



**Diocese of Edinburgh
Scottish Episcopal Church**

Scottish Charity Number SC001214

**Report and Accounts
for the Year ended
31 December 2016**

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Reference and administrative details

NAME OF CHARITY	Diocese of Edinburgh Scottish Episcopal Church (Edinburgh Diocesan Synod)
SCOTTISH CHARITY NUMBER	SC001214
PRINCIPAL ADDRESS	Edinburgh Diocesan Office 21A Grosvenor Crescent Edinburgh EH12 5EL
	<i>Email:</i> office@edinburgh.anglican.org <i>Internet:</i> www.edinburgh.anglican.org
STANDING COMMITTEE (TRUSTEES)	For the purposes of charities law, the members of the Standing Committee are the Charity Trustees of the Diocese.
	<i>Ex officio:</i> The Right Rev. Dr John Armes (Convenor) The Very Rev. Susan Macdonald (Dean) (<i>resigned 31 December 2016</i>) The Very Rev. Frances Burberry (Dean) (<i>appointed 20 January 2017</i>) Canon David Palmer (Diocesan Secretary and Convenor, Finance and Management Committee) (Vice Convenor) Mr Colin Heggie (Registrar) Mr Nigel Cook (Treasurer) The Rev. John Conway (Convenor, Mission and Ministry Committee)
	<i>Appointed by Synod:</i> Mrs Anne Pankhurst The Rev. Canon Ian Paton The Rev. Canon Malcolm Round Ms Zoe van Zwanenberg
TRUSTEES FOR THE CHARITY	The following are trustees for the Diocese in respect of heritable and moveable property: The Right Rev. Dr John Armes (Bishop) The Very Rev. Susan Macdonald (Dean) (<i>resigned 31 December 2016</i>) The Very Rev. Frances Burberry (Dean) (<i>appointed 20 January 2017</i>) Iain Peebles, Lord Bannatyne (Chancellor) Mr Colin Heggie (Registrar)
SECRETARY	Canon David Palmer
TREASURER	Mr Nigel Cook
ADMINISTRATOR	Mr Simon Filsell
BANKERS	Reliance Bank Ltd Faith House, 23-24 Lovat Lane, London EC3R 8E
SOLICITORS	Heggie Alexander 6 Hill Street, Edinburgh EH2 3JZ
AUDITORS	Chiene + Tait LLP Chartered Accountants and Statutory Auditor 61 Dublin Street, Edinburgh EH3 6NL

Except where stated otherwise, all Trustees served throughout the financial year.

Report of the Standing Committee (Trustees' report) Year ended 31 December 2016

As Trustees of the Diocese of Edinburgh, the Standing Committee presents its report and the audited accounts of the Diocese for the year ended 31 December 2016. These have been prepared in accordance with applicable charities law and the requirements of the Statement of Recommended Practice Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015).

Objectives and activities

The primary charitable purpose of the Diocese is the advancement of religion and to provide public benefit. The main activities of the Diocese are the provision of spiritual, pastoral, administrative and financial support to its Charges (or local congregations) and their members in carrying out the ongoing mission of the Christian Church.

These activities are pursued through:

- training and leadership in mission and ministry;
- conferences, retreats and educational events;
- support for youth and children's activities;
- grants to Charges to support mission activity;
- access to central administrative facilities.

Achievements and performance

The Diocese has continued to pursue its principal objectives and activities. Once again the Standing Committee has built on the developments of previous years. The main emphasis continues to be in the area of mission and ministry development.

A number of new appointments have been made. In early autumn, we appointed as the Bishop's Enabler of Mission for a 3-year term the Rev. Annie Naish, formerly Missioner to the Lee Abbey Community in Devon. Earlier, Siân Harris, a member of St James the Less Church, Leith was appointed Communications Co-ordinator on a contractor basis. More recently, Elizabeth White, who has worked in the office as an Administrative Assistant, took on responsibility for co-ordinating the Adventures in Faith lay learning programme.

The appointment of the mission enabler has in part been aided by the new mission and ministry support grant from General Synod. In 2016, the first year of payment, the amount received was £23,823. The grant is being phased in over 4 years and is expected to reach £38,163 in 2019. The grant is linked to the diocesan proportion of nationally required stipendiary clergy positions agreed with the College of Bishops, whereas the predecessor grant was based on approved support for specific posts.

As previously remarked, 2016 was the final year in which grant funding to support initial ministerial education (IME) in the Diocese was received. Historically, responsibility for delivering IME rested with dioceses, funded by General Synod. From the academic year 2016-17 delivery and funding became the responsibility of the Scottish Episcopal Institute.

Further grants, totalling £11,500, were paid to Charges from the St Hilda's Fund to support a range of mission projects. The Fund also partially supported curate stipend in one Charge and contributed to the cost of employing the mission enabler. Criteria for awarding grants for emergency building work from the new St Andrew's Fund were approved by Diocesan Synod. This fund arose from the sale of the former St Andrew's Church, Prestonpans. Grants were also made from the provincial Dunderdale fund.

Standing Committee is considering the future of St Paul's Church in Livingston. The building is no longer used by the Livingston congregation, and investigations are taking place with a view to selling the property for social housing.

A full review of the activities of the year is given in the reports to Synod of the various committees, which are available from the Diocesan Office.

Report of the Standing Committee (continued)

Year ended 31 December 2016

Financial review

Sources of funding

The Diocese is dependent for the majority of its income on quota contributions from Charges and grant funding from General Synod. In 2016 these accounted for respectively 62% and 17% of total recurring income. A further 13% is derived from the return on diocesan investments. Quota requested from Charges is based on budgeted expenditure and allocated among Charges in proportion to their assessable income. Due to withdrawal of funding for ministry training, General Synod funding reduced overall by 10% from 2015.

Review of the financial position

The budget for 2016 was approved by Diocesan Synod in October 2015. The budget proposals reflected changes to funding from General Synod, appointment to the new post of Bishop's Enabler of Mission, and other staff developments. The St Hilda's fund would continue to support mission within the Diocese, and the proceeds from the former St Andrew's Church, Prestonpans would enable emergency building grants for needy Charges. Administration costs were expected to fall. With quota from Charges to increase by 4.5%, the approved budget forecast a deficit of £4,728.

Income was generally in line with budget, but lower than in 2015 when a large legacy had been received, grant payments from Allchurches Trust were retimed, and the proceeds from the sale of the Prestonpans church had been received. Some expenditure savings resulted from deferral of the appointment of the mission enabler from the spring to the autumn, but residual ministry training costs were higher than expected. A number of grant funds were not fully disbursed, leaving surpluses to carry forward to later periods. Additional expenditure was incurred on the Episcopal residence.

The resulting outcome for the year was overall net operating income of £1,363. However, due to unspent grant funds this masks a deficit on the general fund. Including unrealised gains on revaluation of investment assets, the change in funds during the year was as follows:

<i>£'000s</i>	General fund	Designated funds	Restricted funds	Total funds
Net operating income/(expense)	(13.0)	15.1	(0.7)	1.4
Gains on investment assets	9.3	315.1	18.0	342.4
Transfers between funds	(3.5)	3.5	-	-
Net movement in funds	(7.2)	333.7	17.3	343.8

Policy on investments

The Diocese retains all its securities investments in the Scottish Episcopal Church Unit Trust Pool (UTP). The investment policy of the UTP, which accords with that of the Standing Committee, is to earn a return on the assets, over the long term, sufficient at least to maintain the real value of the distribution to unit holders. The UTP Investment Committee recognises its responsibilities to optimise investment returns whilst striving to meet reasonable ethical investment expectations. It aims to invest in companies that will not only successfully develop their business financially in the interests of shareholders, but also demonstrate responsible employment and good corporate governance practices, are conscientious regarding environmental performance and human rights, and act with sensitivity to the communities in which they operate.

The Investment Committee has also adopted strict "negative" criteria as a significant element of the ethical investment policy. No direct investment will be made in companies whose main business is in any of the following restricted categories: armaments, gambling, tobacco and pornography. The Committee is committed to seeking to identify companies whose operational activities give rise to ethical concerns, and will positively engage with, and if deemed appropriate, disinvest from such companies whose securities are held within the investment portfolio.

Report of the Standing Committee (continued)

Year ended 31 December 2016

Financial review (continued)

Principal risks and uncertainties

The Standing Committee continues to review risks and uncertainties, and the mitigating measures that can be adopted to minimise exposure. The principal risks are:

- dependency on collecting quota from Charges – this is managed through regular monitoring of receipts and follow-up with Charges; review of Charges' annual accounts; regular pastoral contact with Charges; and encouragement for Charges to switch to collection by direct debit;
- reliance on investment performance – all funds are placed with the Scottish Episcopal Church UTP, which is considered to be a low-risk product with a sound ethical basis;
- security of assets and systems – the diocesan office is protected against fire and intrusion, data backups are held off-site, and the Diocese is working towards developing a disaster recovery plan;
- the potential loss of key personnel – the Diocese plans to review the terms of employment contracts and will review and document temporary cover for critical tasks.

Policy on reserves

The net assets of the Diocese are held in a range of diverse funds. Some of these are restricted funds, whose income can only be expended in accordance with the wishes of the donor or the purposes for which the fund was raised. Other funds are held to generate income to fund the activities of the Diocese.

Total funds at 31 December 2016 were as follows:

<i>£'000s</i>	Total funds	Funds held as:		
		Tangible assets	Investments	Other assets
Restricted income funds	209.2	–	157.3	51.9
Designated capital funds	2,527.7	927.8	1,599.9	–
Designated income funds	1,194.8	–	1,154.6	40.2
General fund	131.7	9.5	81.8	40.4
Total funds	4,063.4	937.3	2,993.6	132.5

Designated capital funds represent either (a) past sums granted to the Diocese with the intention that they be invested to generate income to further the activities of the Diocese or (b) funds invested in the Episcopal residence. In 2016 invested capital funds generated income of £52.4k to support diocesan expenditure.

Designated revenue funds represent sums intended to generate income for mission or building grants within the Diocese. The income generated in 2016 amounted to £37.8k, of which £22.7k was expended during the year on mission support. Standing Committee intends that the income of these funds be fully expended each year.

The Standing Committee has a number of responsibilities to meet, which include payment of stipends and salaries to central and diocesan personnel, maintenance of the diocesan office and its facilities, and support of diocesan Charges in their mission. The committee considers it necessary to retain a sum sufficient to provide working capital to cover day-to-day expenditure and to enable its responsibilities to be discharged in the event of any significant interruption or reduction in its income. This would enable the Diocese to maintain its current level of activities for a reasonable period until replacement funding can be obtained.

Report of the Standing Committee (continued)

Year ended 31 December 2016

Financial review (continued)

Policy on reserves (continued)

In line with other charitable bodies of similar size and level of financial commitment, the Standing Committee seeks to maintain a minimum of 3 months' average annual expenditure in freely available reserves. At 31 December 2016 the minimum requirement of 3 months budgeted expenditure amounted to £195.6k; freely available reserves at the same date (general fund excluding tangible assets) amounted to £122.2k (or 8 weeks' expenditure).

Plans for future periods

Standing Committee anticipates continuing all the activities in which the Diocese is currently involved. During 2016, the transfer of initial ministerial education to the Scottish Episcopal Institute was completed and associated funding from General Synod ceased. The new provincial mission and ministry support grant provides a greater degree of certainty than its predecessor stipend support grant, while at the same time affording greater flexibility in its application.

Standing Committee looks forward to continuing work with the recently appointed Bishop's Enabler of Mission, as they further develop, implement and communicate the mission strategy of the Diocese. Grants will continue to be provided to Charges, through the St Hilda's fund, providing support for mission and stipend support, and the new St Andrew's fund, providing support to Charges for urgent buildings maintenance.

Diocesan budgets continue to forecast deficits. The weak financial position of some Charges in the Diocese will increase pressure to support them and may impact on the payment of quota by Charges to the Diocese. The Diocese has each year been paying an increasingly larger share of the quota raised by General Synod.

Structure, governance and management

Founded in 1633, the Diocese is one of seven dioceses of the Scottish Episcopal Church, part of the Anglican Communion. The Diocese covers an area comprising Edinburgh, the Lothians, Scottish Borders and Falkirk. The Bishop of Edinburgh is chief pastor to 54 Charges, or local congregations, within this area. Congregational Charges within the Diocese are separate registered charities, and their transactions do not form part of these accounts.

The principal governing body of the Diocese is Diocesan Synod, which meets at least once each year to receive reports, appoint committees and officials, and transact any other business referred to it. Its membership comprises the Bishop, all instituted, licensed or commissioned clergy in the Diocese, a Lay Representative elected by each Charge, diocesan officials and members of the laity licensed to a specific duty within the Diocese.

Charges in the Diocese are grouped into seven areas. Each has an Area Council, comprised of the lay representative and clergy representative and one other lay person for each Charge in the area. The councils further the work of the Church in their area and act as a channel of communication between the congregations and Synod in both directions. Area Councils are required by the Constitution to meet at least three times each year.

The Diocese is an unincorporated association. Subject to Canon Law of the Scottish Episcopal Church and Resolutions of its General Synod, the Diocese is governed by a Constitution (the 'Administrative Scheme'); a new version was approved by Synod during 2015, and minor changes were approved during 2016.

Between meetings of Synod the Standing Committee acts as Executive Committee of the Diocese. It is responsible for managing and safeguarding the assets of the Diocese. It implements Synod decisions, supervises diocesan committees and communications between them, and considers business raised by Charges within the Diocese. It is required by the Constitution to meet at least three times each year.

Report of the Standing Committee (continued) **Year ended 31 December 2016**

Structure, governance and management (continued)

For the purposes of charities law, the members of the Standing Committee are the Trustees of the Diocese; all are appointed or elected from within the Diocese and its Charges. The Convenor of the Standing Committee is the Bishop, who is elected by representatives of Charges in the Diocese. The Vice convenor is a lay person appointed by the Standing Committee from within its membership. Two clerical and two lay members are elected by the Diocesan Synod. The elected members have a four year term of office. The Dean, Registrar, Secretary, Treasurer, and Convenors of the Mission and Ministry, and Finance and Management, committees are members ex officio. The Standing Committee has power to fill ad interim vacancies occurring between meetings of Synod.

New members of the Standing Committee are provided with an induction pack and receive relevant support for their role on appointment.

The remuneration of key personnel is determined on the basis of scales compiled by General Synod of the Scottish Episcopal Church.

The Standing Committee has two pendant committees. The Mission and Ministry Committee exists to encourage, accompany and resource local congregations and individuals on their journey of faith. Its remit also includes ministerial development. The Finance and Management Committee is concerned with the administration and day-to-day finances of the Diocese. It is responsible for the preparation of budgets and cash flows, the setting of Quota levels from Charges, and the preparation of the annual accounts. Each committee has a number of subsidiary committees reporting to it.

Reference and administrative details

Reference and administrative details are given on page 2.

Conclusion

The members of the Standing Committee would like to thank all those who contribute their time, energy and money so generously to ensure that the Diocese can continue to provide a central support and common link point to all the Charges within the Diocese.

ON BEHALF OF THE TRUSTEES

(Canon) DAVID J PALMER
Vice Convenor, Standing Committee
10 March 2017

Statement of responsibilities of the Members of the Standing Committee

The Members of the Standing Committee, as charity trustees, are responsible for preparing the Annual Report and the Accounts in accordance with applicable law and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015).

The law applicable to charities in Scotland requires the members of the Standing Committee to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Diocese and of its income and expenditure for that period. In preparing these accounts members of the Standing Committee are required to:

- select suitable accounting policies and apply them consistently;
- observe the methods and principles in the Charities Statement of Recommended Practice;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Diocese will continue in operation.

The members of the Standing Committee are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Diocese and enable them to ensure that the accounts comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of the Administrative Scheme for Edinburgh Diocesan Synod.

The members of the Standing Committee are also responsible for safeguarding the assets of the Diocese and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The members of the Standing Committee are responsible for the maintenance and integrity of the charity and financial information included on the diocesan website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.



Independent auditor's report to the Standing Committee of Diocese of Edinburgh Scottish Episcopal Church

We have audited the accounts of the Diocese of Edinburgh Scottish Episcopal Church for the year ended 31 December 2016 which comprise the statement of financial activities, the balance sheet, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the statement of responsibilities of the Members of the Standing Committee set out on page 8, the trustees are responsible for the preparation of accounts which give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

A description of the scope of an audit of accounts is provided on the website of the Financial Reporting Council (FRC) at www.frc.org.uk/auditscopeukprivate

Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the Diocese of Edinburgh's affairs as at 31 December 2016 and of its income and expenditure, for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

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Independent auditor's report (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charity Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if, in our opinion:

- the information given in the Report of the Standing Committee is inconsistent in any material respect with the accounts; or
- proper accounting records have not been kept; or
- the accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

CHIENE + TAIT LLP

Chartered Accountants and Statutory Auditor

61 Dublin Street

Edinburgh EH3 6NL

15 March 2017

Chiene + Tait LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Statement of financial activities

Year ended 31 December 2016

	Note	Unrestricted funds			Total funds	
		General fund	Designated funds	Restricted funds	2016	2015
		£	£	£	£	£
Income and endowments from						
Donations and legacies	3	22,093	-	4,222	26,315	54,392
Charitable activities						
Quota receipts due from Charges	4	478,464	-	-	478,464	456,907
General Synod grant funding		-	-	128,311	128,311	142,334
Other grants and funding		-	-	17,239	17,239	19,937
Other charitable activities		9,215	-	-	9,215	10,224
		487,679	-	145,550	633,229	629,402
Other trading activities	5	14,197	-	-	14,197	12,452
Investments	6	56,565	37,782	5,146	99,493	99,533
Other	7	-	-	-	-	92,987
Total income and endowments		580,534	37,782	154,918	773,234	888,766
Expenditure on						
Charitable activities						
Quota paid to General Synod	8	269,378	-	-	269,378	260,787
Mission and ministry activities		68,692	11,164	112,944	192,800	192,375
Grants and bursaries		4,406	11,500	32,297	48,203	45,046
Information and communication		9,556	-	-	9,556	9,649
Diocesan clergy		83,529	-	10,400	93,929	78,759
Diocesan office		134,246	-	-	134,246	130,385
Governance		23,759	-	-	23,759	20,501
		593,566	22,664	155,641	771,871	737,502
Total expenditure		593,566	22,664	155,641	771,871	737,502
Net operating income / (expenditure)		(13,032)	15,118	(723)	1,363	151,264
Gains on investment assets	9	9,344	315,064	17,989	342,397	112,152
Net income / (expenditure)		(3,688)	330,182	17,266	343,760	263,416
Transfers between funds	10	(3,525)	3,525	-	-	-
Net movement in funds		(7,213)	333,707	17,266	343,760	263,416
Reconciliation of funds						
Total funds at 1 January 2016		138,904	3,388,781	191,917	3,719,602	3,456,186
Total funds at 31 December 2016	20	131,691	3,722,488	209,183	4,063,362	3,719,602

All income and expenditure derive from continuing activities.

All income, gains, expenditure and losses recognised in the period are included above.

Comparative information for all fund values presented above is given in the relevant note.

The notes on pages 14 to 26 form part of these accounts.

Balance sheet

31 December 2016

	Note	Unrestricted funds			Total funds	
		General fund	Designated funds	Restricted funds	2016	2015
		£	£	£	£	£
Fixed assets						
Tangible assets	16	9,500	927,799	-	937,299	936,462
Investments	17	81,794	2,754,527	157,275	2,993,596	2,651,199
		91,294	3,682,326	157,275	3,930,895	3,587,661
Current assets						
Debtors	18	71,851	19,078	2,598	93,527	95,219
Cash at bank and in hand		10,588	34,584	52,784	97,956	102,800
		82,439	53,662	55,382	191,483	198,019
Liabilities						
Creditors: amounts falling due within one year	19	42,042	13,500	3,474	59,016	66,078
Net current assets		40,397	40,162	51,908	132,467	131,941
Total net assets		131,691	3,722,488	209,183	4,063,362	3,719,602
Funds of the charity						
Restricted income funds		-	-	209,183	209,183	191,917
<i>Unrestricted funds:</i>						
Designated funds		-	3,722,488	-	3,722,488	3,388,781
General fund		131,691	-	-	131,691	138,904
Total charity funds	20	131,691	3,722,488	209,183	4,063,362	3,719,602

APPROVED FOR ISSUE BY THE STANDING COMMITTEE (TRUSTEES) ON 10 MARCH 2017
AND SIGNED ON THEIR BEHALF BY

(Canon) DAVID J PALMER
Vice-Convenor, Standing Committee

The notes on pages 14 to 26 form part of these accounts.

Statement of cash flows

Year ended 31 December 2016

	Note	2016	2015
		£	£
<i>Cash flows from operating activities</i>			
Net cash (used in) / provided by operating activities	23	(100,812)	512
<i>Cash flows from investing activities</i>			
Dividends, interest and rents from investments		99,493	98,659
Purchase of property and equipment		(3,525)	(23,940)
Proceeds from sale of investments		-	50
Purchase of investments		-	(100,000)
Net cash provided by / (used in) investing activities		95,968	(25,231)
Change in cash and cash equivalents in the reporting period		(4,844)	(24,719)
Cash and cash equivalents at the beginning of the reporting period		102,800	127,519
Cash and cash equivalents at the end of the reporting period		97,956	102,800

The notes on pages 14 to 26 form part of these accounts.

Notes to the accounts

Year ended 31 December 2016

1. Accounting policies

(a) Basis of preparation

These accounts have been prepared under the historical cost convention as modified by the revaluation of investment assets, and are in accordance with the Statement of Recommended Practice (SORP) Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015), The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The Diocese constitutes a public benefit entity as defined by FRS102.

(b) Going concern

The accounts have been prepared on a going concern basis. The members of the Standing Committee have assessed the ability of the Diocese to continue as a going concern and have reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for at least 12 months from the date of approving the accounts. They thus continue to adopt the going concern basis of accounting in preparing these accounts.

(c) Fund accounting

Unrestricted funds may be used at the discretion of Standing Committee to further any of the purposes of the Diocese, including to supplement expenditure from restricted funds. Standing Committee may choose to set aside part of the unrestricted funds as a designated fund for a particular future project or commitment.

Restricted funds can lawfully only be used for the purpose specified by the donor or resulting from the terms of an appeal. Some restricted funds may be capital funds in that only the income of the fund may be expended to further the objectives of the Diocese.

Details concerning the main funds of the Diocese are given in note 20.

(d) Recognition of income

Income is recognised in the statement of financial activities when the Diocese becomes entitled to the income, there is probability of receipt, and its monetary value, including any associated costs, can be measured reliably. Income is deferred where it relates to activities or services delivered in a later accounting period.

Income from donations and legacies includes donations, legacies and grants which are of a general nature. In the case of legacy income where there is uncertainty as to amount, the fair value of the income receivable may be estimated on the basis of available information.

Income from charitable activities comprises quota receivable from Charges, grants to support the activities of the Diocese, and income derived from courses, retreats and conferences which further the purposes of the Diocese.

Income from other trading activities includes receipts from activities which are not part of the main objectives of the Diocese. This includes income from sub-letting office space and recoveries in respect of use of office resources.

Income from investments, derived from securities, deposits and let property, is recognised as it falls due.

Other income comprises income that cannot be reported under any other heading.

Notes to the accounts (continued)

Year ended 31 December 2016

1. Accounting policies (continued)

(e) Recognition of expenditure

Expenditure is accounted for on an accruals basis, being recognised when there is a legal or constructive obligation to pay, probability that settlement will be required, and the amount can be measured or estimated reliably.

Expenditure on raising funds includes costs of investment management, including agents' fees and maintenance costs incurred on let property.

Expenditure on charitable activities includes all costs incurred in undertaking the charitable objectives of the Diocese. This includes costs directly incurred by the Diocese, and stipend support costs and grants awarded to congregations and individuals.

Liability for grants payable is recognised at the time of the grant being awarded.

Governance costs represent the costs associated with general running of the Diocese as opposed to costs associated with charitable activities. These include external scrutiny, legal advice, Synod and committee meetings, honoraria paid to diocesan officials, and other costs associated with constitutional and statutory requirements. They include costs associated with strategic as opposed to day to day management of activities.

(f) Allocation of support and governance costs

There is considered to be one sole activity, the mission and ministry of the Christian Church. Therefore, support costs (including governance) are presented as an additional component of expenditure on charitable activities without apportionment to specific projects.

(g) Operating leases

Rentals paid under operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged as an expense on a straight line basis over the period of the lease, even if the payments are not made on such a basis.

(h) Taxation

The Diocese is a registered Scottish charity exempt from tax on income and gains applied to charitable purposes. Income tax is recoverable in respect of gift-aided donations. The Diocese is not registered for Value Added Tax and is therefore unable to reclaim VAT incurred on expenditure, which is therefore shown gross of this irrecoverable VAT.

(i) Tangible fixed assets

Heritable property is valued at cost to the Diocese. The Standing Committee considers that the cost of carrying out a professional valuation to include properties in the accounts at valuation would be disproportionate to any additional benefit derived by users of these accounts. The properties are not depreciated in the accounts as residual value is deemed sufficiently high that any depreciation would be immaterial.

Fittings are written off to revenue in the year of acquisition.

Equipment with a purchase price greater than £2,000 is capitalised and depreciated over its assessed useful economic life on a straight-line basis. Other equipment is written off to revenue in the year of acquisition.

(j) Financial instruments

The Diocese carries only basic financial assets and liabilities. These may comprise investments in securities, amounts receivable and payable, and cash deposited with banks. Financial assets and liabilities are initially valued at cost; subsequently, investment assets are valued at market valuation (excluding any costs of realisation or disposal) and other assets and liabilities are valued at the best estimate of settlement amount.

Notes to the accounts (continued)

Year ended 31 December 2016

1. Accounting policies (continued)

(k) Investment assets

The Diocese owns one social investment property: a former church building, St Andrew's, Niddrie, which is leased to a community arts group. The Diocese intends to continue to use this asset to support community and social projects in the area. This asset is recorded in the accounts with a notional value of £100.

Investments in securities (or ones valued by reference to such investments, such as unit trusts) are recorded at market valuation.

(l) Gains and losses

Realised gains and losses on security investments are calculated as the difference between the net sales proceeds and their valuation at the start of the year (or subsequent cost) and are recognised in the statement of financial activities in the year of disposal.

Unrealised gains and losses represent the movement in market valuation during the year and are recognised in the statement of financial activities based on market valuation at the year end.

(m) Retirement benefits

The Scottish Episcopal Church operates a defined benefit non-contributory pension scheme. The Diocese pays contributions to this multi-employer scheme in respect of its stipendiary clergy and administrative staff. Contributions to the scheme are set at rates designed to spread the cost of pensions over the working lives of its members, and are charged in the accounts on a due and payable basis. The rate of contributions is determined by a qualified actuary. The amount of the charge for the year is disclosed in note 12.

2. Related party transactions

The nature of the Diocese requires that it has many financial transactions with the General Synod of the Scottish Episcopal Church and with Charges in the Diocese. As members of the Diocesan Standing Committee are connected with their respective local church congregations and certain members are also members of Boards and Committees of the General Synod, these bodies are related parties under FRS 102, and transactions with them are "related party transactions". The governance procedures of the Diocese and of General Synod require that members of all Boards and Committees declare their interest in any grant or loan application prior to its discussion by the Board or Committee.

FRS 102 requires disclosure of material related party transactions and year end balances with related parties. In the case of the accounts of the Diocese, these are for the most part separately disclosed in the statement of financial activities, the balance sheet or in the notes to the accounts. To reduce the volume of information given, FRS 102 permits aggregation of transactions of a similar nature. This practice has been followed in relation to quota from local congregations, and balances due in respect of the payroll bureau service.

As regards General Synod, the Diocese pays quota to and receives grants from General Synod. The Diocese also rents office space from General Synod at a cost of £20,189 (2015: £20,189). As regards local congregations, the Diocese receives quota from and pays grants to individual congregations. A central payroll bureau service and use of central office facilities are offered to congregations, for which nominal charges are made. Balances due by and to congregations in respect of quota and the payroll bureau service are disclosed in notes 18 and 19.

The total amount of unconditional donations received from trustees or other related parties was £1,320 (2015: £2,520).

Notes to the accounts (continued)

Year ended 31 December 2016

3. Income from donations and legacies

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016 £	2015 £
Donations and gifts					
Allchurches Trust	18,981	-	-	18,981	28,651
Other donations and gifts	2,612	-	4,222	6,834	9,273
Legacies	500	-	-	500	16,468
Total income from donations and legacies	22,093	-	4,222	26,315	54,392
<i>Fund totals 2015</i>	<i>33,404</i>	<i>16,468</i>	<i>4,520</i>	<i>54,392</i>	

4. Income from charitable activities

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016 £	2015 £
Quota receipts due from Charges	478,464	-	-	478,464	456,907
General Synod grant funding					
Mission and ministry support grant	-	-	23,823	23,823	-
Curate support grants	-	-	70,203	70,203	65,033
Stipend support grants	-	-	-	-	21,151
Travel grants	-	-	-	-	3,300
Ministry development service	-	-	18,225	18,225	36,450
Dunderdale funds:					
Endowment of bishoprics	-	-	8,480	8,480	8,400
Endowment of charges	-	-	5,660	5,660	5,600
Dean's allowance	-	-	1,920	1,920	1,900
Other funding	-	-	-	-	500
			128,311	128,311	142,334
Other grants and funding					
Walker Trust	-	-	17,239	17,239	19,937
Other charitable activities					
IME course fees	435	-	-	435	1,896
Clergy conference	5,465	-	-	5,465	5,410
Adventures in Faith	3,230	-	-	3,230	1,893
Diocesan retreat	-	-	-	-	880
Youth and children's events	85	-	-	85	145
	9,215	-	-	9,215	10,224
Total income from charitable activities	487,679	-	145,550	633,229	629,402
Fund totals 2015:					
Quota receipts due from Charges	456,907	-	-	456,907	
General Synod grant funding	-	-	142,334	142,334	
Other grants and funding	-	-	19,937	19,937	
Other charitable activities	10,224	-	-	10,224	
	467,131	-	162,271	629,402	

Notes to the accounts (continued)

Year ended 31 December 2016

5. Income from other trading activities

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016	2015
	£	£	£	£	£
Office earnings	14,197	-	-	14,197	12,452
Total income from other trading activities	14,197	-	-	14,197	12,452
<i>Fund totals 2015</i>	<i>12,452</i>	<i>-</i>	<i>-</i>	<i>12,452</i>	

6. Income from investments

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016	2015
	£	£	£	£	£
Listed securities and unit trusts	55,027	37,782	5,146	97,955	97,956
Cash deposits	38	-	-	38	77
Investment properties	1,500	-	-	1,500	1,500
Total income from investments	56,565	37,782	5,146	99,493	99,533
<i>Fund totals 2015</i>	<i>59,737</i>	<i>34,650</i>	<i>5,146</i>	<i>99,533</i>	

7. Other income

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016	2015
	£	£	£	£	£
Funds transfer from former St Andrew's Church, Prestonpans	-	-	-	-	92,987
Total other income	-	-	-	-	92,987
<i>Fund totals 2015</i>	<i>-</i>	<i>92,987</i>	<i>-</i>	<i>92,987</i>	

Notes to the accounts (continued)

Year ended 31 December 2016

8. Expenditure on charitable activities

Note	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016 £	2015 £
Quota paid to General Synod	269,378	-	-	269,378	260,787
Mission and ministry activities					
Ministry development:					
Stipends and salaries	8,872	-	19,668	28,540	31,011
Other costs	17,197	2,832	11,933	31,962	30,279
Clergy conference	14,125	-	-	14,125	12,568
Diocesan retreat	-	-	-	-	1,519
Youth and children:					
Salaries	22,403	-	-	22,403	22,128
Other costs	2,046	-	-	2,046	819
International links	2,459	-	-	2,459	655
Curate stipends	-	-	70,203	70,203	65,033
Local ministry	-	8,332	11,140	19,472	19,359
Chaplaincies	1,590	-	-	1,590	9,004
	68,692	11,164	112,944	192,800	192,375
Grants and bursaries					
Grants for congregations	-	11,500	8,980	20,480	18,940
Walker Trust grants and bursaries	-	-	13,839	13,839	16,837
Other grants and bursaries	4,406	-	9,478	13,884	9,269
	4,406	11,500	32,297	48,203	45,046
Information and communication					
Communications co-ordinator	5,400	-	-	5,400	3,875
The Edge (diocesan magazine)	3,666	-	-	3,666	4,705
Websites development and delivery	490	-	-	490	1,069
	9,556	-	-	9,556	9,649
Diocesan clergy					
Bishop:					
Stipend	39,987	-	8,480	48,467	48,819
Residence	23,191	-	-	23,191	9,543
Expenses	8,375	-	-	8,375	5,123
Dean (expenses and congregation allowance)	11,976	-	1,920	13,896	15,274
	83,529	-	10,400	93,929	78,759
Diocesan office					
Support staff salaries	67,254	-	-	67,254	65,489
Training and expenses	524	-	-	524	91
Premises costs	34,575	-	-	34,575	31,309
Administration	22,174	-	-	22,174	22,917
Equipment maintenance	7,031	-	-	7,031	9,327
Equipment depreciation	2,688	-	-	2,688	1,252
	134,246	-	-	134,246	130,385
carried forward	569,807	22,664	155,641	748,112	717,001

Notes to the accounts (continued)

Year ended 31 December 2016

8. Expenditure on charitable activities (continued)

	Note	General fund	Designated funds	Restricted funds	Total funds	
		£	£	£	2016	2015
					£	£
brought forward		569,807	22,664	155,641	748,112	717,001
Governance						
Synod and committee expenses		2,112	-	-	2,112	2,874
Honoraria to diocesan officials		9,000	-	-	9,000	8,000
Auditors' remuneration	15	3,754	-	-	3,754	3,677
Legal fees and expenses		8,892	-	-	8,892	5,950
		23,759	-	-	23,759	20,501
Total expenditure on charitable activities		593,566	22,664	155,641	771,871	737,502
Fund totals 2015:						
Quota paid to General Synod		260,787	-	-	260,787	
Mission and ministry activities		53,997	15,244	123,134	192,375	
Grants and bursaries		2,655	10,000	32,391	45,046	
Information and communication		9,649	-	-	9,649	
Diocesan clergy		68,459	-	10,300	78,759	
Diocesan office		130,385	-	-	130,385	
Governance		20,501	-	-	20,501	
		546,433	25,244	165,825	737,502	

9. Gains on investment assets

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016	2015
				£	£
Realised gain on maturity of stock	-	-	-	-	50
Unrealised gains on revaluation of securities	9,344	315,064	17,989	342,397	112,102
	9,344	35,064	17,989	342,397	112,152
Fund totals 2015	9,230	96,639	6,283	112,152	

10. Transfers between funds

	General fund	Designated funds	Restricted funds	Total funds	
	£	£	£	2016	2015
				£	£
Episcopal residence fund	(3,525)	3,525	-	-	-
Fund totals 2015	(10,500)	10,500	-	-	

The amount of £3,525 has been transferred from the general fund to the Episcopal residence fund representing the value of property improvements carried out during the period.

Notes to the accounts (continued)

Year ended 31 December 2016

11. Trustee remuneration, benefits and expenses

No Trustee or member of the Standing Committee received remuneration or benefits in respect of service as trustee.

The following members of the Standing Committee received remuneration in respect of other service to the Diocese:

Name of trustee	Why remuneration paid	Remuner- ation paid	Pension contri- butions
		£	£
The Right Rev. Dr John Armes	Stipend paid for service as Bishop of the Diocese	37,592	8,070
Mr Nigel Cook	Honorarium for service as Diocesan Treasurer	4,500	-
Mr Colin Heggie	Fees paid (including Value Added Tax) in respect of service as Diocesan Registrar	6,181	-
Canon David Palmer	Honorarium for service as Diocesan Secretary	4,500	-

Remuneration paid to the Bishop conforms to scales determined by the General Synod of the Scottish Episcopal Church. Remuneration for service as Bishop also includes the benefit of rent-free residential accommodation, in respect of which the Diocese pays Council Tax.

Expenses totalling £4 incurred on travelling to Synod and Trustee meetings were reimbursed to 1 trustee.

No other trustee received remuneration in any respect, nor reimbursement of expenses in respect of performance of duties as trustee.

12. Staff costs and key management personnel

	2016 £	2015 £
Gross stipends and salaries	124,013	122,048
Social security costs	7,162	7,563
Employer's contribution to defined benefit pension scheme	35,489	37,837
	166,664	167,448

Average numbers employed during the year	Average headcount		Full-time equivalent	
	2016	2015	2016	2015
Clergy (Bishop)	1.00	1.00	1.00	1.00
Mission and ministry	2.68	1.58	1.54	1.08
Administration	2.65	3.00	2.10	2.11
	6.33	5.58	4.64	4.19

No employee received emoluments greater than £60,000.

The foregoing excludes a communications co-ordinator engaged on a contractor basis.

The Diocese considers its key management personnel to comprise the members of the Standing Committee. Details of remuneration and benefits paid are disclosed in note 11.

Notes to the accounts (continued)

Year ended 31 December 2016

13. Retirement benefits

All employees of the Diocese are eligible to join the Scottish Episcopal Church Pension Fund which is a non contributory defined benefit scheme. The Diocese is unable to identify its share of the underlying assets and liabilities of the Fund on a consistent and reasonable basis and so accounts for its contributions as if the scheme were a defined contribution scheme.

With effect from 1 January 2014, pensionable retirement age was increased to 67, and the annual increase in pensionable salary was capped at the increase in the retail prices index.

The latest valuation as at 31 December 2014 disclosed that the past service deficit has been eliminated and that the Fund was in surplus by £1.3 million. As a result of the changes introduced on 1 January 2014, the cost of future benefit accrual has been reduced and the contribution rate was reduced to 32.2% of pensionable remuneration with effect from 1 January 2016.

There were no unpaid contributions outstanding at 31 December 2016 payable by the Standing Committee.

14. Operating lease rentals

Diocesan office expenditure includes the following payments of operating lease rentals:

	2016	2015
	£	£
Amounts payable in respect of:		
hire of plant and machinery	2,595	2,652
other operating leases	20,189	20,189
	22,784	22,841

15. Auditors' remuneration

Auditors' remuneration of £3,754 (2015: £3,677) consists solely of the fee for audit of the trustees' report and accounts.

Notes to the accounts (continued)

Year ended 31 December 2016

16. Tangible fixed assets held for use by the Diocese

	Land & buildings	Office equipment	Total
	£	£	£
Cost			
At 1 January 2016	924,274	13,440	937,714
Additions	3,525	-	3,525
At 31 December 2016	927,799	13,440	941,239
Accumulated depreciation			
At 1 January 2016	-	1,252	1,252
Charge for year	-	2,688	2,688
At 31 December 2016	-	3,940	3,940
Net book value			
At 31 December 2016	927,799	9,500	937,299
At 31 December 2015	924,274	12,188	936,462

The Diocese owns the Bishop's residence which is shown here at historic cost and is not depreciated. No impairment provision has been made in the accounts as the Standing Committee believes that the value of the property is in excess of the book value.

17. Investment assets

	Social investment property	Listed securities and unit trusts	Total
	£	£	£
Cost or valuation			
Carrying value at 1 January 2016	100	2,651,099	2,651,199
Unrealised gain on revaluation	-	342,397	342,397
Carrying value at 31 December 2016	100	2,993,496	2993,596

The social investment property is leased to a community arts group in Craigmillar and is included at a notional value of £100.

Investments in securities (or ones valued by reference to such investments, such as unit trusts) are shown at market valuation. All security investments are held in the Scottish Episcopal Church Unit Trust Pool.

The investment policy of the Diocese is described on page 4 in the Report of the Standing Committee.

Notes to the accounts (continued)

Year ended 31 December 2016

18. Debtors

	2016	2015
	£	£
Accrued investment income	49,462	49,462
Quota receipts from Charges in arrears	884	1,303
Payroll bureau balances due from Charges	127	–
Other debtors and prepayments	43,054	44,454
	93,527	95,219

All amounts fall due within one year.

19. Creditors: amounts falling due within one year

	2016	2015
	£	£
Grants awarded	13,500	13,000
Quota receipts from Charges in advance	9,790	9,335
Payroll bureau balances due to Charges	5,235	7,378
Accruals and deferred income	5,755	5,950
Taxation and social security	5,707	4,327
Lent appeal funds owed	1,362	334
Other creditors	17,667	25,754
	59,016	66,078

Lent appeal funds

Lent appeal funds represent unexpended funds raised for the Bishop's annual Lent Appeal. Income is not shown in the statement of financial activities as it is collected by the Diocese on behalf of nominated recipients. The corresponding asset is included within cash at bank in the balance sheet.

During 2016 £14,678 was contributed to the appeal by congregations in the diocese. Payments were made to *Faith in Older People* (£6,475), which seeks to enable a better understanding of the importance of the spiritual dimension to the well-being of older people, and to the World Council of Churches *Ecumenical Accompaniment Programme in Palestine and Israel* (£7,175), which aims to offer a protective presence to vulnerable communities, monitoring and reporting human rights abuses.

Trust funds

Included within other creditors is the sum of £11,105 (2015: £9,916) relating to five small trusts with purposes related to the Scottish Episcopal Church. The diocesan property trustees comprise the trustees of the trusts concerned, which are administered by the Diocese. The corresponding asset is a designated trusts bank account included within cash at bank in the balance sheet.

Notes to the accounts (continued)

Year ended 31 December 2016

20. Summary of fund movements

	Brought forward £	Net operating income/ (expense) £	Gains / (losses) £	Transfers £	Carried forward £
Restricted funds					
Bishop's discretionary fund (including Pitcairn library)	112,464	(2,181)	10,750	-	121,033
Funds for the benefit of specific Charges	47,195	(2,641)	5,004	-	49,558
Walker Bursary Fund	21,571	3,955	1,942	-	27,468
Other restricted funds	10,687	144	293	-	11,124
	191,917	(723)	17,989	-	209,183
Unrestricted funds					
<i>Capital funds:</i>					
Home mission funds	1,407,041	-	181,724	-	1,588,765
Overseas mission funds	9,882	-	1,276	-	11,158
Episcopal residence fund	924,274	-	-	3,525	927,799
<i>Revenue funds:</i>					
Diocesan projects funds	1,047,584	15,118	132,064	-	1,194,766
	3,388,781	15,118	315,064	3,525	3,722,488
General fund	138,904	(13,032)	9,344	(3,525)	131,691
	3,527,685	2,086	324,408	-	3,854,179
Total funds	3,719,602	1,363	342,397	-	4,063,362

Restricted funds:

The Bishop's discretionary fund provides grants for the benefit of individual diocesan clergy and also assists other beneficiaries and projects.

Funds for the benefit of Charges relate to the Charges at Livingston and Rosslyn.

The Walker bursary fund receives grants from the Walker Trust to provide bursaries for theological education.

Other restricted funds represent a number of small disparate funds.

Unrestricted funds:

Home and overseas mission funds hold investments which provide income to support the mission of the Diocese.

The Episcopal residence fund represents the value of the Episcopal residence.

Diocesan projects funds represent funds accumulated to assist Charges within the Diocese with mission projects (the St Hilda's fund), and buildings maintenance (the St Andrew's fund).

Notes to the accounts (continued)

Year ended 31 December 2016

21. Commitments under operating leases

At 31 December 2016 the total future minimum lease payments in respect of non-cancellable operating leases were as follows:

	£
Amounts payable:	
not later than one year	22,655
later than one year	
and not later than five years	70,429
later than five years	822
Total future commitments at 31 December 2016	93,906

22. Contingent liabilities

From time to time the Diocese is required to provide guarantees to third parties in respect of grants or loans advanced to Charges in the Diocese. In the event of non-performance in respect of a grant or non-payment of sums falling due in respect of a loan, the Diocese would have a legal obligation to pay any such sums due by the Charge. Obligations of this nature constitute a contingent liability of the Diocese.

23. Reconciliation of net income to net cash flow from operating activities

	2016	2015
	£	£
Net income for the reporting period (as shown in the statement of financial activities)	343,760	263,416
Adjustments for non-cash transactions and investing or financing activities:		
Depreciation charges	2,688	1,252
(Gains) on investment assets	(342,397)	(112,152)
Dividends, interest and rents from investments	(99,493)	(99,533)
Changes in non-cash balances:		
Decrease / (increase) in debtors	1,692	(40,423)
(Decrease) in creditors	(7,062)	(12,048)
Net cash (used in) / provided by operating activities	(100,812)	512