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Diocesan Synod motion on redistribution of funds

This paper provides the Synod with further background relevant to its consideration of the motion on redistribution of funds. The motion could be interpreted as calling for a redistribution of investment assets currently managed by the Church Commissioners on behalf of the Church to Diocesan Stipends Funds or alternatively it could be interpreted as calling for a different allocation of the funds available for distribution from those assets to support the mission and ministry of the Church, prioritising Diocesan Stipends Funds over other funding streams. Therefore, both are considered in this paper.

Summary

The key points highlighted in this paper are:

- If the motion is passed and implemented, it would not result in any additional money to support the Church's mission and ministry across the country. It could result in a change to how money available from the Church's national endowment currently managed by the Church Commissioners is distributed. This is something that is regularly reviewed every three years and discussions about spending in 2026-28 are already under way. Alternatively, if supported by the Archbishops' Council and the Church Commissioners and following the approval of the necessary legislation, it could lead to a change in where assets are managed and / or investment policy. If so, there is a risk that returns from the Church's investments would reduce, leading to a reduction in funds available to support the Church's work.

- That the current financial environment is very challenging in various parts of the Church of England. This leads to understandable anxiety in the many dioceses and parishes facing near-term financial shortfalls and longer-term deficits. This has not been helped by the prolonged decline in Church attendance, despite the welcome post-pandemic increases.

- In 2022 the Church Commissioners announced that they planned to distribute around £400m p.a. in 2023-25 to support the Church's mission and ministry, a level they expected to continue for the following six years. As a result of strong investment performance, rigorous review of actuarial assumptions and a broadening of the principle of inter-generational equity to include qualitative as well as quantitative considerations, planned distributions in 2023-25 are 54% more than in 2017-19. Planned distributions that are expected to continue for the long term have more than doubled over that period.

- The premise of the £2.6bn quoted in the paper for the impact of the 'settlement of 1997[1]' has been questioned. It assumes that dioceses would have had more money available to them overall (equivalent to the amount they paid in pension contributions) if the Commissioners had retained the

[1] i.e. establishing a funded clergy pension scheme with contributions payable by the Responsible Bodies with the Commissioners' retaining obligations for clergy pensions relating to service until the end of 1997

ongoing obligation to fund pensions relating to future service. However, it fails to note that had this been the case, the Commissioners would have correspondingly paid less grant money to dioceses. Analysis that contributed to decisions resulting in the "settlement of 1997" suggested that the Commissioners would have had to cease all grants to dioceses and its support of bishops and cathedrals had there been no change in the funding of clergy pensions.

A. The motion

'That this Synod:

(i) call upon the Church Commissioners and Archbishops Council to undertake everything necessary to effect a redistribution of financial resources directly to Diocesan Stipend Funds to reflect the value of contributions made by Diocesan Boards of Finance to the Church of England Funded Pension Scheme since it was established by the settlement of 1997 (£2.6bn); and

(ii) call upon Diocesan Boards of Finance to manage the funds redistributed as a result of the above to support parish ministry in the ways discerned locally to be most effective in enabling growth and sustaining the Church of England's commitment to be a Christian presence in every community.'

B. Background

1. The motion calls on the Church Commissioners and Archbishops' Council to effect a redistribution of financial resources from the funds currently managed by the Church Commissioners on behalf of the Church. The level of such distributions is determined by the Commissioners' Assets Committee which is required by law to have regard to actuarial advice in reaching its conclusion. This analysis uses best estimate assumptions, without any margin for prudence, and the intergenerational equity principle, seeking neither to advantage nor disadvantage the Church of today or the Church of tomorrow.

2. The allocation of sums the Commissioners are able to make available for distribution to support the Church's work is determined by the Commissioners and Archbishops' Council. In reaching their decisions both trustee bodies receive advice and recommendations from a Triennium Funding Working Group (TFWG), the membership of which is drawn from the House of Bishops and both trustee bodies. The current TFWG also benefits from input from two diocesan secretaries as participant observers.

3. Spending plans are produced every three years. The most recent spending plans were produced in 2022 for the 2023-25 triennium and included indicative figures for the following six years[2]. However, it is recognised that the opportunities and challenges facing the Church can change significantly over a three year period (as they have done in the current triennium), hence the need for a thorough

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[2] See gs-2262-spending-plans-of-the-cc-and-ac.pdf

periodic review such as the one currently under way in respect of distributions for 2026-28.

C. Financial and missional challenges facing the Church

4. The National Church Institutions (NCIs) have said that they recognise and share the concern of dioceses and the wider Church about the financial and missional challenges faced by dioceses. It was this concern that led the Archbishops' Council to commission the Diocesan Finances Review, with Terms of Reference to "identify mechanisms to ease dioceses' current financial stress in a way which helps to develop the Church's longer-term missional and financial health, focusing on:

    a) The financial support of dioceses by the national Church; and

    b) The simplification of the Church's financial systems primarily in respect of financial flows between dioceses and the National Church Institutions."

5. An update on the work of the Diocesan Finances Review was provided in GSMisc 1384 last July and is referred to in GS 2396A. A further update for this Group of Sessions is provided in GS 2380, and includes the recommendations of the Review. These are being considered by the TFWG in its work formulating recommendations on spending plans for the sums the Church Commissioners will plan to make available in 2026-28.

6. With the support of diocesan staff – especially diocesan secretaries, finance directors and finance teams – the national Church Finance Team has been able to collate a clear picture of diocesan financial health which has recently been updated. The extent of recent aggregate diocesan deficits, and the indication that without action they are expected to increase, is stark, especially in view of the impact on the mission and ministry of the Church through its parishes and other worshipping communities. However, this does not necessarily represent the position in every parish[3] or indeed diocese.

7. It is worth noting that around two-thirds of total Church of England income originates in parishes with around two-thirds of that coming from giving. All in the Church must be thankful for the generous giving that sustains the mission and ministry of the Church across the country. Historically around 1/6 of total Church income came from the Church Commissioners' endowment, but this has increased to around 1/5 following recent increases in distributions.

8. The Church's missional challenge is also very clear. Although early figures indicate that 2024 may well see the fourth successive rise in many of our attendance measures, it is clear that these statistics remain well below the pre-pandemic level and that there was a consistent pattern of attendance decline for many years until 2021.

[3] in aggregate Parochial Church Councils (PCCs) recorded an aggregate surplus every year between 2012 and 2022 (and indications are that 2023 will have been the twelfth successive year of aggregate surpluses) totaling £358m.

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D. Existing and planned actions in response to those challenges

9. Work developing spending plans for 2026-28 is already underway. Under its Terms of Reference, the TFWG has been established by the Archbishops' Council, the Church Commissioners and the House of Bishops (its three 'sponsoring bodies') to:

   - "Examine options for the allocation of distributions from the Church Commissioners' funds for the 2026-2028 triennium as part of a rolling 9 year view of distributions. in the light of the Church's vision for the 2020s and the strategic priorities underpinning that vision, as well as the key infrastructure needs of the Church and the delivery of certain statutory obligations.

   - Make recommendations to the House of Bishops, the Church Commissioners and the Archbishops' Council, for each body to take into account in exercising its responsibilities in determining distributions and the use of national Church funds for this [i.e. the 2026-2028] triennium."

10. The TFWG is giving consideration to a wide range of proposals through their work including, but not limited to, those arising from the Diocesan Finances Review, Stipends and Pensions Review, Governance Programme, work on Clergy Retirement Housing Needs and the Future of Safeguarding. It also needs to consider the work already being funded (as set out in GS 2262).

11. The Group is informed by engagement with a wide range of stakeholders in addition to its sponsoring bodies, including General Synod members. This work has included several briefing sessions, with the bulk of the time given to participants' questions, and a stakeholder survey to which 107 General Synod members responded. A fringe meeting at this Group of Sessions will provide members with a further opportunity to engage with this work as it develops.

12. The TFWG has carefully considered the Diocesan Finances Review proposals set out in paragraph 5 of GS2380 including those to support work in the most deprived parishes through a recommended increase in Lowest Income Communities Funding, the proposed increase in clergy stipends to address concerns about clergy wellbeing, the improvement and simplification of diocesan finances through the abolition of the diocesan apportionment which part-funds the Archbishops' Council, the introduction of new arrangements for ordained ministry training, and the provision of time limited additional financial support for dioceses. It will take account of these proposals alongside other funding requests in developing its recommendations.

E. Support for dioceses, parishes and other Church entities

13. The Church Commissioners have sole responsibility in law for determining the total amount of money that can be distributed from the Church of England's endowment fund that they manage on behalf of the Church.

14. Under s.6(3)(b) of the Church Commissioners Measure 1947, the Commissioners' Assets Committee has "a duty to recommend to the Board from

time to time what sums are available for application or distribution by the Commissioners, and what sums should be appropriated to reserve and for reinvestment." The Measure also states (s.6(3A)) that in making such a recommendation "the Assets Committee shall obtain the advice of an actuary as to the likely effect of adopting the recommendation on the Commissioners' financial position as a whole and shall have regard to that advice."

15. Changes made in the two most recent triennial spending plans have resulted in planned distributions to support the Church's mission and ministry throughout the country in 2023-25 being 54% more than in 2017-19. Distributions that are expected to continue for the long term (i.e. excluding time-limited expenditure such as clergy pensions and the allocation the Commissioners have agreed to make towards the costs of the Redress Scheme) have more than doubled over that period. Distributions for purposes other than pensions have grown by three-times the rate of inflation over the 15 years through to the 2023-25 funding plan.

16. The 2023 triennium funding plans amount to £400m p.a. - £1.2bn in the 2023-25 triennium, and the Church Commissioners have indicated their aim to maintain this level over the next two triennia – a total of £3.6bn over nine years (2023-31).

17. This growth in distributions has been achieved through a mix of strong investment performance, rigorous review of actuarial assumptions and a broadening of the inter-generational equity principle to include qualitative as well as quantitative considerations. This, for example, enabled the significant fixed-term funding of the net zero programme which is expected to deliver benefits for future generations as well as help the Church work towards the aspiration set by the General Synod to achieve net zero by 2030.

18. Between the implementation of the financial settlement that was agreed in 1997 and the end of 2024, the Church Commissioners will have distributed £6.0bn in support of the Church of England's mission and ministry across the country. This comprises £3.0bn in respect of clergy pensions (for service pre-1998), £0.1bn of transitional relief to meet pension contributions which would otherwise have been met by dioceses and £2.9bn for purposes other than pensions, some examples of which have been given above.

19. The balance of the Commissioners' expenditure has inevitably changed significantly over time. In 1998, 54% of their expenditure was on clergy pensions (£85m) with £20m (13%) distributed to dioceses as parochial ministry support[4]. 35% of their total 2023 expenditure of £344m[5] was on clergy pensions (£121m) and 44% (£153m) was for distributions supporting dioceses and the local

[4] In addition in 1998 £23m, 15% of the Commissioners' total expenditure, was distributed to dioceses as transition support for clergy pension contributions. This was part of an agreed package of time-limited, reducing support to smooth the transition of the funded clergy pension scheme which totalled £72m over 1998-2004.

[5] This figure incorporates £223m of 'total expenditure excluding clergy pension obligations' (per note 4) and pensions paid of £121m (figures to nearest £1m. It differs from the 'total charitable expenditure' figure due to the changes in pension provision figures (see note 16). The largest other elements of expenditure were support for the work of bishops and archbishops (14%) and cathedrals (4%).

Church[6]. Included within this latter figure are grants of almost £115m made to dioceses by the Archbishops' Council[7]. It would require a detailed analysis of individual grants to determine how much of this related to the purposes of Diocesan Stipends Funds. It is assumed that most of the £33.5m allocated as Lowest Income Communities Funding (LInC) and transitional support, a significant proportion of the £62.2m allocated as Diocesan Investment Programme (DIP) and Strategic Development Funding (SDF) grants[8] and all of the £1.4m posts of First Responsibility grants will have been spent on ordained and lay ministers.

F. Comment on the "settlement of 1997"

20. In early 1993 "the pension 'liabilities' of the Church Commissioners' [meaning existing liability and expected future liabilities if the Commissioners were to continue to be responsible for pensions relating to future service from existing resources] were, it appeared, about equal to the Commissioners' assets"[9]. The logical conclusion of that is that, had no changes been made the Commissioners would have had to cease distributions for **all** purposes other than for pensions.

21. The "settlement of 1997" enabled a balance to be restored between the Commissioners' assets and liabilities (the latter defined as pension obligations and any other time-limited expenditure together with other planned distributions expected to be maintained in real – i.e. inflation liked - terms). This followed a period in which the Commissioners had responded to requests from various parts of the Church to increase distributions.

22. It is understood that the £2.6bn quoted in the motion as reflecting the value of pension contributions made by dioceses to the funded pension scheme reflects the value of such contributions paid plus an assumed retrospective – and hence somewhat hypothetical – compounded investment return. More significantly, the increase in the flow of funds from the Church Commissioners to dioceses that would not have been possible had the Commissioners retained the obligation to fund pensions from service during this period does not appear to have been taken into account.

[6] The two other main expenditure areas were (i) bishops and archbishops ministry (£47m, 14%) and cathedrals' ministry (£14m, 4%). Further detail on the 2023 expenditure can be found in notes 4-7 of the Commissioners' 2023 annual report and accounts GS2363: gs-2363-annual-report-of-the-church-commissioners.pdf.

[7] A full list is provided at AC grants - recipient institutions 2023.xlsx. (This includes £8.9m of Ministry Training grants and £0.1m for grants relating to Past Cases Review work which were not paid from funds provided by the Commissioners.)

[8] LInC funding supports 2,000 parishes where approximately 13million people live. LInC, DIP and SDF grants currently supports parishes which include one-third of England's population. Typically these are the poorer and more deprived parishes.

[9] The Church of England in the twentieth century, Andrew Chandler 2006, page 405 - citing a letter from Cooper & Lybrand to the Commissioners' Deputy Secretary.

23. We have not attempted to quantify what the Commissioners' distributions might have been if the "settlement" of 1997 had not been implemented. This is not least because it would be a hypothetical calculation: the Commissioners would have needed to have a different investment policy if they had continued to accrue pension obligations. But, given the conclusion in the 1990s that the Commissioners would have been able to afford little if any distributions for purposes other than pensions had they retained responsibility for future service pensions, it is clear that the Commissioners' distributions to dioceses in this hypothetical case would have been very much lower than the £3bn which actually were made since 1998.

G. Potential impact of the proposals

24. If the proposal in the motion on redistribution of funds were put into effect, it would not create any additional resources to support the mission and ministry of the Church. It would either result in:

- a transfer of assets from the Church Commissioners to Diocesan Stipend Funds, a restricted fund within dioceses; or

- the Commissioners retaining the current assets but (i) with a portion managed on behalf of dioceses; or (ii) making a pre-determined allocation of ongoing distributions to those restricted funds on a basis to be agreed.

25. Following any asset transfer from what would then be a much smaller fund the Commissioners would need to reduce the sum available to support the Church's work. Diocesan Boards of Finance (DBFs) would need to decide on the rate of distribution from any funds transferred to them. If DBFs decided to distribute at a higher rate than that used at present (which is likely to vary periodically in the light of the Assets Committee's decisions on the level of affordable distributions having had regard to actuarial advice) then, unless they were able to generate superior returns than the Commissioners are able to, the aggregate sums available would in time be expected to be **lower** than under the current arrangements (i.e. future generations of the Church would have less funding available to them).

26. Funds transferred to Diocesan Stipends Funds or managed by the Commissioners for a particular purpose rather than being part of the general fund would result in less efficient investment strategies and fund management arrangements, and increased aggregate asset management costs. There would be potential adverse consequences for the sum remaining in the Commissioners' general fund, and the distributions available from it to support the Church's work. If all assets remained with the Church Commissioners but were managed 'on behalf' of individual DBFs, this would materially constrain the investment strategy and would also introduce a more onerous regulatory framework, increasing costs and reducing investment returns.

27. The core of the motion may be addressed to the issue of prioritisation of resources that are available from the Church's national endowment managed by the Church Commissioners to support the Church's mission and ministry. The purposes for which these funds may be used are set out in many Acts of Parliament and Church Measures.

28. These purposes have varied over time as have the Church's priorities. For example, the Commissioners first became responsible for funding clergy pensions in 1954 at which point any contributions from other Church entities and clergy ceased. As part of the "settlement of 1997" the Commissioners remain responsible for funding clergy pensions relating to service until the end of 1997 and for pension contributions for clergy whose stipends they fund (bishops and most cathedral clergy) like other Responsible Bodies in the current clergy pension scheme.

H. Potential process if the motion is passed

29. If the General Synod were to pass the motion, the next step would be for the Commissioners and the Council to consider their responses. The Board of Governors of the Commissioners would, under charity law, remain under the same duty to act prudently in the best interests of their charity: they cannot be directed by the Synod in how they carry out their functions. The Archbishops' Council has the same duty under charity law in respect of the allocation of monies distributed to it by the Commissioners to support the work of the wider Church.

30. In respect of distributions it should be noted that "trustees are under a legal duty to ensure funds are used only in furtherance of the charity's purposes and are legally responsible and accountable for their proper use. They must be able to demonstrate that funds have been used for the purposes for which they were intended.[10]" So the Commissioners and Council trustees would need to continue to be closely involved in any revision, implementation and operation of monitoring and evaluation of grant funding from the national Church. Under charity law the two charities will not be able to agree to outsource such arrangements as might be envisaged in paragraphs 19 and 20 of GS 2396A.

31. Were the Church Commissioners to agree to any major reallocation of investment assets, it is expected that primary legislation would be required to achieve any transfer of assets from the Commissioners to Diocesan Stipends Funds. If this were to be contemplated, the Archbishops' Council would need to consider whether to introduce such legislation, taking the views of the Church Commissioners as well as General Synod into account.

32. Ultimately any such legislation would also require Parliamentary approval. Parliament took a strong interest in the work that led to the Pensions Measure 1997 that established the funded clergy pension scheme and gave the Church Commissioners a time-limited power to meet clergy pension payments from

[10] Charity Commission Compliance toolkit, Chapter 2 (Due diligence, monitoring and verifying the end use of charitable funds) Section 9.1.

capital. Parliament has maintained its interest in the outworking of this arrangement, including by indicating that the Commissioners continue to seek a renewal of this power every seven years[11].

33. If the focus of the motion is primarily on the use and prioritisation of monies distributed by the Church Commissioners, the first step is likely to be for the motion to be considered by the TFWG in formulating its recommendation on spending plans for 2026-28 alongside other funding requests. The Council and Commissioners would then consider these recommendations in the light of a range of factors including motions passed by the General Synod but also the exercise of their duties and responsibilities as trustees under charity law.

William Nye, Secretary General
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[11] Most recently, the Church of England Pensions (Application of Capital Funds) Measure 2024 extended this power to the end of 2032.