

Hereford Diocesan Board of Finance

**Annual Report
& Accounts
2016**



**THE CHURCH
OF ENGLAND**

DIOCESE OF HEREFORD

Company limited by guarantee

Company number 144467

Charity number 249685

Hereford Diocesan Board of Finance

Report & Accounts for the year ended 31 December 2016

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The Trustees, who are also Directors for the purposes of company law, present their annual report, together with the audited group financial statements of the charity and its subsidiary, for the year ended 31 December 2016.

The Directors / Trustees are one and the same and in signing as Trustees they are also signing the strategic report sections in their capacity as Directors.

This combined report satisfies the legal requirements for a:

- Directors' Report of a charitable company,
- Strategic Report under the Companies Act 2006 and
- Trustees' Annual Report under the Charities Act 2011.

1. Legal objects

The Diocese of Hereford covers the county of Herefordshire, the southern part of Shropshire and a few parishes in the counties of Worcestershire, Powys and Monmouthshire. The objects of the Diocese apply across this geographic area.

The Hereford Diocesan Board of Finance ("HDBF")'s principal object is to promote, assist and advance the work of the Church of England in the Diocese of Hereford by acting as the financial executive of the Hereford Diocesan Synod.

The HDBF has the following statutory responsibilities: -

- the management of glebe property and investments to generate income to support the cost of stipends arising from the Endowment and Glebe Measure 1976;
- the repair of benefice houses as the Diocesan Parsonage Board under the Repair of Benefice Buildings Measure 1972;
- the management of investments and the custodian of assets relating to church schools under the Diocesan Board of Education Measure 1991;
- the custodian of permanent endowment and real property assets relating to trusts held by Incumbents and Archdeacons and by Parochial Church Councils as Diocesan Authority under the Incumbents and Churchwardens (Trusts) Measure 1964 and the Parochial Church Councils (Powers) Measure 1956.

The strategic priorities of the company are established by the Diocesan Synod in communication with Deanery Synods, PCCs, and the Bishop of Hereford (in respect of his responsibility for the provision of the cure of souls). To this end, significant time and effort is committed to communication between and with these bodies, as well as with the church nationally; including an annual series of consultations on specific matters relating to the priorities for the forthcoming year, taking forward the commitments arising from synodical discussions including the diocesan budget.

STRATEGIC REPORT

2. Strategic aims

The main role of the HDBF is to identify and manage the financial aspects of the provision of ministry within the Diocese so as to provide appropriate personnel and financial resources to assist the Diocesan Synod, Bishop's Council, deaneries and parishes to further the mission and strategic priorities in the Diocese.

Bishop's Council has agreed the following strategic priorities to direct the activities of the Diocese over the next five years:

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By 2021, our **shared vision** is that we will see a Hereford Diocese where:

- More disciples have been brought to an understanding of God through Jesus
- More lively churches providing inspirational homes for these new disciples
- A more representative church – ages and backgrounds – reflecting our whole society, connecting the generations
- More visible witness as disciples old and new proclaim the good news of God in Christ Jesus
- New forms of worship and new forms of ministry encourage the curious to explore the Kingdom of God
- A better heard church is listened to by believers and non-believers alike
- A more confident church lives and proclaims the life-giving values of God’s kingdom in every community
- A more generous church enables our part in God’s mission to grow in new ways and new places
- Better supported ministers are enabled to preach the word of God in new places to new listeners

Our **shared priorities** are shared not only across Hereford Diocese but with the wider Church of England:

Mission

SP1 Growing Christian disciples of all ages and backgrounds – spiritually and numerically

SP2 Serving the common good – transforming lives and communities

Ministry for Mission

SP3 Reimagining, developing, and sharing ministry for mission in the 21st century

Resources for Mission

Shared commitment to: focusing and growing our resources for mission – staff, time, money

Our mission will have been successful if we achieve our shared goals:

- To reach younger generations as strongly as older ones – so that disciples and churches better reflect the ages and backgrounds of the communities we serve;
- To lift areas of weaker attendance to match more closely our 3% rural attendance, and to maintain our 3% rural;
- To grow a “mixed economy” of congregations – different styles, days/times, reach, in every deanery across the Diocese.

3. Objectives for the year

In response to the above strategic priorities, Bishop’s Council and Bishop’s Staff have formulated plans to:

- Request each Deanery to develop its own Mission Action Plan to consider how it plans to achieve the shared priorities;
- To submit a strategic development match funding application to the Church Commissioners for six inter-generational missionaries to enable the Diocese of Hereford to grow in number and increase the number of young people attending church;
- To use restructuring funding from the Church Commissioners to target the low levels of giving across the Diocese, strengthen the finances of each parish and encourage a spirit of generosity when contributing to the Parish Offer;

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- To develop a church building strategy to support parishes in maintaining ancient places of worship and supporting the imaginative re-using of the spaces;
- To achieve a budget that generates a surplus to be used for mission and growth by 2019;
- To significantly increase the number of people exploring their faith and considering vocations in the church.

All this with the expressed intention of:

- growing Christians and churches of all ages, and to help people of all ages come to Christian faith, and help people to continue to live and grow as Christians throughout their lives;
- help parishioners to make a difference as Christians in their communities and wider world, and to encourage Christian disciples to live out their lives in daily service for the good of their communities and the transformation of the whole of society;
- develop and share ministry for the 21st century, building on the long standing commitment to the ministry of the whole people of God – lay and ordained – within the Diocese, strengthening and developing this further;
- use generously the resources God has given to his people, where there is greatest need and opportunity;
- to maximise the availability of church buildings for worship and community activities;
- to provide targeted support to Church of England and other educational establishments in the Diocese.

Through carrying out these objectives and in promoting the whole mission of the church (pastoral, evangelistic, social and ecumenical) the trustees are confident (having had regard to Charity Commission guidance) that HDBF delivers public benefit through:

- providing facilities for public worship, pastoral care and spiritual, moral and intellectual development, both for its members and for anyone who wishes to benefit from what the Church offers;
- promoting Christian values, and service by members of the Church in and to their communities, to the benefit of individuals and society as a whole; and
- community engagement, resourcing education and supporting those in need both spiritually and physically.

4. Activities and achievements in the year

4.1 *The Christian presence*

Clergy form a central part in the life of churches in the Diocese. As well as engaging in a wide variety of community and church projects, last year the clergy carried out 620 weddings, 2,039 funerals and 1130 baptisms. Caring for the 85 trained stipendiary clergy and 12 training curates in the Diocese is a priority of the HDBF and represents by far its largest financial commitment. Although the HDBF does not 'employ' the parish clergy, it is responsible for training them, paying them, and paying into their pension fund.

The parsonage serves not only as a home but also as a base for ministry. The HDBF recognises the importance of well-maintained parsonages and strives to continue improve its housing stock by carrying out a programme of refurbishments and improvements.

2016 was the last year of the Parish Share following the launch and introduction of the Parish Offer to the Common Fund. This removes the central demand for a share of parish income and replaces it with

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a prayerfully considered offer to the Common Fund. 2017 will be the first year of this approach and as the initial pledges were significantly lower than historical share payments there is a lot of ground to make up over the year to reduce costs or increase the levels of generosity.

There is a close link between money and mission and the Mission Action Plans are an essential part of resolving this issue.

4.2 Church buildings

The Diocese's Church Buildings Support Officer and Community Partnership and Funding Officer continued to provide valuable advice and guidance to many parishes on redevelopment plans for their church buildings. Over the past few years over £2m has been generated in grant income for the Diocese.

The Diocese welcomes the report by the national Church Buildings Review Group chaired by the Bishop of Worcester and argued that keeping a church 'open for worship' should go hand-in-hand with actively exploring wider community use of the building.

4.3 Educational establishments

The Diocesan Board of Education (DBE) has continued its plan to create a family of academies, which interact and co-operate with existing schools and each other to ensure shared support and good practice. The DBE seeks to maintain the Christian characteristics and distinctiveness of each setting.

4.4 Working with others in the community

The Community Links Development Officer has continued to develop relationships with various social action and welfare activities, providing information and support to parishes to enable them more effectively to fully engage in care and support of the marginalised and vulnerable within their communities, in conjunction with ecumenical church, local authority, and voluntary sector partners.

4.5 Changing the administration

A number of key new appointments have been made over the past year or so. A new Director of Vocations and Ordinands has been appointed with a specific brief to increase the number of (younger) people called into ministry, a new Communications Director has been appointed to modernise communications methods and create a more outward facing approach. A new Diocesan Safeguarding Advisor is in post and significantly improving safeguarding practice and awareness, additional professional finance expertise has been drafted into the team to upgrade management accounts, and develop electronic record-keeping and greater visibility and accuracy of data. Finally a new Diocesan Secretary has been appointed. These new appointments demonstrate a new and more ambitious approach for the Diocese. There has already been a significant amount of change, both in cost reduction, changed working practice and new idea generation. This will continue into the next year and will be both encouraging and challenging as change often is.

5. Future plans

The Bishop's Council and Diocesan Synod after much consultation have agreed a clear direction for the Diocese. This focuses on growth, on reimagining ministry, contributing to the common good and making better use of our resources. This is set out in the Diocese's Mission Action Plan. Given the nature of the Diocese a direct, top down approach is not appropriate. Therefore we have set our compasses together which gives the general direction of travel but then invites each parish, benefice and deanery to plot its own course to arrive at the shared destination.

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However, the Diocesan Synod also received a stark warning of the consequences of failing to take note of the financial changes faced by the Diocese.

6. Financial review

6.1 Achievements

During 2016 HDBF planned to:

- record a deficit of £355,000 in its unrestricted fund, before gains and losses on the revaluation and disposal of fixed assets and investments;
- request an average annual increase in Parish Share across the Diocese of 1.5% (2015: 1.51%);
- increase clergy stipends in line with national recommendations with reference to the regional benchmark.

During the year HDBF has:

- recorded a surplus of £16,000 before gains on investments in the unrestricted fund, a surplus of £404,000 in restricted funds, and a deficit of £145,000 in endowments funds, resulting in an overall surplus before investment gains of £275,000 (2015: deficit of £157,000);
- achieved a small surplus against budget in the general unrestricted fund, through careful control of costs, and as a result of a slight improvement in the Parish Share collection rate;
- increased clergy stipends in line with the regional benchmark.

6.2 Operational performance

Parish Share contributions from PCCs remain the primary source of income for the Diocese to pay for local stipendiary ministry and related costs. During 2016 parishes contributed 93.6% (2015: 92.3%) of the Parish Share requested. HDBF made an operational deficit of £264,000 (after deduction of pension deficit contributions of £280,000) on the day-to-day running of the Diocese, meeting all its financial obligations to resource diocesan needs as they arose, including the support of the ministry, provision of well-maintained houses for the clergy, national church responsibilities and enriching and facilitating many other aspects of church life throughout the Diocese such as retreats and cultural and spiritual gatherings.

The Bishop's Council together with the Directors continue to monitor closely the finances of the Diocese to ensure that the Diocese is able to provide a sustainable service to the churchgoing public with the limited resources at its disposal.

Principal funding sources

62% of HDBF income in 2016 came from Parish Share contributions, 11% from investment income, 8% from Archbishops' Council 'selective allocations', and 7% from other income (2015: 66%, 13%, 8% and nil respectively).

External factors affecting performance

The Diocese is very aware of the financial pressures facing many small, rural parishes that have the responsibility for making significant Parish Share contributions whilst also maintaining and enhancing the fabric of their church buildings. Careful planning has ensured that the Diocese has maintained a relatively strong financial position over recent years but it does lack the historical resources available to some other dioceses. The largely rural nature of the Diocese and low population density means that it attracts a modest apportionment of central funds. The introduction of the new Parish Offer scheme from 1 January 2017 will enable PCCs to resource parish ministry as generously as they can whilst ensuring that their contributions remain realistic and sustainable.

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6.3 Financial performance

The Group Statement of Financial Activities (SoFA) shows overall income in 2016 was £6.5m (2015: £5.8m) with expenditure of £6.2m (2015: £6.0m), resulting in a net surplus of £275,000 (2015: deficit of £157,000) before net gains and losses on the revaluation of investments and fixed assets and on the sale of investment assets. After revaluation adjustments, the total recognised gains for the year amounted to an increase of £1,987,000 (2015: £747,000 loss). This includes the movement in the pension fund deficit which amounted to a £129,000 actuarial gain (2015: £20,000 actuarial loss).

During the year, total Group fund balances increased from £66.0m to £68.3m (2015: decrease from £66.9m to £66.0m).

There was an overall net cash inflow of £168,000 (2015: £1,034,000 net outflow).

6.3.1 Review of the Group Statement of Financial Activities

Unrestricted general fund

Net income prior to transfers was £417,000 (2015: deficit of £55,000). This includes an adjustment for pension deficit payments resulting in a decrease in expenditure of £280,000 (2015: £260,000). £280,000 was transferred to the endowment fund to reflect the reduction in pension deficit contributions made during the year (2015: £260,000), and £36,000 (2015: £36,100) was transferred from the restricted UST fund to support the work of the Diocesan Board of Education.

The deficit for the year on the unrestricted fund, after transfers, amounted to £173,000 (2015: £262,000 deficit).

Restricted (mission & ministry) fund

Net incoming resources were £1,700 before transfers (2015: £20,000 surplus). 2016 was the last year for direct grants of £40,000 from Archbishops' Council to support mission and local partnership projects within the Diocese. The remaining reserve of £47,000 will be utilised to further mission & ministry projects during 2017-2018.

Restricted (pastoral) fund

The pastoral fund shows a surplus of £383,000 prior to investment gains and losses (2015: deficit of £130,000). This surplus arises primarily due to the gain of £424,000 on the sale of a rectory no longer required for parish ministry.

Restricted (UST) fund

The UST (Hereford Diocesan Board of Finance Uniform Statutory Trust) is a trust under the control of the HDBF. The HDBF is the sole Trustee and benefits from the income generated by the Trust. For this reason, in order to comply with the Charities Act, the Trust is treated as a subsidiary of the charity.

The UST fund shows a surplus of £20,000 prior to investment gains and losses (2015: £3,000 deficit).

Endowment (diocesan stipends) fund

The endowment fund recorded a deficit of £145,000 (2015: deficit of £93,000) before investment gains. This includes £58,000 (2015: £58,000) relating to pension interest costs. The remaining costs relate to planning and professional fees incurred in planning schemes for future development of glebe lands, and investment portfolio management fees.

Voluntary income

Parish Share contributions totalled £4.0m (2015: £3.8m), which represented a shortfall against budget of £243,000 or 5.7% of target (2015: £319,000 shortfall).

Parochial (statutory) fees increased 6% to £381,000 (2015: £358,000).

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Expenditure

Total expenditure in the year amounted to £6.2m, of which £5.0m (2015: £4.9m) or 80% (2015: 82%) related to mission and ministry, education, parochial support and grants and donations within the Diocese. £377,000 (2015: £357,000) of annual expenditure went to support national church responsibilities and training. The cost of raising funds (excluding interest on the pension fund and support costs) amounted to £246,000 (2015: £193,000) while support costs amounted to £509,000 (2015: £433,000) or 8.2% (2015: 7.3%) of total expenditure.

6.3.2 Investment performance

Overall performance

Investments are held in both glebe and general funds. The total value of investments (including DSF endowment fund net current assets) at 31 December 2016 was £20.7m (2015: £20.7m) and the total return on investment was 12.2% (2015: 3.8%).

Endowment investments

£14.0m (2015: £13.3m) of HDBF investments are in endowment funds, primarily to generate a sustainable income to continue funding clergy stipends.

Agricultural, commercial and industrial land and buildings (excluding school land) were valued at £8.0m at 31 December 2016 (2015: £8.0m). Rents receivable from glebe amounted to £236,000 (2015: £241,000) – an income yield of 3.0% (2015: 3.0%).

Investment in equity and fixed interest funds were valued at £6.0m at 31 December 2016 (2015: £5.3m). The unrealised surplus in the value of investments during the year amounted to £668,000 (2015: deficit of £211,000). Dividends receivable amounted to £213,000 (2015: £222,000) – a yield of 3.5% (2015: 4.1%).

Unrestricted and restricted fund investments

The policy with unrestricted (general) and restricted fund investments is to safeguard capital and to achieve capital growth. Investment in equity and fixed interest funds were valued at £7.8m at 31 December 2016 (2015: £6.8m). The unrealised surplus in the value of investments during the year amounted to £891,000 (2015: £272,000 deficit). Dividends and interest receivable amounted to £266,000 (2015: £277,000) – a yield of 3.4% (2015: 4.0%).

6.3.3 Balance sheet position

The Directors consider that the group balance sheet shows broadly that the restricted and endowment funds are held in an appropriate mix of investment and current assets given the purposes for which the funds are held. Fixed asset values increased by £1.8m (2015: £179,000 increase). While the net assets at the balance sheet date totalled £68.3m (2015: £66.0m), it should be noted that £64.3m (2015: £62.2m) is held in restricted and endowment funds (mainly properties used for ministry and glebe assets) which cannot be used for the general purposes of the HDBF.

Additions to tangible fixed assets totalling £500,000 included significant developments at Broseley and St Martin's, South Wye. The annual revaluation of investment land resulted in a loss of £35,000, listed investment gains amounted to £1.6m and net additions to listed investments during the year amount to £122,000. Cash balances decreased during the year by £168,000.

Overall balance sheet reserves increased by £2.3m to £68.3m (2015: £0.9m decrease). This increase comprised of realised and unrealised gains of £1,858,000 (2015: losses of £727,000) on property and fixed asset investments, pension actuarial gains of £129,000 (2015: loss of £20,000), and net income in the year of £275,000 (2015: net expenditure of £157,000).

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6.4 Reserves policy

6.4.1 General unrestricted fund

HDBF's core responsibilities include the payment of stipends and pension contributions for parochial clergy, the provision and maintenance of clergy housing, and the selection and training of future clergy. HDBF also employs diocesan support ministers and staff who provide guidance and expertise to parishes in variety of ways, as well as enabling the company to meet its legal and charitable obligations. A reserves policy is necessary to ensure that, in the event of significant reduction in income or capital losses during periods of geopolitical or economic uncertainty, HDBF will be able to meet these financial commitments as they fall due whilst avoiding the need to resort to external borrowings.

In formulating a minimum reserve policy, consideration has been given to the following:

- Economic instability giving rise to a significant fall in Parish Offer;
- Inflationary pressures above expectation;
- Unavoidable increases in expenditure.

In the light of the above, the Directors' reserves policy is to maintain the equivalent of at least 4 months' operating expenditure in cash and readily liquid assets in the general unrestricted fund. This policy is to be reviewed on an annual basis.

Based on 2017 budgeted expenditure, the amount required under this policy totals £2.1m. As at 31 December 2016, the unrestricted reserves stood at £3.9m. Reserve levels are monitored throughout the year and remedial action taken as and when required.

The Directors have set a deficit budget for 2017 but are seeking to increase income and constrain expenditure in order to achieve a balanced budget by end 2019 and safeguard reserves to underpin the delivery of the Diocese's strategic objectives.

6.4.2 Restricted and endowment funds

The HDBF holds and administers restricted and endowment funds. As at 31 December 2016 Group restricted funds totalled £51.2m (2015: £50.2m) and the endowment fund totalled £13.2m (2015: £12.1m). Neither are available for the general purposes of the HDBF. Directors seek to maintain reserves in the restricted pastoral fund sufficient to meet average annual expenditure on essential property improvements.

6.5 Grant making policy

The Memorandum of Association of the HDBF permits the company to make grants in pursuance of its objects, and the nature of grants made in 2016 is indicated in note 13 to the financial statements. Contributions are also made to the Archbishops' Council to cover a proportion of its central costs and also to cover the cost of training for ministry (note 10.1 to the financial statements).

6.6 Going concern

In view of the satisfactory performance in receipt of Parish Share, intentional use of reserves to mitigate fluctuations in the Parish Share, and firm control of annual budgets, the Directors consider the Diocese of Hereford to be financially sustainable for the foreseeable future. After making enquiries the Directors are satisfied that HDBF has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the financial statements on that basis.

6.7 Investment policy

The HDBF is empowered by its Memorandum of Association to invest monies not immediately required for its purposes. The HDBF's policy is to review regularly the assets of each fund for which it is responsible, in relation to the purposes of each fund, and to identify appropriate investment vehicles.

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Note 21 to 24 provide details of the assets of each fund, together with the related purposes, and note 16 summarises the movements in investments during the year.

HDBF's investment policies are based on two key policies:

- ethical investment – this includes ensuring that investments are held in companies which have high standards of corporate governance and act in a responsible way towards stakeholders;
- long-term responsibilities – Directors are aware of their long-term responsibilities in respect of endowed funds and as a result follow a correspondingly prudent approach to investment decisions.

Investment policy for long-term funds is aimed primarily at generating a sustainable income with due regard to the need for the preservation of capital value and the possible need to realise investments to meet operational needs. The glebe investments are held for the purpose of raising income to achieve the maximum contribution possible to clergy stipends on an ongoing basis. Unrestricted and restricted fund investments are invested to balance income, liquidity and the maintenance of capital.

Glebe investments

Glebe investments are held in agricultural land, commercial and industrial land and buildings, equities and fixed interest securities.

Unrestricted fund investments

Funds which may be needed for working capital in the short term are held as deposits with the Central Board of Finance.

7. Principal risks & uncertainties

The Directors are responsible for the identification, mitigation and/or management of risk. To achieve this, the Board has compiled a register of all material risks together with mitigation plans and management controls to address these risks. This is subject to review by the Directors periodically with the responsibility for delivery of the mitigation strategies identified being delegated to the Diocesan Secretary.

The risk register identifies several areas where the risk of either failure to act or the impact of the events is considered 'high'. These areas and the associated mitigation strategies are:

7.1 Parish Offer and cash flow

- Invest in inter-generational missionaries to seek church growth, especially in market towns;
- Employ two Parish Giving Advisors using Church Commissioners' restructuring funding;
- Encourage open and regular conversations about giving, Parish Offer and stewardship;
- Adjust composition of asset / investment portfolio to lower risk profile (e.g. convert a larger portion to cash or other liquid, low risk assets);
- Seek to sign up to the national Parish Giving Scheme.

7.2 Decline in church attendance

- Every parish, benefice and deanery is being encouraged to consider a Mission Action Plan with a specific remit to consider how to achieve spiritual and numerical growth;
- Some deaneries will partner with the London Institute of Contemporary Christianity to target specific approaches to growth. Others are intentionally making more out of 'life events' that naturally occur in the Diocese;
- The Diocese intends to match fund a bid to the Church Commissioners to employ six inter-generational missionaries who will have a specific remit to increase worshipping congregations, achieve growth and increase the number of younger people involved in church.

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7.3 Availability of stipendiary ministers. Recognising that the Diocese faces a reduction in the number of ordained ministers over the next few years simply due to the age profile of existing clergy and the difficulties in recruiting to rural ministry, the Diocese is:

- Continuing to invest in a full-time director of vocations and ordinands to focus on helping (young) people to explore their call to stipendiary ministry, and encouraging all-age vocations in daily life and in church ministries;
- Maintaining focus of supporting lay leaders, SSM, voluntary ministers, supporting retired clergy to stay connected and growing local worship leaders as well as encouraging and recognising the vital ministry of Readers;
- Developing a diocesan School for Ministry to offer flexible courses for initial and continuing training for a widening variety of ministries.

8. Structure, governance and management

8.1 Summary information about the structure of the Church of England

The Church of England is organised as two provinces; each led by an Archbishop (Canterbury for the Southern Province and York for the Northern). Each province comprises dioceses of which there are 41 in England.

Each diocese in England is divided into parishes. Each parish is overseen by a parish priest (usually called a vicar or rector). From ancient times through to today, they and their bishop are responsible for the 'cure of souls' in their parish.

Her Majesty the Queen, who is the Supreme Governor of the Church of England, appoints archbishops, bishops and deans of cathedrals on the advice of the Prime Minister. The two archbishops and 24 senior bishops sit in the House of Lords.

The Church of England is episcopally-led by bishops (including diocesan bishops and assistant and suffragan bishops). It is governed by General Synod as its legislative and deliberative body at national level, making decisions on matters of doctrine, the holding of church services and relations with other churches. General Synod passes measures which, if accepted by Parliament, have the effect of Acts of Parliament. It is made up of three groups or houses of members: the Houses of Bishops, of Clergy and of Laity, and meets in London or York at least twice annually to consider legislation for the broader good of the Church.

8.2 The National Church Institutions

The Archbishops' Council, the Church Commissioners and the Church of England Pensions Board are sometimes referred to as the National Church Institutions (NCIs).

The Archbishops' Council was established in 1999 to co-ordinate, promote, aid and further the mission of the Church of England. Its task is to give a clear sense of direction to the Church nationally and support the Church locally by acting as a policy discussion forum.

The Church Commissioners manage the historic assets of the Church of England, spending most of their income on pensions for the clergy. Episcopal administration costs of the diocesan and suffragan bishops are met by the Church Commissioners.

The Church of England Pensions Board was established by the Church Assembly in 1926 as the Church of England's pension authority and to administer the pension scheme for the clergy. Subsequently it has been given wider powers, in respect of discretionary benefits and accommodation both for those retired from stipendiary ministry and for widow(er)s of those who have served in that ministry, and to administer pension schemes for lay employees of Church organisations.

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The Pensions Board, which reports to the General Synod, is trustee of a number of pension funds and charitable funds. Whilst the Church has drawn together under the Board its central responsibilities for retirement welfare, the Board works in close cooperation both with the Archbishops' Council and with the Church Commissioners.

8.3 The Cathedral

Hereford Cathedral is the mother church of the diocese and legally is constituted as a separate charity currently exempt from Charity Commission registration and supervision. Copies of its trustees' report and financial statements may be obtained from Hereford Cathedral, 5 College Cloisters, Cathedral Close, Hereford HR1 2NG. Tel: 01432 374200.

8.4 Scope of report

The information about General Synod, the Church Commissioners, the Archbishops' Council and Hereford Cathedral is included as background only. The financial transactions of these bodies do not form part of these financial statements.

8.5 Organisational structure of the Diocese

8.5.1 Geography

The Diocese of Hereford was created in c.676 and covers an area of 1,660 square miles encompassing all of Herefordshire, the southern half of Shropshire and small parts of Powys and Monmouthshire. The overall population is approximately 319,000, a large proportion of which live in small, scattered communities of less than 500.

8.5.2 Diocesan units

A diocese is the principal pastoral, financial and administrative resource of the Church of England within the diocesan boundary, encompassing the various archdeaconries under the spiritual leadership of the diocesan bishop.

A deanery is a group of parishes over which a rural dean has oversight and an archdeaconry is a group of deaneries for which an archdeacon is responsible.

A benefice is a parish or group of parishes served by an incumbent who typically receives a stipend and the benefit of free occupation and use of a parsonage house from the diocese for carrying out spiritual duties.

The Diocese of Hereford is arranged as two archdeaconries, Hereford covering the southern part with 7 deaneries and Ludlow the northern with 6 deaneries. In total there are some 85 benefices, 358 parishes and 404 churches of which 5 are in the care of the HDBF.

8.5.3 Diocesan Synod

The statutory governing body of the diocese is the Diocesan Synod, which is an elected body with representation from all parts of the diocese. Membership consists of ex officio members, including the bishops and archdeacons, clergy members elected by the houses of clergy in deanery synods, lay persons elected by the houses of laity in deanery synods, up to five persons who may be co-opted by the house of clergy and up to five persons co-opted by the house of laity, and a maximum of ten members nominated by the Diocesan Bishop. The Diocesan Synod normally meets three times a year. Many of Diocesan Synod's responsibilities have been delegated to Bishop's Council or the Standing Committee. The role of Diocesan Synod is to:

- consider matters affecting the Church of England in the diocese;
- act as a forum for debate of Christian opinion on matters of religious or public interest;

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- advise the bishop where requested;
- deal with matters referred by General Synod;
- provide for the financing of the diocese.

8.5.4 Deanery synods

Deanery synods have two houses, laity and clergy, and exist to:

- respond to requests from General Synod;
- give effect to the decisions made by the Diocesan Synod;
- consider matters affecting the Church of England by drawing together the views of the parishes within the deanery;
- act as a channel of communication to express the views of parishes to Diocesan Synod and thence to General Synod;
- raise with Diocesan Synod such matters as it considers appropriate;
- elect members of the deanery to the Diocesan Synod; and
- elect members of the diocese to General Synod.

8.5.5 The Bishop's Council

Under the constitution of the Diocesan Synod, Bishop's Council has the following functions:

- to plan the business of the Synod, to prepare the agenda for its sessions and to circulate to members information about matters for discussion.
- to initiate proposals for action by the Synod and to advise it on matters of policy;
- to advise the President (i.e. the Bishop) on any matter;
- subject to the directions of the Synod, to transact the business of the Synod when the Synod is not in session;
- subject to the directions of the Synod, to appoint members of committees or nominate individuals for election to committees;
- to carry out such functions as the Synod may delegate to it.

8.5.6 Parochial Church Council (PCC)

The PCC is the elected governing body of an individual parish which broadly is the smallest pastoral area in the Church of England. Typically each parish has one parish church. The PCC is made up of the incumbent as chair, the churchwardens and a number of elected and ex officio members. Under the terms of the Charities Act 2011, a PCC is a charity excepted from registration with the Charity Commission unless its income exceeds £100,000. The transactions of PCCs do not form part of these financial statements. Financial statements of an individual PCC can be obtained from the relevant PCC treasurer.

8.6 Company status

The Hereford Diocesan Board of Finance (HDBF) is a Company set up under the Diocesan Boards of Finance Measure 1925, as amended. It was incorporated on 27 July 1916 as a charitable company (No. 144467) limited by membership guarantees and is registered with the Charity Commission (No. 249685). Its governing documents are the Memorandum and Articles of Association, as amended 22 May 1953, 11 April 1962, 21 March 1986, 23 May 1994 and 25 May 2010.

Every member of Diocesan Synod is a member of HDBF for company law purposes and has a personal liability limited to £1 under their guarantee as company members in the event of its being wound up. The Company Directors of the HDBF form the DBF Executive Committee (DBFX).

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For the year ended 31 December 2016

8.7 Decision-making structure

The HDBF has delegated to the DBFX all statutory functions under the Diocesan Boards of Finance Measure 1925, the Companies Acts and the Charities Acts as amended. DBFX has responsibility for the day-to-day business of the company which it exercises by delegation to the Diocesan Secretary, who is supported by a number of heads of departments and their staff.

Some employed staff have job titles incorporating the title 'Director' but they are not directors of the company for the purposes of company law.

8.8 Committee structure

The following diocesan committees influence the work of HDBF:

Benefice Buildings Committee, which is responsible for determining policy and making major decisions concerning the management of parsonage houses in each benefice, including setting the policy for buying, repairing, maintaining and disposing of all parsonage houses, team vicarages and houses owned by HDBF. In the Diocese of Hereford this function is carried out by the Executive Committee of the Diocesan Board of Finance.

Glebe Committee, which is responsible for determining policy and making major decisions concerning the management of glebe property and investments for the benefit of the Diocesan Stipends Fund of the Diocese. In the Diocese of Hereford this function is carried out by the Executive Committee of the Diocesan Board of Finance.

Diocesan Mission & Pastoral Committee, which is responsible for planning and approving pastoral reorganisation, taking account of available clergy numbers and making use of new patterns of ministry, and for finding appropriate alternative uses for churches that have been declared redundant.

Diocesan Advisory Committee, which advises on matters affecting churches and places of worship such as the granting of faculties, architecture, archaeology, art and the history of places of worship, the use and care of places of worship and their contents and the care of churchyards.

Hereford Diocesan Board of Patronage, which is constituted under the provisions of the Patronage (Benefices) Measure 1986, is sole patron or joint patron of a number of benefices.

Hereford Diocesan Board of Education, which has responsibility for 81 schools and academies across the Diocese, provides strategic, professional and pastoral support to all its schools, supporting school leadership and has a particular commitment to enhancing the quality of provision for religious education, collective worship and the spiritual, moral, social, and cultural development of all pupils.

8.9 Trustee training

On appointment all trustees are provided with two Charity Commission publications ('Trustee Handbook' and 'The Essential Trustee - What you need to know') together with copies of the previous year's accounts and the current year budget. New trustees are also given a one-to-one briefing on the structure and organisation of the Church of England nationally, regionally and locally.

8.10 Remuneration of key management personnel

Emoluments of higher-paid employees are determined by a remuneration group consisting of the four members of the DBFX and one member of the Bishop's Council. The terms of reference for this group is established by the DBFX and include regular appraisals, remuneration and salary benchmarking and consequent recommendation of changes.

8.11 Funds held as custodian trustee

Annual report

For the year ended 31 December 2016

The HDBF is custodian trustee of assets held on permanent trust by virtue of the Parochial Church Councils (Powers) Measure 1956 and the Incumbents and churchwardens (Trusts) Measure 1964 where the managing trustees are parochial church councils and others. These assets are not aggregated in the financial statements as the HDBF does not control them, and they are segregated from the HDBF's own assets by means of a separate accounting system. Further details of financial trust assets, whose market value amounted to £4.8m at 31 December 2016 (2015: £4.5m), are available via the diocesan website.

8.12 Related parties

8.12.1 General Synod, Church Commissioners and Archbishops' Council

HDBF has to comply with Measures passed by the General Synod of the Church of England and is required to make certain annual payments to the Archbishops' Council based on an apportionment system to fund national training of ordinands and the activities of various national boards and councils. The stipends of the diocesan and suffragan bishops are borne by the Church Commissioners and are not reflected in the financial statements.

8.12.2 Uniform Statutory Trust

The Hereford Diocesan Board of Finance Uniform Statutory Trust (UST) is a trust under the control of the HDBF. The HDBF is the sole Trustee and benefits from the income generated by the Trust. For this reason, in order to comply with the Charities Act, the UST is treated as an HDBF subsidiary.

8.12.3 Bishop Anthony Educational Trust (BAET)

HDBF works closely with this multi-academy trust created in 2013 as it seeks to foster, maintain and celebrate the Christian distinctiveness of church schools within the Diocese of Hereford. As part of an interim support arrangement, HDBF has provided financial assistance to BAET during the period March 2015 to February 2017.

8.12.4 Parochial Church Councils (PCCs)

HDBF is required by Parochial Church Councils (Powers) Measure 1956 to be custodian trustee in relation to PCC property, but the Company has no control over PCCs, which are independent charities. The accounts of PCCs do not form part of these financial statements. PCCs are able to influence the decision-making within HDBF and at Diocesan Synod level through representations to those bodies and through the input of their Deanery Synods.

8.12.5 Pension schemes

A non-contributory money purchase scheme is available to all employees. HDBF, as employer, contributes 10.5% of gross salary to a pension provider of the employee's choice. Ordained clergy are within the Church of England Clergy Pensions Scheme. Since August 2015 all new employees have been automatically enrolled in the 'Pension Builder 2014' section of the Church Workers Pension Fund.

9. Directors' responsibilities

The Trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the HDBF and of the

Annual report

For the year ended 31 December 2016

surplus or deficit of the HDBF for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable United Kingdom accounting standards and observe methods and principles in the Statement of Recommended Practice (SORP) for charities, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the corporate and trust assets of the company and ensuring their proper application under charity law and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the HDBF website. Legislation in England & Wales governing the preparation and dissemination of financial statements and other information included in Annual Reports may differ from legislation in other jurisdictions.

10. Statement of disclosure to the auditors

So far as the Directors are aware:

- there is no relevant information of which the company's auditors are unaware; and
- we have taken all the steps that we ought to have taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

11. Appointment of auditors

A resolution to reappoint Thorne Widgery Accountancy Ltd as auditors to the HDBF and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

12. Reference and administrative details

12.1 Administrative details

Company limited by guarantee, registration number 144467

Charity registration number 249685

Registered office: The Diocesan Office, The Palace, Palace Yard, Hereford HR4 9BL

Telephone: 01432 373300

Email: diooffice@hereford.anglican.org

Website: www.hereford.anglican.org

12.2 Directors

The following served as Directors and Trustees from 1 January 2016 to the date this report was approved (unless shown otherwise):

President: The Rt Revd R M C Frith, Bishop of Hereford

Hereford Diocesan Board of Finance

Annual report

For the year ended 31 December 2016

Chairman:	Revd J Rogers
Vice-Chair:	Mr C H E Smith
Ex officio Directors:	The Rt Revd A Magowan, Bishop of Ludlow The Ven G P Benson Canon R Lording
Elected Directors:	Revd L Cronin (from 26 January 2016) Mr T N Hone Mr C W Hunter (from 21 June 2016) Mrs S Lewis Mr A Mence (from 1 March 2016) Mr C J Whitmey Mrs J Woodroffe (from 1 March 2016)

12.3 Principal officers

Diocesan Secretary:	Mr J E Clark (until 22 July 2016) Mr S R Pratley (from 25 July 2016)
Director of Finance:	Mr S G P Herbert

12.4 Members of the Board

Since July 2010 membership of the Hereford Diocesan Board of Finance has, in common with the many other dioceses, become co-terminus with membership of the Diocesan Synod.

Annual report

For the year ended 31 December 2016

12.5 Agents

Solicitors

Lee Bolton Monier Williams
1 The Sanctuary
Westminster
London SW1P 3JT

Bankers

Lloyds Bank PLC
8 High Town
Hereford HR1 2AE

Glebe agents – agricultural

Savills LLP
York House
Blackbrook Business Park
Taunton TA1 2PX

Surveyors

Hook Mason Limited
41 Widemarsh Street
Hereford HR4 9EA

Investment Managers

Rathbone Brothers PLC
1 Curzon Street
London W1J 5FB

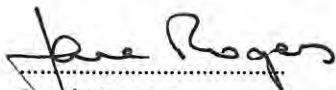
Glebe agents – commercial & industrial

Godfrey-Payton
Old Bablake
Coventry CV1 4AN

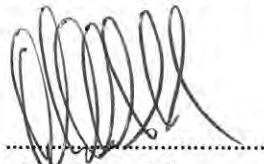
Auditors

Thorne Widgery Accountancy Ltd
2 Wyevale Business Park
Wyevale Way, Stretton Sugwas
Hereford HR4 7BS

The Directors' annual report is approved by order of the Board of Directors and the Strategic Report (included therein) is approved by the Board of Directors at a meeting on 16 May 2017 and signed on its behalf by:



Revd J Rogers
Chairman



Mr C H E Smith
Director

Hereford Diocesan Board of Finance

Independent auditors' report

To the members of the Hereford Diocesan Board of Finance

We have audited the group financial statements and parent charitable company financial statements of Hereford Diocesan Board of Finance for the year ended 31 December 2016 on pages 22 to 50. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities as set out on page 17, the trustees (who are also directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the group's and of the parent charitable company's affairs as at 31 December 2016 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report and the incorporated strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or

Hereford Diocesan Board of Finance

Independent auditors' report

To the members of the Hereford Diocesan Board of Finance

- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.


.....

KEVIN TONG FCCA ACA (Senior Statutory Auditor)

For and on behalf of THORNE WIDGERY ACCOUNTANCY LTD, Statutory Auditor

Unit 2, Wyevale Business Park

Wyevale Way

Stretton Sugwas

HEREFORD

HR4 7BS

Date: 16/5/17

Group statement of financial activities

For the year ended 31 December 2016

		Unrestricted	Restricted	Endowment	Total	Total
		General fund	funds	funds	2016	2015
	Note	£'000	£'000	£'000	£'000	£'000
Income and endowments from:						
Donations						
Parish share contributions	2	4,014	-	-	4,014	3,846
Archbishops' Council	3	449	40	-	489	492
Other donations	4	155	25	-	180	144
Charitable activities	5	389	-	-	389	359
Other trading income	6	207	32	-	239	214
Investment income	7	551	164	-	715	740
Other income	8	-	436	-	436	5
Total income and endowments		5,765	697	-	6,462	5,800
Expenditure on:						
Raising funds	9	117	69	145	331	276
Charitable activities	10	5,632	224	-	5,856	5,681
Total resources expended		5,749	293	145	6,187	5,957
Net income/(expenditure) before investment gains		16	404	(145)	275	(157)
Net gains/(losses) on investments		401	643	814	1,858	(727)
Net income/(expenditure)		417	1,047	669	2,133	(884)
Transfers between funds	24	(244)	(36)	280	-	-
Other recognised gains (losses)						
Gains/(losses) on revaluation of fixed assets	14	-	-	-	-	-
Actuarial gains/(losses) on defined benefit pension	30	-	-	129	129	(20)
Net movement in funds		173	1,011	1,078	2,262	(904)
Funds brought forward at 1 January		3,757	50,155	12,085	65,997	66,901
Funds carried forward at 31 December		3,930	51,166	13,163	68,259	65,997

All activities derive from continuing activities. The notes on pages 27 to 50 form part of the financial statements.

Hereford Diocesan Board of Finance

Group income and expenditure account

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Total incoming resources	6,462	5,800
Resources expended	(6,042)	(5,864)
Operating surplus/(deficit) for the year	420	(64)
Net gains on investments	1,044	(272)
Net income for the year	1,464	(336)
Other comprehensive income:		
Revaluation of fixed assets	-	-
Net assets transferred from endowments	(280)	(260)
Actuarial (losses) on defined Benefit pension schemes	-	-
Total comprehensive income	1,184	(596)

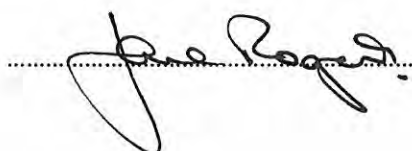
The income and expenditure account is derived from the Statement of Financial Activities with movements in endowment funds excluded to comply with company law. All income and expenditure is derived from continuing activities.

Group balance sheet

As at 31 December 2016

	Note	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Fixed assets						
Tangible assets	14	13	45,504	1,245	46,762	46,669
Investments	16	3,026	5,036	14,012	22,074	20,383
		3,039	50,540	15,257	68,836	67,052
Current assets						
Stocks		5	-	-	5	6
Debtors: amounts falling due within one year	17	248	18	-	266	279
Debtors: amounts falling due after one year	18	-	34	-	34	44
Cash at bank & in hand		924	825	26	1,775	1,607
		1,177	877	26	2,080	1,936
Creditors: amounts falling due within one year	19	(286)	(251)	(300)	(837)	(821)
Net current assets		891	626	(274)	1,243	1,115
Total assets less current liabilities		3,930	51,166	14,983	70,079	68,167
Creditors: amounts falling after more than one year						
Pension scheme liabilities	20	-	-	(1,820)	(1,820)	(2,170)
Net Assets		3,930	51,166	13,163	68,259	65,997
Unrestricted funds						
General reserve	21	3,930	-	-	3,930	3,757
Restricted funds						
Pastoral reserve	22	-	48,931	-	48,931	48,153
Mission and Ministry reserve	22	-	47	-	47	45
Uniform Statutory Trust	22	-	2,188	-	2,188	1,957
Endowment funds						
Diocesan stipends reserve	23	-	-	13,163	13,163	12,085
Reserves		3,930	51,166	13,163	68,259	65,997

The Cash Flow Statement and the Notes form part of these financial statements. The financial statements were approved by the Directors of the Hereford Diocesan Board of Finance and authorised for issue on 16 May 2017 and signed on their behalf by:



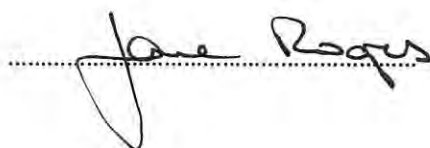
Revd J Rogers
Chairman

Charity balance sheet

As at 31 December 2016

	Note	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Fixed assets						
Tangible assets	14	13	45,504	1,245	46,762	46,669
Investments	16	3,026	2,992	14,012	20,030	18,578
		3,039	48,496	15,257	66,792	65,247
Current assets						
Stocks		5	-	-	5	6
Debtors: amounts falling due within one year	17	288	12	-	300	259
Debtors: amounts falling due after one year	18	-	34	-	34	37
Cash at bank & in hand		884	496	26	1,406	1,431
		1,177	542	26	1,745	1,733
Creditors: amounts falling due within one year	19	(286)	(60)	(300)	(646)	(770)
Net current assets		891	482	(274)	1,099	963
Total assets less current liabilities		3,930	48,978	14,983	67,891	66,210
Creditors: amounts falling after more than one year						
Pension scheme liabilities	20	-	-	(1,820)	(1,820)	(2,170)
Net Assets		3,930	48,978	13,163	66,071	64,040
Unrestricted funds						
General reserve	21	3,930	-	-	3,930	3,757
Restricted funds						
Pastoral reserve	22	-	48,931	-	48,931	48,153
Mission and Ministry reserve	22	-	47	-	47	45
Endowment funds						
Diocesan stipends reserve	23	-	-	13,163	13,163	12,085
Reserves		3,930	48,978	13,163	66,071	64,040

The Notes form part of these financial statements. The financial statements were approved by the directors of the Hereford Diocesan Board of Finance and authorised for issue on 16 May 2017 and signed on their behalf by:



Revd J Rogers
Chairman

Hereford Diocesan Board of Finance
Group cash flow statement
For the year ended 31 December 2016

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Net cash inflow (outflow) from operating activities		(975)		(795)
Cash flows from investing activities				
Dividends, interest and rent from investments		715		740
Interest paid: Clergy pension scheme		(58)		(58)
Proceeds from the sale of:				
Tangible fixed assets for the use of the HDBF	831		-	
Fixed asset investments	2,393		1,742	
Purchase of:				
Tangible fixed assets for the use of the HDBF	(500)		(412)	
Fixed asset investments	(2,238)		(2,251)	
		486		(921)
Net cash provided by/(used in) investing activities		168		(1,034)
Change in cash and cash equivalents in the reporting period		168		(1,034)
Net cash funds as at 1 January		1,607		2,641
Net cash funds as at 31 December		1,775		1,607
<i>Reconciliation of net movements in funds to net cash flow from operating activities</i>				
Net movement in funds for the year ended 31 December		275		(157)
Add: depreciation & amortisation charges		12		15
Add: interest paid		58		58
Add: actuarial gains/losses		129		(20)
Less: dividends, interest and rent from investments		(715)		(740)
Loss/(profit) on sale of functional assets		(424)		-
(Increase) decrease in stocks		1		(2)
(Increase) in debtors		23		586
Increase in creditors		(334)		(535)
Net cash provided by/(used in) operating activities		(975)		(795)

Notes to the accounts

For the year ended 31 December 2016

1. Accounting policies

1.1 Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, with the exception of freehold properties, which are included at their fair value as determined under the applicable valuation method as detailed in note 1.5, and fixed asset investments, which are included at their market value at the balance sheet date. The financial statements have been prepared in accordance with the Statement of Recommended Practice for Charities (SORP 2015), the Companies Act 2006 and applicable accounting standards (FRS 102).

The Charity has taken advantage of the exemption from preparing a cash flow statement under section 1 of FRS 102. The cash flows of the Charity are included in the consolidated financial statements.

1.2 Basis of consolidation

The consolidated financial statements of the group incorporate the financial statements of Hereford Diocesan Board of Finance and its subsidiary undertaking, the HDBF Uniform Statutory Trust. The Charity has taken advantage of the exemption afforded by section 408 of the Companies Act 2006 and therefore, a separate Statement of Financial Activities and Income and Expenditure Account for the Charity has not been presented. The subsidiary has been consolidated in these financial statements on a line by line basis.

1.3 Incoming resources

All income is included in the Statement of Financial Activities (SoFA) when the HDBF is legally entitled to them as income or capital respectively, ultimate receipt is probable and the amount to be recognised can be quantified with reasonable accuracy.

- **Parish Share** is recognised as income of the year in respect of which it is receivable. Full provision is made for any amounts remaining unpaid as at 31 January following the year end.
- **Rent** receivable is recognised as income in the period with respect to which it relates.
- **Interest and dividends** are recognised as income when receivable.
- **Grants** received which are subject to pre-conditions for entitlement specified by the donor which have not been met at the year-end are included in creditors to be carried forward to the following year.
- **Parochial fees** are recognised as income of the year to which they relate.
- **Donations** other than grants are recognised when receivable.
- **Gains on disposal of fixed assets for the HDBF's own use** (i.e. non-investment assets) are accounted for as other income. Losses on disposal of such assets are accounted for as other expenditure.
- **Diocesan Stipends Fund** (endowment fund). The endowment fund is governed by the Diocesan Stipends' Fund Measure 1953, as amended, and the use of the income is restricted for clergy stipends. However, the income is fully expended within the year of receipt and the legal restrictions, therefore, are satisfied. It is on this basis that the income and the (normally much larger) related expenditure are both included in the unrestricted column of the Statement of Financial Activities for the sake of greater clarity and simplicity in financial reporting.

Notes to the accounts

For the year ended 31 December 2016

1.4 Expenditure

Expenditure is included on the accruals basis and has been classified under headings that aggregate all costs related to the Statement of Financial Activity category.

- **Costs of raising funds** are constrained to costs relating to the temporary renting out of parsonages, investment management costs of glebe and any other investments, defined benefit pension interest costs together with the Parish Share rebate.
- **Charitable expenditure** is analysed between contributions to the Archbishops' Council, expenditure on resourcing mission and ministry in the parishes of the diocese, expenditure on education and Church of England schools in the diocese and direct support for parishes and clergy.
- **Grants payable** are charged in the year when the offer is conveyed to the recipient except in those cases where the offer is conditional on the recipient satisfying performance or other discretionary requirements to the satisfaction of the HDBF, such grants being recognised as expenditure when the conditions attaching are fulfilled. Grants offered subject to such conditions which have not been met at the year-end are noted as a commitment, but not accrued as expenditure.
- **Support costs** consist of central management, administration and governance costs. The amount spent on raising funds and other activities is considered to be immaterial and all support costs are allocated to the purpose of charitable activities. Costs are allocated wherever possible directly to the activity to which they relate, but where such direct allocation is not possible, the remainder is allocated on a relevant basis as set out in note 11.
- **Pension contributions.** The HDBF's staff are members of the Church Workers Pension Fund and Clergy are members of the Church of England Funded Pensions Scheme (see note 30). The pension costs charged as resources expended represent the HDBF's contributions payable in respect of the accounting period, in accordance with FRS 102. Deficit funding for the pension schemes to which HDBF participates is accrued at current value in creditors distinguished between contributions falling due within one year and after more than one year.

1.5 Tangible fixed assets and depreciation

Freehold properties

Depreciation is not provided on buildings as any provision (annual or cumulative) as it would not be material due to the very long expected remaining useful economic life in each case, and because their expected residual value is not materially less than their carrying value. The HDBF has a policy of regular structural inspection, repair and maintenance, which in the case of residential properties is in accordance with the Repair of Benefices Buildings Measure 1972 and properties are therefore unlikely to deteriorate or suffer from obsolescence. In addition, disposals of properties occur well before the end of their economic lives and disposal proceeds are usually not less than their carrying value. The Trustees perform annual impairment reviews in accordance with the requirements of FRS 102 to ensure that the carrying value is not more than the recoverable amount.

Investment properties

Glebe properties which are held for investment purposes and rented out have been included at their fair value.

Parsonage houses

The HDBF has followed the requirements of FRS 102, in its accounting treatment for benefice houses (parsonages). FRS 102 requires the accounting treatment to follow the substance of arrangements rather than their strict legal form. The HDBF is formally responsible for the

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For the year ended 31 December 2016

maintenance and repair of such properties and has some jurisdiction over their future use or potential sale if not required as a benefice house, but in the meantime legal title and the right to beneficial occupation is vested in the incumbent. The Trustees therefore consider the most suitable accounting policy is to capitalise such properties as restricted fund assets and to carry them at their estimated current market value. Parsonage houses are revalued at least once every five years, the last valuation having been carried out as at 31 December 2014.

Other tangible fixed assets

All capital expenditure over £500 is capitalised and depreciated. Depreciation is provided in order to write off the cost (less any ultimate disposal proceeds at prices ruling at the time of the asset's acquisition) of other fixed assets over their currently expected useful economic lives on a straight line basis as follows:

Improvements to leasehold property	8 years
Motor vehicles	4 years
Fixtures and fittings	3-10 years

Fixed asset investments

Fixed asset investments are included in the balance sheet at market value and the gain or loss taken to the Statement of Financial Activities.

1.6 Leases

The HDBF has entered into operating lease arrangements only for the use of certain assets, the rental for which is charged in full as expenditure in the year to which it relates. Where rent free periods are given as part of an operating lease, the impact of this rent free period is reflected in the Statement of Financial Activities over the shorter of the overall lease term or first break clause.

1.7 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in first out basis. Net realisable value is based on estimated selling price less the estimated cost of disposal.

1.8 Fund balances

Fund balances are split between unrestricted, restricted and endowment funds.

1.8.1 Unrestricted funds are the HDBF's corporate funds and are freely available for any purpose within the charitable company's objects, at the discretion of the HDBF. There are two types of unrestricted funds:

- **General fund** which HDBF intends to use for the general purposes of the company; and
- **Designated funds** set aside out of unrestricted funds by the HDBF for a purpose specified by the Trustees.

1.8.2 Restricted funds are income funds subject to conditions imposed by the donor as specific terms of trust, or else by legal measure.

As a matter of policy the Board has agreed that it should aim to achieve a capital base on the restricted pastoral fund sufficient to generate dividends and interest to meet average annual expenditure on essential property improvements.

1.8.3 Endowment funds are those held on trust to be retained for the benefit of the charitable company as a capital fund. In the case of the endowment fund administered by the HDBF

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For the year ended 31 December 2016

(Diocesan Stipends Fund), there are discretionary powers to convert capital into income and, as a result, these funds are classified as expendable endowment.

1.9 Connected charities

The HDBF Uniform Statutory Trust (UST) is a separately registered charity (charity number: 1073330) under the control of HDBF. Whilst required to prepare its own financial statements, its results and assets and liabilities have been included in the consolidated accounts on a line by line basis.

1.10 Accounting for open schools and related Trust property

While a Church School continues to operate as such or is leased to a Local Authority for the purposes of a County School it and any property attached thereto is not considered to have any current value to HDBF (as part of the Hereford Diocesan Board of Finance Educational Uniform Statutory Trust).

1.11 Accounting for closed schools and related Trust property

In 1953 a Scheme was made under Section 86 of the Education Act 1944. Under the Scheme the HDBF was made the governing body of the education foundations listed in the Scheme. Until closure, the governing body was required to administer a school in accordance with the trusts subsisting when the Scheme was made. In relation to the letting of premises included in the Scheme, the Board, as governing body, is bound by the general law applicable to trustees of charitable foundations. The application of the income and capital formerly laid down by the 1953 Scheme is now governed by the Uniform Statutory Trusts.

A Section 554 Order is usually made in respect of a closed school not included in the Section 86 Scheme. This allows the Department for Education to make an Order directing the sale of closed school premises where this has not already taken place and specifies the destination of the proceeds of sale and of the assets of trusts associated with the school. Such Orders may be made in respect of a school included in the Section 86 Scheme referred to above to allow part of the assets to be used other than as originally laid down in the Scheme, such as for the setting up of a local religious education fund. In making a Section 554 Order, the Department may take into account moral as well as legal claims and it is for the Department to decide what proportion, if any, comes to the Uniform Statutory Trusts. Once an Order is made and the Trustee is able to estimate the proceeds of the sale, based on professional advice, this amount is brought into the capital fund of the UST. If the school is redundant but a Section 554 Order has not yet been made or the net realisable value is so uncertain that any qualification might be misleading, this information is shown in a note to the accounts.

On the occurrence of a sale under Section 86 of the Act, the property on its closure immediately becomes an asset of the trust. If the Trustee owns the property, the estimated value will be brought into the capital fund of the UST. In all other cases if the Board considers an estimate of the capital value so uncertain that any quantification might be misleading this information will be shown in a note to the accounts.

Trustees of closed schools falling within the 'Reverter of Sites Act', have the duty to dispose of the asset at 'best value' and return the proceeds to the benefactor.

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For the year ended 31 December 2016

2. Parish Share contributions

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Parish share contributions					
Current year allocation	4,248	-	-	4,248	4,165
Shortfall in contributions	(273)	-	-	(273)	(319)
	3,975	-	-	3,975	3,846
Arrears for previous years	39	-	-	39	-
	4,014	-	-	4,014	3,846

The majority of donations are collected from the parishes of the diocese through the Parish Share system. Current year Parish Share receipts represent 93.6% (2015: 92.3%) of the total apportioned.

3. Archbishops' Council

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Archbishops' Council					
Parish Mission	449	40	-	489	492

This is the annual grant for the parish mission fund, which may be used for specific parish mission and development projects or for clergy stipends.

4. Other donations

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Other donations					
Trust income and grants	49	25	-	74	51
Ecclesiastical insurance office - share of profits	91	-	-	91	90
Sundry income	5	-	-	5	-
Fees & donations	10	-	-	10	3
	155	25	-	180	144

Trust income and grants includes a grant of £22,143 (2015: £25,000) received from English Heritage to support the advice and guidance provided by the Diocese's Church Buildings Officer.

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For the year ended 31 December 2016

5. Charitable activities

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Charitable activities					
Fees for occasional offices	380	-	-	380	358
Church Commissioners - guaranteed annuities	1	-	-	1	1
SIAMS & National Society Inspections	8	-	-	8	-
	389	-	-	389	359

6. Other trading income

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Other trading income					
Rental income from					
- Houses (average 2016: 22, 2015: 22)	196	4	-	200	171
- Rental of church buildings (1)	-	28	-	28	41
- office lettings	1	-	-	1	2
Other trading income	10	-	-	10	-
	207	32	-	239	214

7. Investment income

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Investment income					
Glebe property					
Land and houses	105	-	-	105	115
Commercial property	33	-	-	33	33
Industrial property	98	-	-	98	93
Interest and dividends on endowment funds	213	-	-	213	222
	449	-	-	449	463
Dividends and interest					
Equity	99	163	-	262	267
Interest receivable	3	1	-	4	10
	102	164	-	266	277
Total investment income	551	164	-	715	740

The Hereford Diocesan Board of Finance (general fund) makes use of commercial property owned by the Diocesan Stipend Fund. If the offices were rented out, they would generate an income of approximately £24,000 per annum.

Notes to the accounts

For the year ended 31 December 2016

8. Other income

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Other income					
Redundant churches					
- costs recovered	-	12	-	12	5
- sale proceeds	-	-	-	-	-
Gains on the disposal of fixed assets	-	424	-	424	-
	-	436	-	436	5

9. Fund raising costs

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Fund raising costs					
Property agents' fees	24	-	-	24	23
Glebe land agents' fees	11	-	-	11	18
Glebe land tree maintenance	11	-	-	11	(6)
Glebe commercial property costs	3	-	-	3	-
Glebe land development costs	-	-	59	59	9
Investment portfolio management fees	14	14	28	56	52
UST Investment portfolio management fees	-	8	-	8	8
UST Costs of maintaining properties	-	11	-	11	12
Board property rental running costs	-	36	-	36	35
Defined benefit pension interest cost	-	-	58	58	58
Parish share rebate	27	-	-	27	42
Support costs (see note 12)	27	-	-	27	25
	117	69	145	331	276

The Diocese has offered a 2% rebate to deaneries meeting their Parish Share contributions in full each quarter basis and having no arrears of Share. The Diocese has given a 1% rebate to deaneries that meet their current year Parish Share contributions in full but have arrears from prior years.

10. Charitable activities**10.1 Contributions to Archbishops' Council**

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Contributions to Archbishops' Council					
Residential training for ministry	159	-	-	159	156
National Church responsibilities	135	-	-	135	133
Mission agencies' pension contrib's	9	-	-	9	9
Retired clergy housing costs	52	-	-	52	50
Ordinand candidates' costs	22	-	-	22	9
	377	-	-	377	357
Support costs (see note 11)	4	-	-	4	4
	381	-	-	381	361

Hereford Diocesan Board of Finance
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For the year ended 31 December 2016

10.2 Resourcing ministry and mission

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Resourcing ministry and mission					
Parish ministry:					
Stipends and national insurance	2,223	-	-	2,223	2,104
Housing costs	631	125	-	756	791
Removals, resettlements & grants	65	-	-	65	96
Clergy pension contributions	471	-	-	471	432
Interregnum expenses	77	-	-	77	123
	3,467	125	-	3,592	3,546
Support for ministry					
Diocesan support ministers	197	-	-	197	181
Archdeacon costs	68	-	-	68	70
Expenses of part-time officers	21	-	-	21	21
Ministry development & training	467	-	-	467	429
Publications	14	-	-	14	13
Conferences and other expenses	1	-	-	1	40
Mission and ministry projects	45	-	-	45	17
Support costs (see note 11)	409	-	-	409	347
	4,689	125	-	4,814	4,664

10.3 Education

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Education					
Salaries/stipends, pensions and NIC	204	-	-	204	157
Administration	27	-	-	27	31
Grants for educational purposes	144	-	-	144	120
Uniform Statutory Trust costs	-	3	-	3	46
Support costs (see note 11)	35	-	-	35	31
	410	3	-	413	385

10.4 Parochial support

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Parochial support					
Church inspection fees	29	-	-	29	17
Faculty fees	19	-	-	19	24
Salaries	34	-	-	34	29
Travel & administration	4	-	-	4	5
Church Buildings Officer	24	-	-	24	25
Redundant churches	-	35	-	35	118
	110	35	-	145	218
Support costs (see note 11)	34	-	-	34	26
	144	35	-	179	244

Notes to the accounts

For the year ended 31 December 2016

10.5 Other grants and donations

	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000	Total 2015 £'000
Other Grants and donations					
Mission & Ministry projects	-	38	-	38	20
Grants for school building projects	-	23	-	23	-
Churches Together in Herefordshire	4	-	-	4	3
Churches Together in Shropshire	3	-	-	3	3
West Midlands Regional Church Forum	1	-	-	1	1
Deaf Direct Herefordshire	-	-	-	-	-
Signal Shropshire	-	-	-	-	-
National Churches Trust	-	-	-	-	-
	8	61	-	69	27
Support costs (see note 11)	-	-	-	-	-
	8	61	-	69	27
Total expenditure on charitable activities	5,632	224	-	5,856	5,681

11. Allocation of support costs

Support cost category	Basis of allocation	Contribution to Resourcing						Total 2016 £'000	Total 2015 £'000
		Fund raising costs £'000	Archbishops' Council £'000	Ministry & Mission £'000	Education £'000	Parochial support £'000	Grants & donations £'000		
Diocesan support: general									
Salaries, pensions and NIC	% of time	21.6	3.1	246.8	30.8	6.2	-	308.5	271.1
Property expenses									
Repairs, renewals and decorations	Floor space	-	-	0.8	-	0.1	-	0.9	2.5
Rent and water rates	Floor space	0.6	-	12.9	-	1.2	-	14.7	14.8
Light and heat	Floor space	0.2	-	3.6	-	0.3	-	4.1	3.8
Insurance	Floor space	0.3	-	6.1	-	0.6	-	7.0	5.7
Office cleaning	Floor space	0.2	-	4.1	-	0.4	-	4.7	3.7
General expenses									
Postage and telephone	% of time	0.4	0.1	4.4	0.5	0.1	-	5.5	8.1
General printing / stationery	% of time	0.6	0.1	6.9	0.9	0.2	-	8.7	8.2
Depreciation - office equipment	Estimated usage	0.5	-	11.4	-	-	-	11.9	15.1
Travelling	Estimated direct	-	-	4.0	-	-	-	4.0	2.8
Staff advertising	Estimated direct	-	-	7.7	-	-	-	7.7	4.0
Staff training & welfare	Estimated direct	-	-	1.4	-	-	-	1.4	-
IT repairs / sundry	Estimated direct	-	-	2.8	-	-	-	2.8	3.7
Equipment maintenance	% of time	1.0	0.1	11.9	1.5	0.3	-	14.8	10.1
Diocesan website	Estimated usage	0.1	-	1.9	-	-	-	2.0	5.7
Eco Park offices	Floor space	0.6	-	13.5	-	1.2	-	15.3	14.7
		26.1	3.4	340.2	33.7	10.6	-	414.0	374.0
Diocesan support: professional fees									
Diocesan Registrar's remuneration	% of time	-	-	18.1	-	18.0	-	36.1	24.4
Chancellor's retainer	% of time	-	-	5.0	-	4.9	-	9.9	8.2
Legal and professional fees	Estimated direct	-	-	6.9	-	-	-	6.9	5.4
Consultancy	Estimated direct	-	-	20.4	-	-	-	20.4	-
		-	-	50.4	-	22.9	-	73.3	38.0
National support									
General Synod representation	% Synod time	-	0.9	6.5	-	-	-	7.4	7.1
Governance									
Audit fee	% Synod time	1.0	0.1	11.8	1.5	0.3	-	14.7	13.5
Total support costs		27	4	409	35	34	-	509	433
2015 support costs		25	4	347	31	26	-	433	

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For the year ended 31 December 2016

12. Analysis of expenditure including allocation of support costs

	Activities Undertaken Directly £'000	Grant Funding of Activities £'000	Support Costs £'000	Total 2016 £'000
Raising funds	304	-	27	331
Charitable activities:				
Contributions to Archbishops' Council	-	377	4	381
Resourcing ministry and mission	4,307	98	409	4,814
Education	187	191	35	413
Parochial support	116	29	34	179
Other grants and donations	23	46	-	69
	4,937	741	509	6,187

13. Analysis of grants made

	Number	Individuals £'000	Institutions £'000	Total 2016 £'000	Total 2015 £'000
From unrestricted funds for national church responsibilities:					
Contributions to Archbishops' Council	5	-	377	377	358
From unrestricted funds:					
To PCCs to support rural mission	-	-	-	-	7
Clergy resettlement grants	10	23	-	23	35
Clergy removal expenses	11	22	-	22	45
Clergy first appointment grants	8	19	-	19	16
Ministry experience scheme	6	13	-	13	-
St Mary's Clebury Mortimer youth project	1	-	21	21	-
PCCs for church inspection fees	70	-	29	29	18
Bishop Anthony Educational Trust	1	-	144	144	120
Churches Together	2	-	7	7	7
Other grants	-	-	1	1	1
	109	77	202	279	249
From restricted funds:					
Mission & ministry					
Institutional grants to support mission & ministry:					
Grants less than £1,000	8	-	2	2	4
Grants between £1,000 and £1,999	2	-	3	3	9
Grants between £2,000 and £4,999	8	-	21	21	7
Grants between £5,000 and £10,000	2	-	13	13	-
	20	-	39	39	20
Uniform Statutory Trust					
To support school building projects	1	-	46	46	-
	135	77	664	741	627

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For the year ended 31 December 2016

14. Tangible fixed assets – group and charity

	Unrestricted funds			Restricted funds £'000	Endowment fund £'000	Total £'000
	Freehold properties £'000	Leasehold property improvements £'000	Office equipment £'000			
Cost or valuation						
At 1 January 2016	-	53	200	45,404	1,245	46,902
Additions	-	-	1	499	-	500
Disposals	-	-	-	(407)	-	(407)
Transfers	-	-	-	12	-	12
Revaluation	-	-	-	-	-	-
At 31 December 2016	-	53	201	45,508	1,245	47,007
Accumulated depreciation						
At 1 January 2016	-	53	176	4	-	233
Charge for the year	-	-	12	-	-	12
Disposals	-	-	-	-	-	-
At 31 December 2016	-	53	188	4	-	245
Net book value						
At 1 January 2016	-	-	24	45,400	1,245	46,669
At 31 December 2016	-	-	13	45,504	1,245	46,762

Freehold land and buildings held in the general unrestricted fund are shown in the accounts at a nominal value of £1. The remaining properties are church sites and of negligible financial value. A list of properties is available at the Hereford Diocesan Board of Finance office. The leasehold property held at nil book value relates to the diocesan office in Hereford, the landlord being the Church Commissioners.

As at 31 December 2016, the Board was responsible for 5 redundant churches. The value of these churches at this date is considered uncertain and not material and accordingly no value related to them has been included in these accounts.

The Board uses an index of house price movements produced by the Nationwide Building Society to value its properties at least every 5 years in accordance with accounting policy note 1.5.

15. Capital commitments

	Total 2016 £'000	Total 2015 £'000
Other contracts	-	31
House build	155	-
House development	153	-
	308	31

The capital commitments relate to amounts contracted for at the year end but not provided in the financial statements.

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16. Fixed asset investments

	As at 1 January 2016 £'000	Additions £'000	Disposals £'000	Transfers £'000	Change in Market Value £'000	As at 31 December 2016 £'000
Unrestricted funds						
Listed investments	2,656	533	(496)	-	333	3,026
Restricted funds						
Pastoral fund						
Listed investments	2,603	469	(422)	-	342	2,992
Buildings	12	-	-	(12)	-	-
	2,615	469	(422)	(12)	342	2,992
Endowment funds						
Listed investments	5,319	978	(956)	-	668	6,009
Land	6,168	-	-	-	(35)	6,133
Buildings	1,820	-	-	-	50	1,870
	13,307	978	(956)	-	683	14,012
Total - Charity	18,578	1,980	(1,874)	(12)	1,358	20,030
UST restricted fund						
Listed investments	1,580	258	(242)	-	216	1,812
Unlisted investment:	60	-	-	-	7	67
Buildings	165	-	-	-	-	165
	1,805	258	(242)	-	223	2,044
Total group	20,383	2,238	(2,116)	(12)	1,581	22,074

Details of all listed investments are included in the annual report of the Board's Investment Advisory Group. Listed investments are traded on London or comparable international stock exchanges.

The value of commercial buildings is based on an informal opinion of value expressed by the Board's commercial property agent Godfrey-Payton as at 31 December 2016 and does not constitute a formal valuation.

The value of rural land was determined by the directors. Due to the multiplicity of holdings and varying sizes and terms of occupation the cost of a professional valuation is deemed to be an imprudent use of charitable funds. The directors used the percentage change in land values during the year (Savills (UK) Limited market survey of agricultural land and RICS rural land market survey) to determine average land values at 31 December 2016. A discount was applied to 1986 Act tenancies of 37.3% and Farm Business Tenancies of 28.3%. This constitutes an average yield of 1.75%. Other holdings were discounted at 10% to reflect the time taken to realise a value and reflect any restrictions on sale.

All glebe land is vested in and managed by the Board for the benefit of the endowment (diocesan stipends) fund in accordance with the terms of the Endowments and Glebe Measure 1976.

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For the year ended 31 December 2016

17. Debtors: due within one year

	Group		Charity	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Unrestricted funds				
Other debtors	123	142	123	141
Prepayments & accrued income	125	65	125	65
Church schools	-	-	40	38
	248	207	288	244
Restricted funds				
Pastoral fund				
Loan to Bishop Mascall Centre	4	4	4	4
Other debtors	8	11	8	11
UST restricted fund				
Advances to schools	3	9		
Loan to DHET	-	43		
Other debtors	3	5		
	18	72	12	15
	266	279	300	259

18. Debtors: due after one year

	Group		Charity	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Unrestricted funds				
Parish loan scheme	-	-	-	-
	-	-	-	-
Restricted funds				
Pastoral fund				
Loan to Bishop Mascall Centre	29	32	29	32
Loan to Pensions Board	5	5	5	5
UST restricted fund				
Loan to DHET	-	7		
	34	44	34	37
	34	44	34	37

Restricted funds include a loan to the Bishop Mascall Centre of £28,980 (2015: £35,980). Repayments are being made at £4,000 per annum, with interest chargeable at the Church of England's Central Board of Finance (CBF) rates. In addition, the Board has made a loan of £5,000 to the Pensions Board towards the cost of a property being occupied by a part-time stipendiary clergyman.

Notes to the accounts

For the year ended 31 December 2016

19. Creditors: amounts falling due within one year

	Group		Charity	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Unrestricted funds				
Other creditors	152	131	152	131
Taxation & Social Security	29	28	29	28
Accruals	105	111	105	111
	286	270	286	270
Restricted funds				
Other creditors	60	198	60	198
Other creditors: UST	191	51		
	251	249	60	198
Endowment funds				
Other creditors	10	11	10	11
Defined benefit pension liability	290	291	290	291
	300	302	300	302
Total creditors falling due within one year	837	821	646	770

20. Creditors: amounts falling due after more than one year

	Group		Charity	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Endowment funds				
Defined benefit pension liability	1,820	2,170	1,820	2,170

21. Analysis of movements in funds: unrestricted funds

Group and Charity	Balance at	Surplus	Transfers	Net gains	Balance at
	1 Jan 2016	(deficit) for	between	(losses) on	
	£'000	the year	funds	assets	31 Dec 2016
		£'000	£'000	£'000	£'000
General reserve	3,757	16	(244)	401	3,930
	3,757	16	(244)	401	3,930

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For the year ended 31 December 2016

22. Analysis of movements in funds: restricted funds

	Balance at 1 Jan 2016 £'000	Surplus (deficit) for the year £'000	Transfers between funds £'000	Net gains (losses) on assets £'000	Balance at 31 Dec 2016 £'000
Pastoral reserve	48,153	382	-	396	48,931
Mission and Ministry reserve	45	2	-	-	47
Total restricted funds - Charity	48,198	384	-	396	48,978
Uniform Statutory Trust	1,957	20	(36)	247	2,188
Total restricted funds - Group	50,155	404	(36)	643	51,166

Restricted funds may only be used for the purposes for which the money was originally gifted or bequeathed to the Board.

23. Analysis of movements in funds: endowment funds

Group and Charity	Balance at 1 Jan 2016 £'000	Surplus (deficit) for the year £'000	Transfers between funds £'000	Net gains (losses) on assets £'000	Balance at 31 Dec 2016 £'000
Diocesan stipends fund	12,085	(145)	280	943	13,163
	12,085	(145)	280	943	13,163

The income of the Diocesan Stipends Fund is used to support the cost of stipends. The capital is available to acquire, develop or improve glebe land & buildings at the request of the Bishop and the concurrence of the Board.

24. Analysis of transfers between funds

	Unrestricted General £'000	Restricted funds £'000	Endowment funds £'000	Total 2016 £'000
Uniform Statutory Trust to unrestricted General Fund to support education	36	(36)	-	-
From General fund to Endowment fund reduction in pensions deficit	(280)	-	280	-
	(244)	(36)	280	-

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For the year ended 31 December 2016

25. Subsidiary: HDBF Uniform Statutory Trust

	HDBF Uniform Statutory Trust	
	2016 £'000	2015 £'000
Income and costs		
Income and endowments	65	63
Expenditure	81	102
Net income/(expenditure) before investment gains/(losses)	(16)	(39)
Net gains/(losses) on investment assets	247	(60)
Net income/(expenditure)	231	(99)
Assets and liabilities		
Assets	2,418	2,045
Liabilities	232	88
Net assets	2,186	1,957

26. Statutory disclosures

26.1 Net incoming resources for the year

These are after charging:

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets	12	15
Rentals charged under operating leases	13	15
Amounts payable to external auditors for:		
- External scrutiny	14	14
- Other work	2	-

26.2 Financial commitments – operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Land and buildings:		
within one year of the balance sheet	-	2
within two to five years of the balance sheet date	-	-
Other operating leases:		
within one year of the balance sheet	1	1
within two to five years of the balance sheet date	3	4

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For the year ended 31 December 2016

27. Post balance sheet events and contingent liabilities

There were no post balance sheet events or contingent liabilities at the balance sheet date.

28. Staff costs

Staff costs were as follows:

	2016 £'000	2015 £'000
Gross salaries and wages	909	751
Social Security costs	83	63
Pension contributions	88	93
	1,080	907

The average number of persons employed during the year by head count:

	2016		2015	
	Number Full-time	Number Part-time	Number Full-time	Number Part-time
Support ministers / staff	7	12	7	9
Education	4	-	4	-
Diocesan officers	4	1	4	-
Diocesan office staff	4	6	3	8
Other ancilliary staff	-	3	-	3
	19	22	18	20

The average number of persons employed during the year based on full-time equivalents:

	2016 Number	2015 Number
Support ministers / staff	14.3	11.7
Education	4.5	4.0
Diocesan officers	4.5	4.0
Diocesan office staff	6.9	7.6
Other ancilliary staff	1.0	1.0
	31.2	28.3

These staff numbers include personal assistants, but do not include the Archdeacon of Hereford, who is paid through the Church Commissioners.

The number of employees whose emoluments for the year exceeded £60,000 (including benefits in kind and employer's national insurance but excluding pension contributions) was as follows:

	2016 Number	2015 Number
£60,000 - £70,000	1	2

Pension payments of £6,305 (2015: £12,838) were made for this employee.

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For the year ended 31 December 2016

28.2 Remuneration of key management personnel

Key management personnel are deemed to be those having authority and responsibility, delegated to them by the trustees, for planning, directing and controlling the activities of the diocese. During 2016 they were:

Diocesan Secretary	Mr J E Clark (retired August 2016)
Diocesan Secretary	Mr S R Pratley (appointed July 2016)
Director of Finance	Mr S G P Herbert
Director of Education	Mr P Sell

Remuneration (including employer's National Insurance), pensions and expenses for these employees amounted to £227,386 (2015: 221,235).

28.3 Trustees' emoluments

No Trustee received any remuneration for services as Trustee. The Trustees received travelling and out of pocket expenses, totalling £1,561 (2015: £2,820) in respect of General Synod duties, duties as archdeacon or rural dean, and other duties as Trustees.

The Church Commissioners are responsible for the stipends and housing of the diocesan and suffragan bishops (ex officio trustees). Archdeacons, parochial clergy and support ministers who are trustees of the HDBF, whether ex officio, elected, appointed or co-opted, are in receipt of a stipend and housing paid via the Board by virtue of their office.

The following table gives details of the Trustees who were in receipt of a stipend and/or housing provided by the HDBF during the year:

	Stipend	Housing
The Ven G P Benson	Yes	Yes
Revd L Cronin	Yes	Yes

The Board also met the stipends, pensions and social security costs of an average of 80 (2015: 78) stipendiary clergy as office-holders holding parochial or diocesan appointments in the diocese, and the costs were as follows:

	2016 £'000	2015 £'000
Stipends	2,084	2,021
National insurance contributions	174	160
Pension costs - current year	482	457
- deficit reduction	280	260
	3,020	2,898

The stipends of the two Bishops were paid and funded by the Church Commissioners.

29. Related parties

During the year, HDBF provided a grant of £144,000 (2015: £120,000) to The Bishop Anthony Educational Trust (BAET), a trust of which the retired Diocesan Secretary, Mr J E Clark is also a director. The grant commenced on 1 March 2015 and is payable for two years at a rate of £12,000 per month.

In 2013, the Trustees approved an unsecured loan of £50,000 from the HDBF Uniform Statutory Trust to the Diocese of Hereford Educational Trust (DHET). Repayments of £42,696 were received during the year and the remaining balance of £7,304 was written off. The amount outstanding at the year end was £nil (2015: £50,000). The DHET is a company limited by guarantee. The officers of DHET are related parties to HDBF in the following capacity:

Notes to the accounts

For the year ended 31 December 2016

Mr P Sell	Director & Secretary of DHET	Employee of HDBF (Director of Education)
Mrs S Lewis	Director of DHET	Director of HDBF

During 2016 the following transaction took place between the Charity and its subsidiary, HDBF UST:

- A grant from UST to HDBF for £36,000 (2015: £36,100)

On 31 August 2015, Mr C H E Smith, a Director and Trustee of the HDBF purchased 1.139 acres of glebe land at Lyonshall at an open market value of £25,500.

30. Pension commitments

30.1 Church of England Funded Pension Scheme (FEFPS)

With effect from 1 January 1998, diocesan clergy became members of the Church of England Funded Pensions Scheme. This defined benefit scheme provides benefits based on the National Minimum Stipend in the year before their date of retirement and provides for that part of the benefit that relates to pensionable service after 1 January 1998. Benefits are currently being accrued on the basis of half of the National Minimum Stipend (NMS) being paid as the normal pension on reaching the age of 68 on completion of maximum service of 41.5 years, or 1.25 times this amount for archdeacons, plus a lump sum of three times the pension based on the previous year's NMS payable from the Scheme. Pensions in respect of pensionable service before 1 January 1998 will be provided for by the Church Commissioners under the previous arrangements.

The Hereford Diocesan Board of Finance participates in the Church of England Funded Pension Scheme for stipendiary clergy and as at 31 December 2016 had 85 members in the scheme (2015: 84). This scheme is administered by the Church of England Pensions Board, which holds the assets of the Scheme separately from those of the Employer and the other participating employers.

Each participating employer in the Scheme pays contributions at a common contribution rate applied to pensionable stipends.

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

A valuation of the Scheme is carried out once every three years. The most recent Scheme valuation completed was carried out as at 31 December 2015. The 2015 valuation revealed a deficit of £236m, based on assets of £1,308m and a funding target of £1,544m, assessed using the following assumptions:

An investment strategy of:

- for investments backing liabilities for pensions in payment, an allocation to gilts of 33% from the valuation date until 31 December 2019 and thereafter increasing linearly to 70% by 31 December 2030; and
- a 100% allocation to return-seeking assets for investments backing liabilities prior to retirement;
- Investment returns of 2.6% p.a. on gilts and 4.6% p.a. on return-seeking assets;
- RPI inflation of 3.2% p.a. (and pension increases consistent with this);
- Increase in pensionable stipends of 3.2% p.a.;
- Mortality in accordance with 80% of the S2NMA and S2NFA tables, with allowance for improvements in mortality rates in line with the CMI 2015 core projections with a long term annual rate of improvement of 1.5%.

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For the year ended 31 December 2016

Following the 31 December 2015 valuation, a recovery plan was put in place until 31 December 2025 and the deficit repair contributions payable (as a percentage of pensionable stipends) are as set out in the table below. Contributions since 2015 are shown for reference.

	January 2015 to	January 2018 to
% of pensionable stipends	December 2017	December 2025
Deficit repair contributions	14.1%	11.9%

As at December 2015 and December 2016, the deficit repair contributions payable under the recovery plan in force were 14.1% of pensionable stipends until December 2025.

For senior office holders, pensionable stipends are adjusted in the calculations by a multiple, as set out in the Scheme's rules.

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

	2016 £'000	2015 £'000
Balance sheet liability as at 1 January	2,461	2,643
Deficit contribution paid	(280)	(260)
Interest cost (recognised in the SoFA)	58	58
Remaining change to the balance sheet liability* (recognised in SoFA)	(129)	20
Balance sheet liability as at 31 December	2,110	2,461

* Comprises change in agreed deficit recovery plan, and change in discount rate and assumptions between year-ends.

This liability represents the present value of the deficit contributions agreed as at the accounting date and has been valued using the following assumptions set by reference to the duration of the deficit recovery payments:

	December 2016	December 2015	December 2014
Discount rate	1.5% p.a.	2.5% p.a.	2.3% p.a.
Price inflation	3.1% p.a.	2.4% p.a.	2.7% p.a.
Increase to total pensionable payroll	1.6% p.a.	0.9% p.a.	1.2% p.a.

The legal structure of the scheme is such that if another employer fails, the employer could become responsible for paying a share of that employer's pension liabilities.

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For the year ended 31 December 2016

30.2 Church of England Pension Builder Scheme

Hereford Diocesan Board of Finance participates in the Pension Builder Scheme section (PB 2014) of The Church Workers Pension Fund for lay staff. The Scheme is administered by the Church of England Pensions Board, which holds the assets of the scheme separately from those of the Employer and the other participating employers.

The Church Workers Pension Fund has a section known as the Defined Benefits Scheme, a deferred annuity section known as Pension Builder Classic and a cash balance section known as Pension Builder 2014.

Pension Builder Scheme

The Pension Builder Scheme of the Church Workers Pension Fund is made up of two sections, Pension Builder Classic and Pension Builder 2014, both of which are classed as defined benefit schemes.

Pension Builder Classic provides a pension for members for payment from retirement, accumulated from contributions paid and converted into a deferred annuity during employment based on terms set and reviewed by the Church of England Pensions Board from time to time. Bonuses may also be declared, depending upon the investment returns and other factors.

Pension Builder 2014 is a cash balance scheme that provides a lump sum that members use to provide benefits at retirement.

Pension contributions are recorded in an account for each member. This account may have bonuses added by the Board before retirement. The bonuses depend on investment experience and other factors. There is no requirement for the Board to grant any bonuses. The account, plus any bonuses declared, is payable from members' Normal Pension Age.

There is no sub-division of assets between employers in each section of the Pension Builder Scheme.

The scheme is considered to be a multi-employer scheme as described in Section 28 of FRS 102. This is because it is not possible to attribute the Pension Builder Scheme's assets and liabilities to specific employers and that contributions are accounted for as if the Scheme were a defined contribution scheme. The pensions costs charged to the SoFA in the year are contributions payable (2016: £471k, 2015: £432k).

A valuation of the scheme is carried out once every three years. The most recent scheme valuation completed was carried out as at 31 December 2013. This revealed, on the ongoing assumptions used, a surplus of £0.5m. There is no requirement for deficit payments at the current time.

Pension Builder 2014 will be valued in relation to the lump sum payable to members at normal pension age. There are no annual pension benefits. Pension Builder 2014 commenced in February 2014 so the first full valuation of that section will be carried out at the next CWPF valuation date, 31 December 2016.

At 31 December 2016, HDBF had 22 active members (2015: 19) in the Pension Builder 2014. HDBF contributed 10.5% of an employee's basic salary; there is no minimum contribution level set for employees. HDBF's contributions for the year totalled £44,713 (2015: £10,744) and contributions outstanding at the year end amounted to £4,434 (2015: £2,154).

30.3 Hereford Diocesan Board of Finance: other staff pension arrangements

The Hereford Diocesan Board of Finance contributes to individual money purchase policies operated by pension providers chosen by individual employees. The assets of these schemes are held separately from those of the Board, being invested with third party pension and insurance companies.

The HDBF contributes 10.5% of an employee's basic salary; there is no minimum contribution level set for employees. Contributions to the various schemes during the year totalled £42,527 (2015: £65,477)

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and were charged to the Income and Expenditure Account. Contributions outstanding at the year end amounted to £2,461 (2015: £2,453).

31. Description of funds

General fund The general fund is the HDBF's unrestricted undesignated fund available for any of the HDBF's purposes without restriction.

Endowment fund The expendable endowment (diocesan stipends) fund is an expendable endowment fund from which the Board draws income to meet part of the cost of clergy stipends.

The fund was substantially affected by the provision of the Endowments and Glebe Measure 1976.

From 1 April 1978, incumbent clergy received from the Church Commissioners guaranteed annuities and personal grants equal in total to the net endowment income of their respective benefices prior to that date.

All other income previously attaching to a benefice including glebe income, along with income applicable to non-incumbent clergy, has been allocated to this expendable endowment (diocesan stipends) fund from that date.

From 1 January 2006, all stipendiary clergy were invited to relinquish their rights to guaranteed annuities and personal grants under a policy from the Church of England. At the balance sheet date all but one stipendiary clergy in the Diocese had relinquished those rights.

Restricted funds

Pastoral fund The Diocesan Pastoral Account is used to support activities within the remit of the Diocesan Mission and Pastoral Committee (DMPC) as set out in the *Mission and Pastoral Measure 2011 (No.3)*. This will include expenditure on any property vested by or under this Measure in the Church Commissioners or the DBF, and grants and loans for parsonage and church provision, restoration, improvement or repair.

Where the DBF is satisfied that any monies in the diocesan pastoral account are not (likely to be) required for meeting the expenses or expenditure referred to in this section it may:

1. apply those monies by way of grant or loan to the provision, restoration, improvement or repair of churches and parsonage houses in the diocese, including the repair of any building closed for regular public worship vested in the Board pending the coming into operation of arrangements under a pastoral (church buildings disposal) scheme, or to other purposes of the diocese or any benefice or parish in the diocese; or
2. apply those monies by way of grant or loan for the benefit of another diocese, either generally for those purposes or for such of those purposes as the Board may specify; or
3. transfer those monies to the capital or income account of the diocesan stipends fund; or
4. transfer those monies to one or more other accounts or funds held by the Board or apply or transfer them partly to such other accounts or funds and partly as provided in paragraphs (1.) to (3). [Mission and Pastoral Measure 2011 section 94(4)].

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Mission and ministry The Mission and Ministry reserve is a restricted fund available for deanery and diocesan mission-focused initiatives.

UST The Uniform Statutory Trust (UST) is a registered charity (charity number 1073330) of which the HDBF is the sole trustee. The principal activity of the UST is the advancement of Christian education in the Diocese. The capital and income may be applied as follows:

1. in or towards the purchase of a site for, or the erection, improvement or enlargement of, the premises of any relevant school in the area or a teacher's house for use in connection with any relevant school in the area,
2. for the maintenance of any relevant school in the area
3. the maintenance of a teacher's house for use in connection with any relevant school in the area.

In addition, the income may be applied as follows:

4. for the provision of advice, guidance and resources in connection with any matter related to the management of, or education provided at any relevant school in the area;
5. the provision of services for the carrying out of any inspection of any relevant school in the area;
6. to defray the cost of employing staff in connection with points 1. and 2. above.

32. St. Barnabas Church

This property is owned by the Hereford Diocesan Board of Finance, and was until 30 June 2006 made available on licence to the parish of All Saints, Hereford, for the conduct of divine worship. As of 30 June 2006 the parish of All Saints, Hereford, no longer required the building for their parish mission and the property was therefore passed back into the complete control of the HDBF. The building has continued to be used for the conduct of divine worship by a number of groups and for a range of church and community activities. Consultations are currently underway with a view to disposing of the property.

33. Corporation tax

The Company is a registered charity and as such its income and gains falling within Sections 471 to 489 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992 are exempt from corporation tax to the extent that they are applied to its charitable objectives.

34. Reverter schools

34.1 Sarn School

Sarn School closed in August 2006 and was subject to the Reverter of Sites Act. An agreement was reached between the Trustee and the Reverter in February 2010, the net proceeds to be divided equally with any Capital Gains Tax to be met by the Trustee. Agreement of the CGT liability was reached in March 2015, leading to an assessment of £40,737. After meeting professional and legal costs the net proceeds are estimated as £75,000. A charitable scheme to receive the proceeds is awaiting confirmation by the charity commissioners.

34.2 Whitbourne Primary School

Notes to the accounts

For the year ended 31 December 2016

Whitbourne Primary School ceased to be used as a school in 2014. The property was sold on 9 February 2017 with net proceeds received of £251,000. The whole proceeds will be at the disposal of Hereford Diocesan Board of Finance Educational Uniform Statutory Trust with no reverters having a claim.

35. Prior year comparative SoFA

	Unrestricted funds		Restricted funds	Endowment funds	Total funds
	General	Designated			
	£'000	£'000	£'000	£'000	2015 £'000
Income and endowments from:					
Donations					
Parish share contributions	3,846	-	-	-	3,846
Archbishops' Council	452	-	40	-	492
Other donations	136	-	8	-	144
Charitable activities	359	-	-	-	359
Other trading income	173	-	41	-	214
Investment income	575	-	165	-	740
Other income	-	-	5	-	5
Total income and endowments	5,541	-	259	-	5,800
Expenditure on:					
Raising funds	115	-	68	93	276
Charitable activities	5,377	-	304	-	5,681
Total resources expended	5,492	-	372	93	5,957
Net income/(expenditure) before investment gains	49	-	(113)	(93)	(157)
Net gains/(losses) on investments	(104)	-	(168)	(455)	(727)
Net income/(expenditure)	(55)	-	(281)	(548)	(884)
Transfers between funds	(207)	(42)	(11)	260	-
Other recognised gains (losses)					
Gains/(losses) on revaluation of fixed assets	-	-	-	-	-
Actuarial gains/(losses) on defined benefit pension	-	-	-	(20)	(20)
Net movement in funds	(262)	(42)	(292)	(308)	(904)
Funds brought forward at 1 January	4,019	42	50,447	12,393	66,901
Total funds at 31 December 2015	3,757	-	50,155	12,085	65,997