**	**1,112**	**3,714**	**5,584**	**9,298**
2016							
Total support costs	1,748	582	388	1,164	3,882	4,736	8,618

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 home, 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 home, 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. 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 2017, 20 (2016: 24) members claimed a total of £16,000 (2016: £17,000). 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 home, 10% to mortgages and 15% to shared ownership.

	2017	2016
	£'000	£'000
External audit (including VAT)	78	89
Internal audit	60	67
Board and committee meetings	7	8
Total governance costs	**145**	**164**

Total fees paid (excluding VAT) to PricewaterhouseCoopers LLP are shown below:

	2017	2016
	£'000	£'000
Audit of CEPB and its subsidiary undertakings	65	56
Total audit fees relating to current year for CEPB and its subsidiaries	**65**	**56**
Additional CEPB audit work relating to prior year	-	18
Total other audit fees for CEPB and its subsidiaries	**-**	**18**
Audit of Pension Schemes	87	78
Total audit fees relating to current year for Pension Schemes	**87**	**78**

6. Support costs (continued)

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.

7. Staff numbers and costs

The Chief Executive and staff employed to work in the supported housing schemes and the nursing home (now closed) are employed directly by the Board. The Board is joint employer, together with the other National Church Institutions (the NCIs), of most of the other 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 your 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 £1,506,000 (2016: £1,313,000).

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 and fundraising		Supported housing and nursing home		Total		Shared services	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Average number employed	28	30	33	28	5	5	111	154	177	217	153	144
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Salaries	1,138	1,115	1,428	1,206	332	339	1,578	2,426	4,476	5,086	6,483	5,599
National Insurance costs	119	120	165	135	39	41	110	145	433	441	717	616
Pension contributions	158	162	229	178	51	49	199	307	637	696	1,545	1,437
Total cost of staff	**1,415**	**1,397**	**1,822**	**1,519**	**422**	**429**	**1,887**	**2,878**	**5,546**	**6,223**	**8,745**	**7,652**
Total chargeable to Charitable Funds	**1,415**	**1,397**	**-**	**-**	**208**	**246**	**1,887**	**2,878**	**3,510**	**4,521**		

Included in staff costs is £48,000 (2016: £329,000) paid by way of redundancy costs to three (2016: thirty seven) individuals following a restructuring. Restructuring costs are accounted for in full in the year in which the restructure is announced.

Notes to the financial statements of the Church of England Pensions Board
For the year ended 31 December 2017

7. Staff numbers and costs (continued)

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 and fundraising		Supported housing schemes and nursing home		Shared services	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
£60,001 to £70,000	-	-	2	-	-	-	-	-	9	4
£70,001 to £80,000	1	1	2	1	-	1	-	-	4	5
£80,001 to £90,000	-	-	-	-	1	-	-	-	5	7
£90,001 to 100,000	-	-	1	1	-	-	-	-	3	-
£100,001 to 110,000	-	-	1	-	-	-	-	-	-	-
£110,001 to 120,000	-	-	-	-	-	-	-	-	-	-
£120,001 to £130,000	-	-	-	1	1^	-	-	-	2	1
£130,001 to £140,000	-	-	-	-	-	-	-	-	-	-
£140,001 to £150,000	-	-	-	-	-	-	-	-	-	1
£150,001 to £160,000	-	-	-	-	-	1^	-	-	-	-

^ *Chief Executive (who passed away October 2017)*

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

All staff above were members of the Church Administrators Pension Fund. Of those directly managed by the Board, eight (2016: five) staff accrued benefits under a defined contributions scheme for which contributions for the year were £93,000 (2016: £69,000). The remaining one (2016: one) staff accrued benefits under a defined benefit scheme. Of those managed by ChECS, 15 (2016: 9) staff accrue benefits under a defined contribution scheme for which contributions for the year were £164,000 (2016: £104,000). The remaining 8 (2016: 9) staff members accrue benefits under a defined benefit scheme.

The highest paid member of staff was the Chief Executive who earned £127,000^ (2016: £153,000). Further details of the Board's remuneration policy are included in the Management section of the Board's report, on page 20.

The Board's executive leadership team comprises nine individuals, six of whom are employed directly by the Board and three by ChECS. The aggregate remuneration for these nine individuals, including pension contributions, was £846,000 (2016: £864,000).

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 2017

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 £210,000 (2016: £210,000) towards the administration costs of the CAPF and the cost of Pension Protection Fund levies of £66,000 (2016: £57,000). The Board's share of these costs was £28,000 (2016: £28,000).

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 2014. This revealed a deficit of £25.1m, based on assets of £96.3m and a funding target of £121.4m. The level of additional contributions to be made by the employers was £2,373,000 per annum from 1 July 2013 to 30 June 2025, increasing on 1 January each year by 5.0%. This was revised in October 2015 as a result of the 2014 valuation and it was agreed that with effect from 1 January 2016 to 30 June 2025 the employers would pay £2,500,000 per annum 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:

	Provision brought forward	Contributions Paid	Interest charged on provision	Adjustment to net present value of provision	Provision carried forward
	£000	£000	£000	£000	£000
CEPB staff	1,322	(98)	17	(238)	1,003
Share of ChECS staff	583	(54)	7	(33)	503
Total provision	1,905	(152)	24	(271)	1,506

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 (supported housing schemes and nursing home)
Pension benefits for staff in 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, however there is currently no requirement under the Charity's schedule of contributions to make further deficit payments.

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 2017

9. Investment assets

GROUP	At 1 January 2017	Additions	Disposals	Unrealised gains	At 31 December 2017
	£'000	£'000	£'000	£'000	£'000
UK investment funds	37,218	-	-	2,417	39,635
UK investment properties	653	-	-	43	696
Consolidated total investment assets	**37,871**	**-**	**-**	**2,460**	**40,331**

CHARITY	At 1 January 2017	Additions	Disposals	Unrealised gains	At 31 December 2017
	£'000	£'000	£'000	£'000	£'000
UK investment funds	37,218	-	-	2,417	39,635
UK investment properties	653	-	-	43	696
Investment in subsidiary	13	-	-	-	13
Charity's total investment assets	**37,884**	**-**	**-**	**2,460**	**40,344**

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

	2017	2016
	£'000	£'000
CCLA Investments	10,595	9,689
Savills	20,384	19,327
Mayfair	8,656	8,202
Total	**39,635**	**37,218**

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 which has 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. These funds are being used to secure current and future obligations for clergy housing in retirement.

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 of ChECS was £nil. As at 31 December 2017, £89,000 was owed by the Board to ChECS (2016: £90,000 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 2017

10. Tangible assets – Supported housing and IT systems

Consolidated and charity	At 1 January 2017	Additions	Disposals	Charge in year	Impairment	At 31 December 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Supported Housing land and buildings						
Cost	27,292	-	-	-	-	27,292
Depreciation	(1,646)	-	-	(550)	-	(2,196)
Net book value	25,646	-	-	(550)	-	25,096
Fixtures and fittings						
Cost	3,952	84	-	-	-	4,036
Depreciation	(2,873)	-	-	(99)	-	(2,972)
Net book value	1,079	84	-	(99)	-	1,064
IT systems						
Cost	960	-	-	-	-	960
Depreciation	(937)	-	-	(23)	-	(960)
Net book value	23	-	-	(23)	-	-
Total supported housing and IT	26,748	84	-	(672)	-	26,160

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 2017	Additions	Disposals	Book value at 31 December 2017	*No. of properties at 1 January 2017*	Additions	Disposals	No. of properties at 31 December 2017
	£'000	£'000	£'000	£'000				
Rental properties								
Funded by CC	32,348	-	(3,207)	29,141	*352*	-	*(36)*	*316*
Funded by PB	141,739	5,318	(555)	146,502	*864*	*22*	*(6)*	*880*
Rental properties total	**174,087**	**5,318**	**(3,762)**	**175,643**	***1,216***	***22***	***(42)***	***1,196***
Shared ownership properties								
Funded by CC	4,413	-	(442)	3,971	*45*	-	*(4)*	*41*
Funded by PB	6,421	426	(398)	6,449	*70*	*4*	*(3)*	*71*
Shared ownership properties total	**10,834**	**426**	**(840)**	**10,420**	***115***	***4***	***(7)***	***112***
Mortgaged properties								
Funded by CC	40,508	-	(3,591)	36,917	*762*	-	*(71)*	*691*
Funded by PB	1,029	-	(136)	893	*16*	-	*(1)*	*15*
Mortgaged properties total	**41,537**	**-**	**(3,727)**	**37,810**	***778***	**-**	***(72)***	***706***
Totals								
Properties with significant restrictions (funded by Church Commissioners)	*77,269*	-	*(7,240)*	*70,029*	1,159	-	(111)	1,048
Properties without significant restrictions (funded by the Pensions Board)	*149,189*	*5,744*	*(1,089)*	*153,844*	950	26	(10)	966
Total	**226,458**	**5,744**	**(8,329)**	**223,873**	***2,109***	***26***	***(121)***	***2,014***

11. Tangible assets – CHARM properties (continued)

Charity only	Book value at 1 January 2017 £'000	Additions £'000	Disposals £'000	Book value at 31 December 2017 £'000	*No. of properties at 1 January 2017*	Additions	Disposals	No. of properties at 31 December 2017
Rental properties								
Funded by CC	32,348	-	(3,207)	29,141	*352*	-	*(36)*	*316*
Funded by PB	141,739	5,318	(555)	146,502	*864*	*22*	*(6)*	*880*
Rental properties total	**174,087**	**5,318**	**(3,762)**	**175,643**	***1,216***	***22***	***(42)***	***1,196***
Shared ownership properties								
Funded by CC	4,413	-	(442)	3,971	*45*	-	*(4)*	*41*
Funded by PB	6,421	426	(398)	6,449	*70*	*4*	*(3)*	*71*
Shared ownership properties total	**10,834**	**426**	**(840)**	**10,420**	***115***	***4***	***(7)***	***112***
Mortgaged properties								
Funded by CC	33,755	-	(2,757)	30,998	*694*	-	*(64)*	*630*
Funded by PB	624	-	(136)	488	*12*	-	*(1)*	*11*
Mortgaged properties total	**34,379**	**-**	**(2,893)**	**31,486**	***706***	***-***	***(65)***	***641***
Totals								
Properties with significant restrictions (funded by Church Commissioners)	*77,269*	-	*(7,240)*	*70,029*	*1,091*	-	*(104)*	*987*
Properties without significant restrictions (funded by the Pensions Board)	*142,031*	*5,744*	*(256)*	*147,519*	*946*	*26*	*(10)*	*962*
Total	**219,300**	**5,744**	**(7,496)**	**217,548**	***2,037***	***26***	***(114)***	***1,949***

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 two 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. 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. In the opinion of the trustees, as these properties have been identified for long-term use by the Charity, it is not expected that any 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 2017

12. Debtors

	Consolidated		Charity	
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Trade debtors	576	607	574	590
Subsidiary undertakings	-	-	* 6,325	* 7,174
Prepayments and accrued income	1,244	813	1,217	796
Other debtors	1,102	1,039	1,102	1,039
Total	**2,922**	**2,459**	**9,218**	**9,599**

***** 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	
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Amounts falling due within one year				
Trade creditors	2,404	2,383	2,403	2,382
Accruals and deferred income	3,029	2,729	3,002	2,712
Tax creditor	21	39	21	39
Joint venture (ChECS)	89	90	89	90
Other creditors	59	207	59	207
Total amounts falling due within one year:	**5,602**	**5,448**	**5,574**	**5,430**
Concessionary loans repayable on sale of fixed assets				
Loans from Church Commissioners for:				
- rental properties	29,141	32,348	29,141	32,348
- shared ownership properties	3,971	4,413	3,971	4,413
- mortgage properties	36,917	40,508	36,917	40,508
Diocesan and other creditors	1,050	1,142	1,050	1,142
Total loans repayable on sale of fixed assets	**71,079**	**78,411**	**71,079**	**78,411**
Total current liabilities	**76,681**	**83,859**	**76,653**	**83,841**

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	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bond liabilities - PIC	70,000	70,000	-	-
Bond liabilities – capitalised bond set-up costs	(465)	(484)	-	-
Intra-group liability – loan repayable to CHARM Finance PLC	-	-	70,000	70,000
Intra-group liability – capitalised bond set-up costs	-	-	(465)	(484)
Loan from Santander	30,350	24,100	30,350	24,100
Loan from Santander - capitalised set-up costs	(250)	(283)	(250)	(283)
Total	**99,635**	**93,333**	**99,635**	**93,333**

The bond, issued by subsidiary undertaking CHARM Finance plc, was issued to finance the growth and development of the CHARM scheme. Transaction costs of £509,000 were incurred. At 31 December 2017, the amortised cost of the bond set-up fees incurred (predominantly legal and financial advice fees) was £465,000 (2016: £484,000). 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 477 properties held by the Charity.

The following table details the maturity of the bond-related contractual payments as at 31 December 2017:

Period	Interest due	Capital repayment
	£'000	£'000
Due to end December 2017	748	-
Within one year (to end December 2018)	2,176	-
Due within five years (to end December 2022)	7,661	-
Due after five years	46,341	70,000
Total	**56,926**	**70,000**

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

The charity has a loan facility with Santander through Abbey National Treasury Services PLC which is secured by fixed charges over 343 properties (2016: 237 properties) owned by the charity, with occupied market value of £65,000,000 (2016: £45,000,000). The loan is repayable, subject to terms and conditions, between June 2020 and June 2025 (dependent on the value of loan outstanding).

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 2017, the amortised cost was £250,000 (2016: £283,000).

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14. Financial Instruments

	Note	Consolidated 2017 £'000	Consolidated 2016 £'000	Charity 2017 £'000	Charity 2016 £'000
Financial assets at fair value through statement of financial activities					
Listed non-current investments	9	40,331	37,871	40,344	37,884
Financial assets that are debt instruments measured at amortised cost					
Trade debtors	12	576	607	574	590
Amounts owed to subsidiary undertakings	12	-	-	6,325	7,174
Other debtors	12	1,102	1,039	1,102	1,039
Accrued income	12	962	760	935	743
Short term deposits		717	1,081	717	1,081
Cash and cash equivalents		5,468	3,242	5,456	3,230
Total financial assets		**49,156**	**44,600**	**55,453**	**51,741**
Financial liabilities that are debt instruments measured at amortised cost					
Trade creditors	13	2,404	2,383	2,403	2,382
Accruals	13	3,029	2,720	3,002	2,703
Other creditors	13	59	207	59	207
Loans repayable on sale of fixed assets	13	71,079	78,411	71,079	78,411
Bond liability	13	69,535	69,516	-	-
Loan liability owed to CHARM Finance PLC	13	-	-	69,535	69,516
Loan from Santander (net of capitalised set-up costs)	13	30,100	23,817	30,100	23,817
Total financial liabilities		**176,206**	**177,054**	**176,178**	**177,036**

15. Funds

Consolidated and charity	Balance at 1 January 2017 £'000	Income £'000	Expenditure £'000	Investment gains £'000	Other gains £'000	Transfers £'000	Balance at 31 December 2017 £'000
Unrestricted funds	-	6,181	(5,584)	-	-	(597)	-
Total unrestricted funds	-	6,181	(5,584)	-	-	(597)	-
Restricted funds:-							
General Purposes Fund:							
- General Funds	107,185	21,513	(19,644)	2,281	271	(2,797)	108,809
- Earmarked – Property Maintenance	4,008	-	(2,773)	-	-	3,400	4,635
Clergy Retirement Housing Trust & other trusts	9,474	1,145	(332)	179	-	(6)	10,460
Total restricted funds	120,667	22,658	(22,749)	2,460	271	597	123,904
Pension reserve	(1,905)	-	399	-	-	-	(1,506)
Total funds	**118,762**	**28,839**	**(27,934)**	**2,460**	**271**	**-**	**122,398**

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.

The transfer made in the year between Unrestricted Funds and Restricted Funds of £597,000 was due to the reallocation of shared support costs in relation to the period 2013 – 2016 to more fairly reflect usage between the charitable activities of the General Purposes Fund and the pension funds administered by the Board. An additional charge was made in the year to recover these costs from the Pension Schemes.

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. £3.4m (2016: £2.4m) 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 2017:

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	-	1,112	(1,112)	-	-	-	-
Restricted Funds:							
General Funds	280,589	3,407	(75,552)	(99,635)	**108,809**	(1,506)	**107,303**
Earmarked– Property Maintenance	-	4,635	-	-	**4,635**	-	**4,635**
Clergy Retirement Housing Trust & other trusts	9,775	702	(17)	-	**10,460**	-	**10,460**
Total	290,364	9,856	(76,681)	(99,635)	**123,904**	(1,506)	**122,398**

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 providing a facility for £100m of funds to the Board via a bond issue (of which £70m has been issued so far). 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:

	CEPB Mortgages		**CHARM Finance PLC**	
	2017	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	360	400	2,227	2,223
Expenditure	(360)	(400)	(2,227)	(2,223)
Profit or loss	-	-	-	-
Net Assets	1	1	13	13

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17. Related Parties

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

During the year two payments totalling £23,000 were made to the London School of Economics in relation to research work for the Transition Pathway Initiative (an initiative that assesses how companies are preparing for the transition to a low-carbon economy). One of the trustees of the Board is also a trustee for the London School of Economics. At 31 December 2017 there were no amounts outstanding between the Board and the London School of Economics.

18. Post Balance Sheet Events

On 12th April 2018 the Board issued a new £50m fixed rate bond, of which £30m was drawn down immediately, with £20m retained for future sale. The Bond was issued through CHARM Finance PLC.

Of the £30m proceeds of sale, £26.35m was used to immediately repay existing debt, with the remainder used to purchase additional properties for the CHARM portfolio.