



The Church of Scotland

General Trustees

ANNUAL REPORT & FINANCIAL STATEMENTS

For The Year Ended 31 December 2018

Scottish Charity Number SC014574

www.churchofscotland.org.uk

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

ANNUAL REPORT

AND FINANCIAL STATEMENTS

for the year ended 31 December 2018

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THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT for the year ended 31 December 2018

A. OBJECTIVES AND ACTIVITIES

Article III of the Articles Declaratory of the Constitution of the Church of Scotland in Matters Spiritual says: "As a national Church representative of the Christian faith of the Scottish people it acknowledges its distinctive call and duty to bring the ordinances of religion to the people in every Parish of Scotland through a territorial ministry".

Objectives

Interpreting this declaration in modern terms as a duty and a desire for a Christian presence in every community, the General Trustees as a part of the national administration of the Church, aim to give practical effect to this by:

- supporting parish ministry in its various forms; and
- assisting congregations in the provision of suitable buildings for each parish.

Their trust purpose is to administer stipend endowments and any heritable assets such as land, churches, halls and manses and any moveable assets such as investments derived therefrom for such ends, uses and purposes as the General Assembly (or any body to which its powers are delegated) may direct.

This is reflected in the terms of the Trustees' Mission Statement:

"The General Trustees support congregations and Presbyteries in maintaining and developing appropriate flexible, robust and sustainable facilities capable of supporting local mission and worship."

Public Benefit

The Church of Scotland General Trustees is a Charity registered in Scotland. It provides public benefit through the achievement of the two objectives and the effective undertaking of the Trustees' activities in support of the Church of Scotland's national network of around 1,250 parishes, over 3,500 churches, halls and manses and about 1,000 ministers and other parish workers. This network offers spiritual, pastoral and practical care for all, whether they are Christian or not, who wish to engage with matters of faith and community care and action in a Christian context.

Principal Activities

The General Trustees undertake a number of activities in the carrying out of their trust purpose and the two charitable objectives.

Supporting Parish Ministry

a. Administering the Consolidated Stipend Fund

This Fund is administered for the benefit of the 1,250 or so congregations with holdings in it. The Fund capital is largely derived from the sale of glebeland since 1925 as well as from transfers of surplus capital from the Consolidated Fabric Fund and from the investment of new

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

A. OBJECTIVES AND ACTIVITIES (Continued)

Supporting Parish Ministry (Continued)

monies by individual congregations. Revenue generated on the capital is applied to help the congregations meet their parish ministry costs.

Upon the sale of glebeland for a significant sum by way of development value, a congregation's capital holding may generate more income than required. On the recommendation of the Presbytery and with the concurrence of the Ministries Council, surplus capital may be transferred to the benefit of that congregation in the Consolidated Fabric Fund or to assist other congregations through the National Stipend Fund which is included within the Consolidated Stipend Fund.

b. Administering Glebeland Funds

Funds arising from the sale of glebeland are transferred to the capital of the Consolidated Stipend Fund once a particular transaction is complete. As with income from the Fund, rental income arising from the letting of glebeland is also applied to help congregations pay for parish ministry costs.

Assisting Congregations in the Provision of Suitable Buildings

a. Administering the Consolidated Fabric Fund

This Fund comprises two distinct elements, the first being capital derived from the sale of redundant properties and from the transfer from time to time of surplus capital from congregations' holdings in the Consolidated Stipend Fund. Subject to various safeguards and approvals, both capital and accrued revenue may be withdrawn to meet a wide range of buildings-related expenditure incurred by congregations on churches, halls and manses and enabling them to pay for repairs and improvements to their buildings.

General Assembly Regulations provide for the possibility of monies from the Fund being transferred to the benefit of the congregation in the Consolidated Stipend Fund or to assist other congregations through the Central Fabric Fund. Such transfers are implemented by the General Trustees on the recommendation of the appropriate Presbytery.

The second element of the Fund is the net capitalised value of heritable properties occupied by congregations and which are vested in the Trustees as legal owners. This information is required to be shown as a result of charity accounting requirements.

b. Administering Individual Funds and Temporary Funds

Individual Funds were derived from the sale of redundant properties and where the main purpose of the proceeds was for Christian mission rather than for the repair or improvement of buildings. Release of accrued revenue and capital is subject to various approvals from congregations and Presbyteries.

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

A. OBJECTIVES AND ACTIVITIES (Continued)

Assisting Congregations in the Provision of Suitable Buildings (Continued)

Temporary Revenue Funds derived from the sales of redundant properties are normally transferred, together with interest thereon, to the Consolidated Fabric Fund once the transactions are complete.

c. Administering the Central Fabric Fund

The Fund is the main resource which enables the Trustees to provide financial assistance to congregations for repairing and improving the buildings which they use as local resources for Christian mission. In recent years the Trustees have made over £5m available in the form of grants and loans each year.

All application forms for financial assistance contain guidelines as to the General Trustees' policy on the provision of loans and grants from the Fund. The following guidelines are applied when assessing the relative merits of applications for financial assistance:

- Priority will be given to applications firstly from congregations in Priority Areas, secondly from those in other areas of identified need and thirdly from congregations embarking on schemes approved by the Ministries Council's *Go For It* Fund which has a buildings aspect.
- Grants will not be awarded to congregations which have holdings in the Consolidated Fabric Fund from which the relevant expenditure could be met.
- Grants will not be awarded to congregations which can finance the repayment of a loan, subject to the proviso that the General Trustees may continue to make grants in this circumstance towards the cost of obtaining professional advice.
- Grants will only be awarded where the congregation has applied the whole or a substantial portion of its fabric reserves or has made significant efforts to raise funds locally or from other external sources.
- Before loans are offered, the Trustees will scrutinise relevant financial information to ensure that a congregation has the financial ability to repay the capital and interest of any loan which might be offered to it. A short-term working group comprising representatives of the Fabric and the Finance & Resources Committees will set clear policies in relation to the awarding of grants and loans as well as processes to ensure that robust and sustainable business plans for the long-term financing of the operation of new and re-furnished buildings are in place.
- From time to time the Trustees will make modest grants to external organisations such as the Scottish Redundant Churches Trust (now the Historic Churches Trust) where the achievement of such organisations' aims are deemed by the Trustees to support their own objectives including the disposal of redundant Church buildings.

d. Administering the General Fund

The General Fund, which is unrestricted, is used to meet expenses incurred by the Trustees in the administration of their business, the main item being staff salaries and associated costs. After meeting administration costs, the net incoming resources of this Fund (primarily the

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

A. OBJECTIVES AND ACTIVITIES (Continued)

Assisting Congregations in the Provision of Suitable Buildings (Continued)

d. Administering the General Fund (continued)

payments received under Gift Aid from the Church of Scotland Insurances Services Ltd) have been applied towards reserves or have been transferred to the Central Fabric Fund to assist in the making of grants and loans to Congregations, and on one occasion to the Ministries Council of the Church of Scotland, to assist with Parish Staffing costs.

e. The work of the Church of Scotland Insurance Services Limited

The Church of Scotland Insurance Services Limited (“the Insurance Company”) is a limited company incorporated and domiciled in Scotland with registered company number SC001777. The registered office is 121 George Street, Edinburgh, EH2 4YN.

The Insurance Company is a wholly-owned subsidiary of the General Trustees and as such its assets, liabilities and results for the year are consolidated with those of the General Trustees.

The Insurance Company provides through its Church Scheme a first-class comprehensive package-type cover at competitive rates for buildings, liabilities and contents for congregations. The Insurance Company used the good claims record under the first three-year contract to negotiate a new five-year deal with Aviva as the main insurer which became effective on 28 February 2016. In November 2018, the Company extended the scope of cover for empty and unoccupied manses for a modest additional premium. The Insurance Company and the General Trustees believe that the services which the Company provides represent a good deal for congregations and the Trustees.

B. ACHIEVEMENTS AND PERFORMANCE

Bearing in mind their trust purpose, the General Trustees have continued throughout 2018 to support parish ministry and to assist congregations in the provision of suitable buildings by the efficient administration of the Funds under their control.

Investment Performance

The General Trustees invest primarily in the Deposit, Growth and Income Funds of the Church of Scotland Investors Trust. Although they obtain the benefits of professional management, continuous portfolio supervision, spread of investment risk and economies of scale, decisions as to the appropriate investment mix as between the three Funds are the responsibility of the General Trustees in relation to the Consolidated Stipend Fund, the Central Fabric Fund and the General Fund while individual Financial Boards of congregations are responsible for determining the mix of their holdings in the Consolidated Fabric Fund.

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

B. ACHIEVEMENTS AND PERFORMANCE (Continued)

Investment Performance (Continued)

An internal benchmark, reflecting ethical constraints, has been agreed with the Managers of the Growth Fund in order to allow objective assessment of investment performance. In 2018 the total return was +0.22% (2017: +11.3%) against the composite benchmark of -3.4% (2017: +11.3%).

The Income Fund's total investment return was -0.08% (2017: +9.7%) compared with the composite benchmark return of -1.18% (2017: +5.5%).

The Deposit Fund's average rate of interest paid for 2018 was +0.59% (2017: +0.49%).

Review of Asset Allocation

Since 2003, new capital introduced to the Consolidated Fabric Fund has been placed on deposit pending instructions from Financial Boards as to further investment. Over the years, very few Boards gave instructions with the result that very significant sums were being held on deposit, sometimes for many years. Following consultation with the Investors Trust Trustees, an information sheet on the three Funds with guidance as to how to set an appropriate investment strategy is now routinely sent to Congregational Treasurers when additional capital from the sale of redundant buildings is credited to the Consolidated Fabric Fund. The Trustees' Finance Manager has also continued to proactively engage with individual Treasurers whose congregations have large, unused capital deposits. These measures have already resulted in an appreciable increase in the number of instructions being received for investment with a consequent benefit to the congregations concerned by way of increased income. Nevertheless, there remains considerable scope for improvement.

Making congregational buildings safer spaces

The Trustees have continued to implement their policy of improving the awareness of health and safety matters at a congregational level. The initial effort was to produce the Health and Safety Toolkit for congregations and to promote the appointment of a Health & Safety Administrator in every congregation and a Co-ordinator in every Presbytery. At the time of writing, 598 Health and Safety Administrators and 23 Health and Safety Co-ordinators have been appointed. The Trustees will be working with those Congregations and Presbyteries who have not appointed their Health and Safety roles during 2019/2020 to ensure that they do appoint to these roles as soon as possible. Although the Toolkit and the training sessions have been well-received, what has been identified is that there are still significant failings and potential lack of compliance with relevant legislation. In addition, the recent fires at the Glasgow School of Art have brought the consequences of fire loss at Listed buildings to the fore. As owners of the single largest block of Listed buildings in Scotland, the Trustees cannot ignore fire risks. The Trustees have, therefore, agreed to appoint a Health and Safety Officer and a Fire Safety Officer on 3-year fixed term appointments. The intention is that both will be home-based and will engage directly with congregations and Presbyteries to raise awareness of, and compliance with, current requirements.

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

C. FINANCIAL REVIEW

Total Reserves

The financial statements as at 31 December 2018 show that the General Trustees have total reserves of £717,137,000. Of this total for the charity, £516,809,000 is represented by the value of land and property assets as shown in note 12 and £65,997,000 is represented by unrealised gains on investment assets.

Unrestricted Reserves

Of the total reserves of £717,137,000 only £7,934,000 are unrestricted and undesignated, the majority of the reserves being held in restricted funds for the benefit of individual congregations. The Trustees are of the view that the holding of this level of unrestricted reserves is fully justified given that:

- there is annual expenditure on the General Fund of around £1,600,000 with annual ordinary recurring income, excluding income from the Insurance Company which is solely dependent on its trading results, of £432,000;
- major essential maintenance costs or underinsured damage to buildings which cannot be met by the congregation concerned could become a liability of the General Trustees to be met from this reserve and while such instances are not common when they do arise the sums can be very significant; and
- the General Trustees have contingent liabilities as disclosed in note 29 to the financial statements which, if they arose, could eliminate unrestricted reserves.

Designated Reserves

In addition to the General Trustees' own reserves, the consolidated financial statements show reserves in Designated Funds of £6,981,000 at the Balance Sheet date which represents the net assets of the Insurance Company. The Insurance Company operates under the Companies Act and is authorised and regulated by the Financial Conduct Authority. The Directors of the Company are conscious of the Trustees' desire to aid the work of the Church and continue to examine ways to assist in that process.

Restricted Reserves

There are restricted reserves of £699,096,000 at 31 December 2018, comprising £127,669,000 of Stipend Funds and £571,427,000 of Fabric and other Funds which includes £36,429,000 and £480,380,000 respectively of capitalised land and properties.

As explained on page 2, the Consolidated Stipend Fund is held for the benefit of the 1,250 or so congregations for whom it is earmarked, and the income is applied against the congregation's ministry costs. Capital is not normally withdrawn but upon receipt of additional capital, typically from the sale of glebeland, surplus monies can be transferred to the Consolidated Fabric Fund or to the National Stipend Fund administered by the Ministries Council. As agreed with the then Board of Ministry (now Ministries Council) and adopted and re-affirmed by the General Assembly on a number of occasions, the most recent being in 2016, the Fund is regarded as a permanent endowment

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

C. FINANCIAL REVIEW (Continued)

Restricted Reserves (Continued)

for investment strategy purposes. Whilst we consider this internally as an endowment fund it is not treated as such within these financial statements. It is therefore invested for the very long term with the aim of producing as high an annual income as is consistent with the need to sustain progressive growth in this income in the future, "progressive growth" being interpreted as at least matching inflation and sustaining that growth resulting in the need to maintain the capital value of the Fund in real terms. Following the approval of the 2001 General Assembly, the Fund has been viewed on a total return basis, and the Trustees are empowered to pay a proportion of any dividend out of capital.

As reported in previous years, the Trustees have from time to time commissioned independent reviews of the investment strategy for the Fund, the last such being completed in 2013. In 2018, the Trustees resolved to obtain a further review but after investigation were not satisfied that a further independent report would offer any new insights.

Three members of the Trustees' Finance Committee acting as an Investment Panel undertook a comprehensive review of the suitability of continuing to invest the Fund through the Growth Fund of the Investors Trust. An alternative would be the use of Investment Trusts. Although the performance of these was historically superior to the total returns achieved by the Growth Fund this was at least partly due to the ability of such Trusts to borrow which significantly increased the level of risk. The conclusion was that the current operation of the Growth Fund by the Investors Trust delivered a prudent level of risk as well as compliance with the General Assembly's ethical investment policy. However, the review also identified that better communication with the Investors Trust was essential and the Trustees agreed that the Investment Panel should review the Trust's quarterly and annual investment reports with particular reference to the Growth and Income Funds and to attend at least one of the quarterly meetings of the Investors Trust with the specific particular aim of hearing presentations from the Investment Managers of the Growth and Income Funds. It has been further agreed to undertake an annual review of the investment strategy predicated on regular engagement with the Investors Trust but reserving the Trustees' right to seek independent, professional advice.

Fabric Funds are made up of (1) heritable assets capitalised in the accounts which total £480,380,000, (2) monies held for specific congregations totalling £72,035,000 and (3) the Central Fabric Fund of £19,012,000. In the case of (2) the monies are held for the benefit of approximately 810 congregations and, subject to the relevant approvals by Presbyteries and the General Trustees, both capital and revenue balances may be withdrawn to meet local fabric needs. The timing of these withdrawals is out-with the control of the General Trustees. The Central Fabric Funds are used to award loans and grants to congregations (see notes 15, 24 and 27 to the Financial Statements). Grants and loans from the Central Fabric Fund may be applied for by all congregations but all such applications fall to be decided by the General Trustees.

It is the policy of the Trustees to credit general donations to the capital of the Central Fabric Fund in order to increase the value of the Fund and thereby produce greater income for making grants and servicing interest-free loans in the future. Levies on property sales are credited to Revenue and ring-fenced for grant assistance to the three priority categories of congregations as approved by the 2003 General Assembly.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

C. FINANCIAL REVIEW (Continued)

Restricted Reserves (Continued)

Capital in the Consolidated Fabric Fund is invested in the Church of Scotland Investors Trust Growth Fund in order to seek to maintain capital value in the long term and in the Income Fund in order to boost the income on which many congregations are dependant for the maintenance of their buildings. The Growth Fund is primarily an equity-based fund while the Income Fund is primarily fixed-interest based. An element is also invested in the Deposit Fund to cater for withdrawals.

Following General Assembly approval in 2003, all congregations with earmarked funds were informed of the foregoing investment strategy and asked to advise the Trustees if they considered the capital might be better individually invested differently in the Investors Trust.

With effect from July 2003 new capital holdings are initially individually invested in the Deposit Fund of the Investors Trust until the congregation advises the Trustees as to the appropriate investment strategy. The underlying asset allocation of the Fund is re-balanced if necessary to ensure that the Deposit Fund element has a working balance equivalent to twelve months' withdrawals.

Restricted Revaluation Reserve

The revaluation reserve arises on the revaluation of land and properties subsequent to their initial recognition.

Funds of the Investors Trust

The Investors Trust has an ethical investment policy and does not invest in companies substantially involved in alcohol, tobacco, gambling, armaments or fossil fuels.

The Growth Fund is a largely equity-based fund, with 76% of the fund invested in UK and overseas equities, and is intended for long-term investment. It seeks to provide growing annual income and a long-term increase in the value of the capital. The Income Fund is 78% invested in UK bonds and gilts and is intended to provide nominal capital protection. The Deposit Fund is intended for short-term investment and seeks to provide a competitive rate of interest whilst preserving nominal capital value.

Review of Financial Activities

The Statement of Financial Activities discloses the incoming and expended resources for the year to 31 December 2018 and the supporting notes analyse these over the General Trustees' main activities of supporting parish ministry, assisting the provision of suitable buildings and the unrestricted activities of general administration and the Insurance Company. The assets, liabilities and results of the Insurance Company are consolidated with those of the General Trustees and the format of the financial statements complies with the requirements of the Statement of Recommended Practice "Charities SORP (FRS 102)" effective 01 January 2015.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

C. FINANCIAL REVIEW (Continued)

Review of Financial Activities (Continued)

The underlying net assets of the Insurance Company at the Balance Sheet date were £6,981,000 (2017 - £7,256,000). A summary of the Insurance Company's results for the year is shown in Note 14.

The overall total income is £25,804,000 (including 'donated' assets of £7,018,000 – see notes 1 and 4) which is £322,000 more than 2017 with total expenditure of £23,823,000, a decrease of £2,299,000 on the previous year, mainly as a result of reduced property claims of £1,030,000 and a reduction in the amount provided for outstanding loans to congregations of £1,372,000. The Church of Scotland Insurance Services Limited contributed a total of £1,828,000 to the overall income of which £1,386,000 was paid through Gift Aid payments. The net loss on investments, tangible assets and other gains amounted to £302,000 leaving £1,679,000 to be added to the funds brought forward from 2017. Other than in the case of the Stipend Funds, there is no correlation between the movements in income and expenditure.

The objective of supporting parish ministry was met by expenditure of £3,330,000 (net of a £154,000 gain on the sale of glebeland), with £3,419,000 of that providing the Ministries Council with around 8% of its total ministry costs for the year from Stipend Fund income and glebe rents. Including gross capital expenditure, £33,846,000 has been spent on fabric purposes to assist the provision of suitable buildings for congregational purposes. That expenditure represents a significant investment in the Church's property assets. Of this sum £1,608,000 is committed by way of fabric grants to congregations. Awarding grants in excess of £1,000,000 per annum is only possible if the Central Fabric Fund receives support from other income streams of the General Trustees. The General Fund surplus for the year was due in great measure to the Insurance Company's contribution to the work of the General Trustees amounting to £1,386,000 for the year.

Valuation of Assets

As a result of the change of status from that of a Designated Religious Body to a Designated Religious Charity which removed the previous exemption from compliance with charity accounting standards in respect of capitalising heritable properties, the General Trustees carefully considered the significant impact of the Statement of Recommended Practice "Charities SORP (FRS 102)" effective 01 January 2015 given that they are the legal owners of around 2,500 buildings – churches, halls, manses, church officers' houses, steadings and the like – as well as around 550 glebes.

Glebeland

The 12,458 acres of glebeland (2017 – 12,501 acres) in the General Trustees ownership have been brought into the Financial Statements at fair value applying a yield of 1.2% of glebe rental and seasonal grazing income generated throughout the year. This new methodology was approved by the Trustees which suggested an average value of £2,901 per acre for pasture land at 31 December 2018 (2017 - £2,924). Glebeland had a capitalised value of £36,144,000 at the balance sheet date (2017 - £36,548,000).

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

C. FINANCIAL REVIEW (Continued)

Valuation of Assets (Continued)

Other Land

A strip of land was acquired at a cost of £285,000 to enable access to a glebe and is held at cost until the land is disposed.

Churches and Halls

Splitting these into (a) churches with and without integral halls and (b) separate halls, the General Trustees adopted a fair value using a new methodology approved by the Trustees based on using the valuations held at 31 December 2016 as a baseline figure and adjusted for inflation using the annual Tender Price Index at Q4 for the respective year. An annual depreciation charge is charged at 2% of the year end value of the properties. At the end of 2018 this indicated an average price for churches (including churches with integral halls) of £149,264 (2017 - £146,338) and an average price of £101,048 for separate halls (2017 - £99,067). These figures disclosed capitalised values at 31 December 2018 of £198,074,000 for churches (2017 - £195,214,000) and £20,008,000 for halls (2017 - £19,417,000).

Manses

The General Trustees adopted a fair value for manses using methodologies approved by the trustees based on a formula involving the midpoint of the relative Council Tax Band as at 1991 to which is applied indexing to each Band based on the Nationwide Building Society House Price Indexes. This brought out a capitalised value for manses vested in the General Trustees of £262,298,000 as at 31 December 2018 (2017 - £263,972,000)

The total capitalised value of tangible assets as at 31 December 2018 was therefore £516,809,000 comprising 12,458 acres of glebeland, 1,327 churches, 198 halls and 816 manses. This capitalised sum accounts for 72% of the Charity's total net assets.

The Trustees wish to emphasise that the year-end total capitalised value (i) represents the estimated value of land and buildings and is not 'cash in hand' nor is it equivalent to "market value" (ii) is held as restricted and revaluation funds for the future benefit of congregations and is not available for wider purposes and (iii) is subject to volatility depending on future movement of the chosen indices. Nevertheless, the Trustees are satisfied that for the purposes of their annual financial statements this represents a fair and reasonable assessment of the value of properties vested in them on the basis detailed above.

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

D. FUTURE PLANS

The Way Forward process (referred to in last year's Report) was concluded in June 2018 having considered in detail the working of the Trustees' Board and Committees as well as the operation of the Trustees' Department. A number of key elements arising from the process are being pursued:

- (a) the Trustees reported to the 2018 Assembly on their initial thinking about a Strategy for Property Assets for the Church of Scotland with the intention of bringing to the 2019 Assembly a set of proposals followed by the presentation in 2020 of a formal Plan. Led by the Chairman, a very considerable amount of work has been undertaken involving not just the Trustees but other bodies within and outwith the Church. The original thinking has been refined so that a Consultation Paper on The Land & Buildings Plan will be considered by the 2019 Assembly. If approved, the Trustees will be engaging in an extensive round of consultation with Presbyteries and others over the course of the year. It remains the intention to bring the formal Plan to the Assembly in 2020.
- (b) Forming new partnerships with external bodies such as Historic Environment Scotland, the Development Trusts Association Scotland, the Scottish Futures Trust, the Built Environment Forum Scotland and the Keeper of the Registers in relation to land registration issues and with internal bodies such as Presbyteries, the Council of Assembly, the Committee on Church Art & Architecture and with other Councils such as Ministries, Mission & Discipleship and Church & Society.
- (c) Better Communication. This is an area in which the Trustees need to improve primarily in relation to congregations and Presbyteries but also in the area of more effective publicising of the work which the Trustees undertake and the resources which they can make available.
- (d) On 28 November 2018, the first meeting of the newly-formed Presbytery Strategy & Innovation Committee took place. Its remit covers supporting Presbyteries in the Presbytery Planning process, identifying new ways of dealing with redundant buildings including monitoring of disposal and as a specific aspect of this engaging with Historic Environment Scotland and others in respect of historic churches.
- (e) A Nomination Committee has been created in order that better attention can be given to the selection, appointment, induction and training of new and existing Trustees and Advisory Members to ensure a better balance of skills location and gender within the Trustees. The structure and size of the Trustees' Board as well as the introduction of fixed terms of appointment for Trustees and Advisory Members is also being considered although revised Terms of Reference for the various Committees have been approved by the Board.

E. STRUCTURE, GOVERNANCE & MANAGEMENT

Constitution

The Church of Scotland General Trustees is a statutory corporation incorporated under the Church of Scotland (General Trustees) Order Confirmation Act 1921. After their setting up in 1921 their powers and responsibilities were greatly extended by the Church of Scotland (Property and Endowments) Act 1925 and subsequent legislation which provided, among other things, for the transfer to them of the majority of the properties of the pre-1929 Church of Scotland. The Trustees

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Constitution (Continued)

are the major property-holding corporation of the Church of Scotland and the bulk of the functional buildings of the Church are vested in them as legal owners.

The General Trustees act, subject to directions from the General Assembly, as administrative trustees in respect of the heritable properties and funds which have been transferred to them and they are also charged with the administration of the Central Fabric Fund, the Consolidated Stipend Fund, the Consolidated Fabric Fund and various miscellaneous funds, mainly fabric-oriented. Other than as represented by tangible fixed assets, the two Consolidated Funds and the miscellaneous funds are held principally for the future benefit of individual congregations at the discretion of the General Trustees.

Organisation and Structure

General Trustees are appointed by the General Assembly which passes legislation and approves procedures to aid and enable the Trustees to carry out their functions. Directions and instructions from the General Assembly cannot conflict with the General Trustees' statutory powers or trusteeship responsibilities. Trustees who have, prior to the opening of a General Assembly, attained their seventy-fifth birthday cease to be Trustees from the date of the General Trustees' report to that General Assembly. The Trustees who served during the financial year and since the year end to the date of this Report are listed on Page 19.

In an effort to make meetings of the full Board more effective, the Trustees have continued using the meetings to hear short presentations from individual Trustees, staff and others on different aspects of the work not just of the Trustees but also of other agencies of the national administration as well as external organisations.

As highlighted earlier, the structure is being reviewed but currently the Trustees also operate through eight Committees which are responsible for particular aspects of the Trustees' work. The Fabric, Glebes, Nomination and Business (formerly Chairman's) Committees normally meet eleven times a year. The Audit & Assurance Committee normally meets three times each year and the Finance & Resources Committee meets five times, one of these meetings being jointly with the Audit & Assurance Committee. The new Presbytery Strategy & Innovation Committee is currently meeting every six weeks or so while the new Safe Buildings Committee meets seven times throughout the year. The Law Committee is called as necessary. The Committees are executive bodies which take decisions on behalf of the General Trustees on matters falling within their purview which do not involve a change of policy including:

- repairs and improvements at ecclesiastical buildings under the 1998 General Assembly Regulations and the provision of financial assistance;
- visiting congregations usually in tandem with Presbytery representatives to give advice and encouragement in respect of a wide variety of fabric-related issues;
- approving the sale, purchase and lease of churches, halls and manses;
- approving the making of grant applications to Historic Environment Scotland and to Lottery funders;

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TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Organisation and Structure (Continued)

- administration of glebeland through the carrying out of glebe rent reviews by factor members on the Glebes Committee and consideration of disposal of glebeland especially where development value can be achieved;
- interaction with the Scottish Government and other government agencies such as Historic Environment Scotland in relation to specific issues affecting the Church of Scotland or as part of the Scottish Churches Committee; and
- scrutiny of the General Trustees' investments and investment strategy.

The Committees report their decisions to the next meeting of the full Board. As indicated under Future Plans, the number of Committees and their Remits are being considered by the Way Forward Governance Working Group.

The day-to-day running of the General Trustees and the exercise of executive responsibility is delegated to their Secretary and Clerk and, in respect of financial matters, to their Finance Manager who is seconded from the Stewardship & Finance Department of The Church of Scotland Unincorporated Councils and Committees.

On their own initiative, the Trustees seek instructions and directions from the General Assembly and they also promote General Assembly legislation to further their objectives when they present their Report to the General Assembly each May. The Trustees ensure that such instructions and directions are implemented timeously. Frequently, this will involve close liaison and co-operation with other Councils and Committees and with external bodies such as the Scottish Churches Committee. The Trustees have streamlined the presentation of cases coming before them at Board and Committee and always strive to deliver an effective and efficient service to congregations and Presbyteries.

Related Parties

The General Trustees and the Unincorporated Councils and Committees of the General Assembly of the Church of Scotland are component elements of the Church of Scotland, reporting annually to the General Assembly and subject to its direction and are thus related parties as stated in Note 31 to the Financial Statements. In carrying through their functions, the Trustees work closely with the Unincorporated Councils and Committees (Mission & Discipleship, Ministries, Church & Society Council, etc.) at both trustee and executive staff levels. The Trustees have appointed one of their number to attend meetings of the Presbytery Planning Task Group of the Ministries Council. The General Trustees have traditionally invested through the Church of Scotland Investors Trust and as reported earlier there will be a significantly closer partnership with the Trust in the future. The Trustees and their executive staff rely heavily on the high level of skill and professional expertise of the Solicitor of the Church, her Depute and Assistants and support staff in the Law Department.

The Church of Scotland Insurance Services Limited is wholly owned by the Church of Scotland General Trustees apart from one share which is held by the Church of Scotland Trust out of the 530,000 issued shares. It is a Company trading as an insurance intermediary and is authorised by the

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Related Parties (Continued)

Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Further information regarding the relationship between the company and the General Trustees is contained later in the report. The accounts of the Insurance Company have been consolidated with those of the General Trustees.

Appointment and Induction of Trustees

General Trustees must either be Elders or Ministers of the Church of Scotland. Potential Trustees are identified in a number of ways: every four years each Presbytery is invited to put forward names of possible candidates; in addition the General Trustees advertise from time to time in Life & Work magazine. Personal recommendation also plays a part. In all cases, however, the Trustees seek Elders or Ministers with relevant skills and expertise. Details of potential Trustees are scrutinised by the Nomination Committee and those identified as suitable are personally interviewed by the Chairman and Vice-Chairman and one other Trustee after being given an opportunity of perusing an information pack including extracts from relevant legislation, the last financial report and audited financial statements, committee remits, staff organisation and directory and calendar of meetings.

Following successful interview, new members are co-opted as Advisory Members for at least a year before being put forward for formal appointment by the General Assembly. This enables the members to gain experience of attending Committee and Board meetings and accompanying Trustees on deputation visits before deciding if they wish to be nominated as full Trustees. Members are usually allocated to at least one of the executive Committees according to their skills and expertise. Every effort is made to fulfil training needs as these come to be identified and new members are encouraged to attend external trustee training courses.

Persons who are neither Elders nor Ministers of the Church of Scotland but whose skills and experience have been identified as relevant to the work of the General Trustees are co-opted to serve as Advisory Members. Advisory Members have no voting rights but otherwise play a full part in the work of the Trustees by serving on Committees, attending Board meetings and undertaking deputation visits.

All members of the General Trustees are volunteers and many are also involved at Congregational and Presbytery level. Some also serve on other Councils and Committees. Apart from the Chairman and Vice-Chairman who receive a modest honorarium as provided for in the 1925 Act, no members receive remuneration except expenses. The work of the General Trustees would be virtually impossible without the significant contribution of Congregational Boards, Kirk Sessions and of Presbytery officials all but three of whom are part-time and who undertake their duties as part of their Christian service. It is therefore important to note that while this voluntary effort is one of the strengths of the Church of Scotland, it also represents a limitation on the ability of the General Trustees to impose solutions on congregations and Presbyteries. This is a reflection of the Presbyterian structure of the Church of Scotland which is evidenced in the lack of powers in General Assembly legislation to force compliance. The General Trustees' risk register refers to this situation.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Appointment and Induction of Trustees (Continued)

The Trustees have undertaken to review their governance arrangements and structure and intend to present a report to the 2020 General Assembly which will cover matters such as the current 75-year age retirement rule and the introduction of terms of service.

Risk Management

The Trustees have a risk management strategy which comprises:

- an annual review of the principal risks and uncertainties that the Trustees face.
- The establishment of policies, systems and procedures to mitigate the risks identified not only during the annual review but also at other times when identified by individual Committees.
- The implementation of procedures designed to minimise or manage any potential impact on the Trustees should these risks materialise.

The Trustees consider the key risks to be:

- The build-up of major property-related problems at congregational level (allied to increasing lack of professional or technical knowledge) through failure to institute maintenance and repair programs and/or to monitor work at buildings and compounded by the lack of enforcement powers by the Trustees.
- Failure at congregational level to comply with basic health and safety requirements and practices.
- The limited control over external organisations whose decisions may impact adversely on the work of the Trustees.
- Dependence on Presbyteries and congregations for information.

The Trustees seek to mitigate these risks as set out below:-

- Major property-related problems at congregational level

Despite comprehensive legislation requiring annual and quinquennial inspection of churches, halls and manses and the introduction of simplified registers, there are still too many cases which come before the Trustees where buildings have not been properly looked after by congregations compounded by the failure of Presbyteries to monitor and to take appropriate enforcement action. To encourage a more pro-active approach, the Trustees have a number of measures in place including the holding of a rolling program of property seminars for congregational and Presbytery office-bearers. These are in addition to the busy Help Desk function provided by the Trustees' Department in the church offices. In addition, the Trustees' Fabric Committee is developing a system of audit checks on the follow-up of property inspection reports and the Trustees' Presbytery Strategy and Innovation Committee is beginning to work with a number of Presbyteries on a more realistic assessment of which churches and halls are genuinely required for the mission of the Church.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Risk Management (Continued)

- Non-compliance with basic health and safety requirements by congregations

As mentioned earlier, the Trustees appointed a Safe Buildings Consultant to champion a change in the mind-set of congregational office-bearers towards health and safety matters. The Trustees' Health & Safety Working Group is now a Committee reporting to the Board. The Safe Buildings Consultant serves as Secretary to the Committee. The highly successful introduction of a Health & Safety Toolkit in 2017 and the appointment of Health & Safety Co-ordinators by a majority of congregations and Administrators by most Presbyteries has raised awareness of safe buildings issues across the Church. This has resulted in a heightened appreciation of the scale of work which still has to be completed. In response, the Trustees have authorised the appointment of two additional home-based Health & Safety Officers on 3-year fixed terms to directly resource congregations and Presbyteries. It is hoped that the two posts will be filled by mid-2019.

- External issues

The Trustees attempt to deal with this matter by keeping their concerns before the General Assembly, the Council of Assembly and individual Councils and Committees. The Trustees are establishing better links with these bodies as evidenced by the regular attendance of the Trustees' Chairman at the six meetings of the Council of Assembly. In addition, the Convener of the Trustees' Audit Committee serves on the Council's Governance Group and also on the Main Audit Committee when it considers the selection and appointment of the external and internal auditors. As mentioned earlier, the Trustees are establishing more effective ways of working with outside agencies including Historic Environment Scotland, Built Environment Forum Scotland and The Scottish Futures Trust. The Trustees greatly appreciate the concerted voice which they have with other denominations in Scotland through the Scottish Churches Committee on which the Secretary serves.

Corporate Governance

Charities in Scotland are facing increasing scrutiny as a result of major changes to the regulatory system and corporate bodies generally are under increasing pressure to demonstrate that the way they run their affairs complies with principles of good governance. The Trustees have addressed the issues which arise from these two factors including the appointment, induction and training of their members, staff development, investment management, audit independence and risk management. The Governance Working Group earlier referred to is looking in detail at these issues. The Internal Auditors, Deloitte, have produced an audit plan which addresses a number of improvements to various aspects of the Trustees' governance including the introduction of a Register of Interests and review of Committee Remits.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

E. STRUCTURE, GOVERNANCE & MANAGEMENT (Continued)

Corporate Governance (Continued)

As mentioned previously, the Convener of the Trustees' Audit Committee serves on the Council of Assembly's Governance Group and also attends meetings of its Audit Committee when considering the appointment of external auditors to the Unincorporated Councils and Committees.

Appointment of External Auditors

The Council of Assembly's Audit Committee interviewed for external auditors and agreed to appoint RSM UK Audit LLP. Although the appointment would be on a year-by-year basis, it was anticipated that unless extraordinary circumstances emerged the appointment would run for an initial three years. A Trustee of The Church of Scotland General Trustees had been on the panel and had recommended the appointment of RSM UK Audit LLP to serve as external auditors for the Trustees.

F. REFERENCE AND ADMINISTRATIVE DETAILS

Offices

121 George Street
Edinburgh EH2 4YR

Bankers

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh EH2 2TB

Independent Auditors

RSM UK Audit LLP
Third Floor
Centenary House
69 Wellington Street Glasgow G2 6HG

The Church of Scotland Investors Trust

Mrs Nicola Robertson
Secretary
121 George Street
Edinburgh EH2 4YN

Secretary and Clerk

Mr David D Robertson LLB NP
121 George Street
Edinburgh EH2 4YR

Solicitor

Miss Mary E MacLeod LLB NP
121 George Street
Edinburgh EH2 4YN

Treasurer

Mrs Anne F Macintosh BA CA
121 George Street
Edinburgh EH2 4YN

Finance Manager

Mr Alex Semple FCCA
121 George Street
Edinburgh EH2 4YN

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

List of General Trustees

Mr Raymond K Young CBE BArch (Hons) FRIAS
Chairman

Mr Robert W Balfour DL BSc FRICS

Mr Walter H Barbour BLE FRICS

Professor Stewart Brymer OBE LLB (Hons) WS NP

Rev David W Clark MA BD (resigned 4/9/18)

Mr Michael J P Cunliffe BSc (Hons) MSc MCTWEM

Rev James S H Cutler BD CEng MStructE

Mr Iain C Douglas RD BArch FRIAS

Mr William A Hall

Very Rev Dr E Lorna Hood MA BD DD (resigned 11/6/18)

Rev Dr James A P Jack, BSc BArch BD DMin RIBA ARIAS
(resigned 13/11/18)

Mr Alan F K Kennedy BSc FFA

Mr Douglas Kerr BSc Agriculture (Hons)

Mr Peter F King LLB MCIBS (retired 23/5/18)

Rev Sheila M Kirk BA FRIAS

Rev William M Lawrie

Mr James Alexander

Mr Richard S Bell (from 12/6/18)

Mr Robert Bell FStruct MICE BSc (Hons) (from 30/1/18)

Mr A Graham Biggerstaff RD MRICS MREHIS

Miss Laura J Dunlop QC LLB (Hons)

Mr William Gill (from 30/1/18)

Mr Manliffe Goodbody MA FSCI FRAC IAC

Mr Andrew Hartley (from 12/2/19)

Mr Nigel Hicks BSc MSc CA

Mr Michael W Hunter FRICS

Mr Chris Johnstone FRIAS RIBA

Rev Kenneth I MacKenzie DL BD CPS

Mr Hamish McBean

Mr John W Maddock BSc PGCE

Mr Roger G G Dodd DipBldgCons (RICS) FRICS
Vice-Chairman

Mr J G Grahame Lees MA LLB NP

Dr J Kenneth Macaldowie LLD CA

Rev Neil I M MacGregor BD

Mr Arthur S McDonald FRICS (retired 23/5/18)

Rev Janet S Mathieson MA BD

Mr David Menzies CEng MStructE

Mr W Iain Munro BArch FRIAS

Mr Neil A Price BSc CA FMAAT

Mr Robin M Stimpson WS

Mr Donald W Thomas CIPFA

Mr Ian T Townsend FRICS

Mr D Stewart Toy BSc BArch RIBA

Dr John M Trushell BA (Hons) MBE MLin LLM MSc PhD
FRICS FCI Arb FCI OB

Yule Rev Ronald F (deceased 10/5/18)

Advisory Members (as defined on page 15)

Rev Fiona M Mathieson Bed BD PGCommEd MTh (from
12/6/18)

Mr David Mitchell (resigned 22/10/18)

Mr Michael M Norval FRICS

Mr Iain Ogilvie MA (Hons)

Mr Alexander B Pringle CA (retired 23/5/18)

Mr John E Rhind BSc (Hons) FRICS

Mr James H S Stewart LLB (resigned 31/12/18)

Rev David Taverner MCIBS ACIS BD

Mrs Rosalind J Taylor RIBA ARIAS MaPS

Mr Roger S Trueman BArch (Hons) Dip TP ARIAS

Rev Valerie G C Watson BD (from 27/11/18 / resigned
18/2/19)

Rev Jeanette Whitecross BD (resigned 15/5/18)

Mr Kenneth M Wright MSc

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

TRUSTEES' REPORT - CONTINUED for the year ended 31 December 2018

Statement of Trustees' responsibilities in respect of the Trustees' Report and the Financial Statements

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period.

In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable it to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Edinburgh
30 April 2019**

**Raymond K Young, CBE BArch (Hons)
FRIAS, Chairman**

David D Robertson, LLB NP, Secretary

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE CHURCH OF SCOTLAND GENERAL TRUSTEES

Opinion

We have audited the financial statements of The Church of Scotland General Trustees (the 'parent charity') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Financial Activities, the Charity Statement of Financial Activities, the Group and Charity Balance Sheets, the Group and Charity Statement of Cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent charity's affairs as at 31 December 2018 and of its incoming resources and application of resources, 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 requirements of the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

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.

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

Conclusions relating to going concern

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

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or parent charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the trustees' report other than the financial statements and our auditor's report thereon. The trustees are responsible for the other information. Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- the information given in the financial statements is inconsistent in any material respect with the trustees' report; or
- proper accounting records have not been kept by the parent charity; or
- the parent charity financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the statement of trustees' responsibilities set out on page 20 the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the charity's trustees, as a body, in accordance with 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 its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Statutory Auditor
Chartered Accountants
Third Floor
Centenary House
69 Wellington Street
Glasgow, G2 6HG

Date

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31st December 2018

Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2018 £000	Total 2017 £000
Income from:					
3	-	3,971	-	3,971	3,133
4	214	7,185	-	7,399	8,745
5	290	5,214	110	5,614	5,457
6	1,756	7,064	-	8,820	8,147
	2,260	23,434	110	25,804	25,482
Expenditure on:					
	25	-	-	25	20
7	1,859	20,441	-	22,300	25,174
11	104	1,394	-	1,498	928
	1,988	21,835	-	23,823	26,122
13	Net gains / (losses) on investments				
	(31)	(27)	-	(58)	70
	(502)	(5,152)	(114)	(5,768)	10,027
	(533)	(5,179)	(114)	(5,826)	10,097
	(261)	(3,580)	(4)	(3,845)	9,457
Transfers between funds					
	-	110	(110)	-	-
12	Gains / (losses) on revaluation of tangible fixed assets				
	-	5,311	-	5,311	8,818
15	Other gains / (losses)				
	-	213	-	213	30
	(261)	2,054	(114)	1,679	18,305
	Net movement in funds				
	15,176	697,042	3,240	715,458	697,153
22	14,915	699,096	3,126	717,137	715,458

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

CHARITY STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31st December 2018

Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2018 £000	Total 2017 £000
Income from:					
3	1,386	3,971	-	5,357	4,558
4	214	7,185	-	7,399	8,745
5	216	5,214	110	5,540	5,383
6	2	7,064	-	7,066	6,412
	1,818	23,434	110	25,362	25,098
Expenditure on:					
7	1,591	20,441	-	22,032	24,905
11	-	1,394	-	1,394	806
	1,591	21,835	-	23,426	25,711
13	Net gains / (losses) on investments				
	-	(27)	-	(27)	46
	(213)	(5,152)	(114)	(5,479)	9,642
	(213)	(5,179)	(114)	(5,506)	9,688
	14	(3,580)	(4)	(3,570)	9,075
Transfers between funds					
	-	110	(110)	-	-
12	Gains / (losses) on revaluation of tangible fixed assets				
	-	5,311	-	5,311	8,818
22,15	Other gains / (losses)				
	(275)	213	-	(62)	412
	(261)	2,054	(114)	1,679	18,305
	Total funds brought forward				
	15,176	697,042	3,240	715,458	697,153
22	Total funds carried forward				
	14,915	699,096	3,126	717,137	715,458

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

BALANCE SHEETS As at 31st December 2018

Note	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Fixed Assets				
12 Tangible Assets	516,811	515,439	516,809	515,437
13 Investments	178,560	176,450	174,951	172,481
14 Investment in Subsidiary Company	-	-	6,981	7,256
Total fixed assets	<u>695,371</u>	<u>691,889</u>	<u>698,741</u>	<u>695,174</u>
15 Long Term Loans	<u>1,675</u>	<u>1,893</u>	<u>1,675</u>	<u>1,893</u>
Current Assets				
15 Short Term Loans	1,954	2,883	1,954	2,883
16 Debtors	1,797	1,957	140	261
Short Term Deposits	15,933	16,860	15,933	16,860
Cash at Bank and in hand	4,131	3,999	1,185	1,157
Total current assets	<u>23,815</u>	<u>25,699</u>	<u>19,212</u>	<u>21,161</u>
17 Creditors: Amounts falling due within one year	<u>3,585</u>	<u>3,857</u>	<u>2,491</u>	<u>2,770</u>
Net Current Assets	<u>20,230</u>	<u>21,842</u>	<u>16,721</u>	<u>18,391</u>
Total Assets less Current Liabilities	<u>717,276</u>	<u>715,624</u>	<u>717,137</u>	<u>715,458</u>
18 Provisions for Liabilities and Charges	139	166	-	-
Net Assets	<u><u>717,137</u></u>	<u><u>715,458</u></u>	<u><u>717,137</u></u>	<u><u>715,458</u></u>
The funds of the charity:				
19 Endowment Funds	3,126	3,240	3,126	3,240
20a Restricted income Funds	217,564	220,821	217,564	220,821
20b Restricted Revaluation Reserve	481,532	476,221	481,532	476,221
21 Unrestricted income Funds	7,934	7,920	7,934	7,920
22 Designated Funds	6,981	7,256	6,981	7,256
Total charity funds	<u><u>717,137</u></u>	<u><u>715,458</u></u>	<u><u>717,137</u></u>	<u><u>715,458</u></u>

The notes on pages 27 to 41 form an integral part of these financial statements.

The financial statements on pages 23 to 41 were authorised for issue by The Church of Scotland General Trustees on 30 April 2019 and were signed on its behalf by:

Raymond K Young, CBE BArch (Hons) FRIAS, Chairman

Anne F Macintosh BA CA, Treasurer

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

STATEMENT OF CASH FLOWS for the year ended 31st December 2018

Note	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Cash flows from operating activities:				
25	2,320	(1,576)	2,255	(1,504)
Cash flows from investing activities:				
	(8,323)	(6,404)	(8,322)	(6,403)
	8,277	6,373	8,277	6,373
	(25,745)	(21,187)	(25,089)	(20,907)
	17,809	19,629	17,113	19,348
	4,867	4,055	4,867	4,055
	<u>(3,115)</u>	<u>2,466</u>	<u>(3,154)</u>	<u>2,466</u>
Cash flow from financing activities:				
	-	-	-	-
Increase in cash and cash equivalents in the reporting year				
	(795)	890	(899)	962
Cash and cash equivalents at the beginning of the reporting year				
	<u>20,859</u>	<u>19,969</u>	<u>18,017</u>	<u>17,055</u>
26	<u>20,064</u>	<u>20,859</u>	<u>17,118</u>	<u>18,017</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31 December 2018

1 Accounting Policies

The principal accounting policies adopted, judgement and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

a) Basis of preparation

The financial statements are prepared in accordance with 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) ('the Charities SORP'), FRS 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

The Church of Scotland General Trustees is a statutory corporation, established by the Church of Scotland (Properties and Endowments) Order Confirmation Act 1921. It is recognised as a charity for tax purposes by HMRC, registered with the Office of the Scottish Charity Regulator (OSCR) under the charity number: SC014574 and meets the definition of a public entity under FRS 102.

The principal office of the charity is 121 George Street, Edinburgh, EH2 4YR.

The principal activities of the charity are as described in the Trustees' Report.

The financial statements are rounded to the nearest whole £1,000 except where otherwise indicated and are presented in £ sterling.

Subsidiary Company

The principal activity of the Church of Scotland Insurance Services Limited is arranging insurance and providing risk management support to the congregations of the Church of Scotland.

b) Preparation of accounts on a going concern basis

The Trustees have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

c) Group financial statements

The results of the Church of Scotland Insurance Services Limited have been consolidated on a line by line basis in the Statement of Financial Activities and the Balance Sheet. The accounting policies of the subsidiary company do not materially differ from those of the General Trustees and inter-group transactions and balances have been eliminated from the consolidated financial statements.

d) Recognition of income

Generally incoming resources are accounted for in the Statement of Financial Activities when there is legal entitlement to the income and it is probable the income will be received and the amount can be quantified with reasonable accuracy.

Dividends from the Church of Scotland Investors Trust Growth and Income Funds are accounted for when approved with interest earned on the Deposit Fund accounted for up to the Balance Sheet date.

Property sales income is recognised according to the transaction's settlement date (almost always the date of receipt).

Gift Aid Donations are reflected as distributions by our subsidiary trading company and are recognised when approved for payment by the subsidiary.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

for the year ended 31 December 2018

1 Accounting Policies (Continued)

d) Recognition of Income (Continued)

Insurance commission receivable is accounted for in full at the inception of the insurance contract.

Insurance profit commission is accounted for on an annual basis when the calculation is agreed with the insurers.

Donations and grant income is recognised when the charity has entitlement to the income, it is probable that it will be received and amounts can be measured reliably, except as follows:

-when donors specify that donations / grants must be used in future periods, the income is deferred.

-when donors impose conditions which have to be fulfilled before the charity becomes entitled to the income, the income is deferred and recognised when the conditions have been met.

Donated assets are included as income in the year that expenditure has been incurred.

Rental income is recognised on an accruals basis.

e) Expenditure

Expenditure is included in the Statement of Financial Activities on an accruals basis and allocated to the appropriate headings in the financial statements. Grants and loans are disclosed as a commitment on the date of approval by the Trustees and recognised as expenditure once the conditions of the grant or loan award has been met.

The costs of raising funds include the costs incurred in generating voluntary income, together with investment management costs.

Charitable activities expenditure enables the Church of Scotland General Trustees to meet their charitable aims and objectives.

Governance costs are the costs associated with the governance arrangements of the Church of Scotland General Trustees, and relate to the general running of the Charity. These costs include internal and external audit, and the costs associated with meeting constitutional and statutory requirements such as the costs of Trustee Meetings and the costs of preparation of the Trustees' financial statements. This category also includes costs associated with the strategic as opposed to the day-to-day management of the Charity.

Support costs are those costs that enable fund generating and charitable activities to be undertaken. These costs include legal, finance and payroll administration, direct staff costs, human resources, central premises and information technology as set out in note 8.

f) Employee benefits

The Church of Scotland Insurance Services Limited provides a range of benefits to employees, including defined contribution pension plans.

g) Taxation

The Church of Scotland General Trustees, as a statutory corporation, have charitable status for UK tax purposes and are exempt from tax on income and gains to the extent that they are applied to its charitable activities. The Church of Scotland Insurance Services Limited presently distributes part of its taxable income by way of Gift Aid but the remainder of its profits are chargeable to Corporation Tax. Provision is also made for deferred taxation, using the liability method, on all material timing differences, including revaluation gains and losses on investments, recognised in the Subsidiary Company's profit and loss account. Deferred taxation is calculated at the rates at which it is expected that the tax will arise.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31 December 2018

1 Accounting Policies (Continued)

h) Tangible assets

The Church of Scotland Unincorporated Councils and Committees make use of heritable properties vested in The Church of Scotland General Trustees. These properties are not included in the financial statements of the General Trustees but are included in the financial statements of the Unincorporated Councils and Committees as beneficiary nominees at fair value using methodologies approved by the Council of Assembly Trustees.

Tangible assets are stated at periodic valuation less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Glebeland and Heritable Properties

Glebeland and Heritable Properties whose titles are vested in the General Trustees have been capitalised at fair value using the methodology approved by the Trustees as set out in Note 12 as has capital expenditure incurred by the General Trustees and congregations on major projects costing over £50,000 during the year. Depreciation has been charged on a straight line basis over 50 years for all heritable properties based on the year-end valuation.

Tangible Fixed Assets excluding Heritable Properties

Tangible Fixed Assets costing more than £5,000 are capitalised. All other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation and residual values

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Office Furniture and Equipment	5 years
Computers	3 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

i) Investments

Listed investments are valued at their middle market value at the close of business at the year end. This closing valuation is then used to attribute a value to units held by investors. Investments are held at fair value through the Income & Expenditure Account.

Deposits held by the Deposit Fund are stated at cost.

Realised and unrealised gains and losses are included within the Statement of Financial Activities.

The investment in the Subsidiary Company is stated at the underlying value of its net assets.

Gains and losses on disposal and revaluation of investments are recorded in the Consolidated Statement of Financial Activities.

j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with the Investors Trust.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

for the year ended 31 December 2018

1 Accounting Policies (Continued)

k) Provisions and contingencies

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

The General Trustees provision relates to deferred tax of the 'Insurance Company' which is expected to be used more than 12 months following the balance sheet date.

Contingencies

Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

l) Long Term and Short Term Loans

Fabric loans to congregations meet the definition of social investments and concessionary loans as defined within the Charities SORP as they are loans made primarily to further the charitable aims of the General Trustees and interest rates charged are below the prevailing market rate of interest. Fabric loans represent loans made to congregations from the consolidated fabric fund for the purposes of maintaining and / or enhancing their condition.

The term of the loan is normally a period between 5 to 8 years with interest rates of 0%, 3% and 5%.

Short term loans may be awarded mainly for property purchases with the loan repaid in full or in part from the proceeds of disposal of a property.

Fabric loans are measured initially at their fair value and subsequently at their amortised cost using the effective interest method. Recoverability of loans is considered on an annual basis and are provided for as required.

m) Financial instruments

The charity mainly has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction price and subsequently measured at their settlement value, unless the arrangement constitutes a financing transaction. Financing transactions are initially measured at the present value of the future receipts discounted at a market rate of interest, and are subsequently carried at amortised cost, using the effective interest rate method. Investments in Growth and Income Fund Units held with the Investors Trust are shown at fair value. A breakdown of financial instruments by measurement basis is detailed in Note 24.

n) Fund Accounting

The General Fund is an unrestricted fund which is available for use at the discretion of the Trustees in furtherance of the general objectives of the General Trustees and which has not been designated for other purposes.

Designated Funds comprise unrestricted funds of the 'Insurance Company' that have been set aside by the Trustees for particular purposes.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

for the year ended 31 December 2018

1 Accounting Policies (Continued)

n) Fund Accounting (Continued)

Restricted Funds are funds which are to be used in accordance with specific restrictions imposed by donors or Assembly instruction in respect of the Consolidated Stipend and Fabric Funds.

Permanent Endowment Funds are funds which are to be retained as capital in accordance with the wishes of donors.

The Restricted Revaluation Reserve arises on the revaluation of land and properties subsequent to their initial recognition.

o) Related party transactions

The charity discloses all related party transactions, including those with wholly owned members of the group.

2 Critical accounting judgements and estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

There are no critical judgements in applying the company's accounting policies.

Key accounting estimates and assumptions

Valuation of Assets

Heritable assets fall into four classes which have been valued as follows:

Glebeland

Revalued annually based on the prior year yield of glebe rental and seasonal grazing income generated throughout the year. There is no depreciation charge on glebeland.

Other Land

Other land is held at cost and no depreciation is charged on this asset category.

Churches and Halls

Revalued annually using the 2016 valuation as a baseline figure, adjusted for inflation using the Gardiner & Theobald Tender Price Index at Q4 in the respective year. There is an annual depreciation charge applied of 2% of the year end value of the property.

Manses

The values of manses are based on a formula involving the midpoint of the relative Council Tax Band as at 1991 to which is applied indexing to each Band based on the Nationwide Building Society House Price Index. There is an annual depreciation charge applied of 2% of the year end value of the property.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
3 Income from Donations and legacies				
Legacies	108	68	108	68
Mission & Renewal Fund	291	291	291	291
Donations	1,837	404	3,223	1,829
Monies from Other Boards/Committees	539	201	539	201
New Capital from Congregations	1,196	2,169	1,196	2,169
	<u>3,971</u>	<u>3,133</u>	<u>5,357</u>	<u>4,558</u>
4 Income from Charitable activities				
Supporting Parish Ministry	48	20	48	20
Providing Suitable Buildings				
Donated Assets	7,018	8,574	7,018	8,574
Other income	106	14	106	12
Other - General Fund	227	137	227	139
	<u>7,399</u>	<u>8,745</u>	<u>7,399</u>	<u>8,745</u>
5 Income from Investments				
Dividends	5,515	5,331	5,441	5,257
Interest	99	126	99	126
	<u>5,614</u>	<u>5,457</u>	<u>5,540</u>	<u>5,383</u>
6 Other Income				
Rental Income	1,719	1,585	1,719	1,585
Subsidiary Company Trading Income (note 14)	1,754	1,735	-	-
Net Proceeds on Disposal of Non Vested Assets	4,959	4,577	4,959	4,577
Levies on Property Sales	303	248	303	248
Proceeds from miscellaneous land sales	83	-	83	-
Sundry Income	2	2	2	2
	<u>8,820</u>	<u>8,147</u>	<u>7,066</u>	<u>6,412</u>
7 Expenditure on Charitable Activities				
Supporting Parish Ministry	3,462	3,503	3,462	3,503
Providing Suitable Buildings	16,979	19,917	16,979	19,917
Other - General Fund (note 8)	1,859	1,754	1,591	1,485
	<u>22,300</u>	<u>25,174</u>	<u>22,032</u>	<u>24,905</u>

Included in the figure of Providing Suitable Buildings is a cost of £1,608,000 in respect of fabric grant awards for the year. An analysis of fabric grants payable during the year is set out in note 27.

Within Other - General Fund is a cost of £248,000 that relates to Governance Costs details of which can be found in note 9.

8 Support Costs within: Other - General Fund Expenditure (note 7)

	Support Costs	Transfer to Governance	Total 2018	Total 2017
	£000	£000	£000	£000
Legal	376	-	376	334
Finance and Payroll Administration	122	-	122	102
Direct Staff	762	(50)	712	672
Human Resources	17	-	17	17
Central Premises	15	-	15	15
Information Technology	12	-	12	13
	<u>1,304</u>	<u>(50)</u>	<u>1,254</u>	<u>1,153</u>

The Church of Scotland General Trustees do not employ any staff directly - see note 10. All General Trustees payroll costs are recharged as support costs.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
9 Governance Costs				
External Audit	30	28	22	21
Internal Audit	17	10	17	10
Trustees' Remuneration and Expenses (See Note 10)	26	29	26	29
Expenses of Advisory Members etc.	4	3	4	3
Trustees' Indemnity Insurance	7	7	7	7
Professional Support for Trustees	50	50	50	50
Subsidiary Company's Directors' Remuneration	114	126	-	-
	<u>248</u>	<u>253</u>	<u>126</u>	<u>120</u>
10 Employees and trustees				
<i>Employees</i>				
Salaries	805	760	595	549
Social Security Costs	72	69	56	52
Defined Contribution Pension Costs	102	105	78	72
Other Staff Costs	43	20	43	20
	<u>1,023</u>	<u>954</u>	<u>772</u>	<u>693</u>

The General Trustees do not employ any staff, except in its Subsidiary Company, but reimburse the Church of Scotland for the services of staff employed by the Church's Central Services Committee, but working primarily for the General Trustees. The average number of such employees, calculated as full time equivalents, was 17 (2017 - 17).

In addition, the undernoted staff costs were incurred by the Subsidiary Company, The Church of Scotland Insurance Services Limited.

	2018 £000	2017 £000
Salaries	210	211
Social Security Costs	16	17
Defined Contribution Pension Costs	24	33
	<u>250</u>	<u>261</u>
No. of employees whose earnings plus benefit in kind exceeded £60,000 - £60,001 - £70,000	<u>1</u>	<u>1</u>

Trustees

Other than the Chairman and Vice-Chairman, who each received £1,765 (2017 - £1,730), the individual Trustees received no remuneration. Authority to pay this remuneration is contained in Section 38 of the Church of Scotland (Property and Endowment) Act 1925.

Expenses incurred and amounting in total to £22,074 were reimbursed to 27 Trustees mainly for travel and subsistence (2017 - £25,179 to 30 Trustees). A total of £3,595 was also reimbursed to Advisory Members (2017 - £3,394).

Key management compensation

Key management includes the Board, members and Chief Executive of The Church of Scotland Insurance Services Limited. The compensation paid or payable to key management for employee services is shown below:

	Group and Charity	
	2018 £	2017 £
Salaries and other short-term benefits	101,123	103,550
Post-employment benefits	12,891	22,259
	<u>114,014</u>	<u>125,809</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

11 Other Expenditure

As more fully explained in note 14, taxable profits arise in the Trustees' trading subsidiary, the Church of Scotland Insurance Services Limited. As a result provision is made for Corporation Tax.

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Subsidiary Company - Trading expenditure	131	117	-	-
Deferred tax (note 18)	(27)	5	-	-
Loss on disposal of Tangible Assets (note 12)	1,394	806	1,394	806
	1,498	928	1,394	806

12 Tangible Assets

	Land £000	Heritable Properties £000	Charity £000	Subsid. Co Office Equipment £000	Group £000
Cost or valuation					
At beginning of the year	36,833	478,604	515,437	11	515,448
Additions	-	15,340	15,340	1	15,341
Disposals	(126)	(9,545)	(9,671)	-	(9,671)
Revaluations	(278)	(4,019)	(4,297)	-	(4,297)
At end of the year	36,429	480,380	516,809	12	516,821
Accumulated depreciation					
At beginning of the year	-	-	-	9	9
Depreciation	-	9,608	9,608	1	9,609
Disposals	-	-	-	-	-
Revaluations	-	(9,608)	(9,608)	-	(9,608)
At end of the year	-	-	-	10	10
Net book value at beginning of the year	36,833	478,604	515,437	2	515,439
Net book value at end of the year	36,429	480,380	516,809	2	516,811
Net gains on disposal of tangible fixed assets					
Proceeds	281	7,996	8,277	-	8,277
Opening net book value	(126)	(9,545)	(9,671)	-	(9,671)
Net realised Losses in year	155	(1,549)	(1,394)	-	(1,394)

As reported in previous years, following close discussions with the Auditors the General Trustees have capitalised all the heritable assets vested in them on a basis which recognises the estimated value of the assets. It was also agreed with the Office of the Scottish Charity Regulator that this basis of valuation would be applied by the Trustees in preparing their financial statements. The basis of valuation used is as follows:

<u>Category of Asset</u>	<u>Basis of Valuation</u>
Glebeland	Revalued annually based on the current year yield of glebe rental and seasonal grazing income generated throughout the year. The yield applied this year is 1.2%. There is no depreciation charge on glebeland.
Other Land	Valued at cost. There is no depreciation charge on Other Land.
Manses	Mid point of the relative Council Tax band in 1991 as adjusted by the current Nationwide Building Society House Price Index for Scotland. There is an annual depreciation charge applied of 2% of the year end value of the property.
Churches with or without Integral Halls	Revalued annually and adjusted for inflation using the Gardiner & Theobald Tender Price Index at Q4 in the respective year. There is an annual depreciation charge applied of 2% of the year end value of the property.
Separate Halls	Revalued annually and adjusted for inflation using the Gardiner & Theobald Tender Price Index at Q4 in the respective year. There is an annual depreciation charge applied of 2% of the year end value of the property.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

12 Tangible Assets (Cont'd)

During the year expenditure on property which was deemed to be of a capital nature has been capitalised along with the cost of capital expenditure on properties as incurred by individual congregations on the basis that these are donated assets as the property titles are vested in the General Trustees.

Gains / (losses) on revaluation of tangible fixed assets

The gain on revaluation of tangible fixed assets recognised in the Consolidated Statement of Financial Activities is reconciled as follows:

	2018	2017
	£000	£000
Revaluation (loss) / gain	(4,297)	(754)
Depreciation reversal	9,608	9,572
Net gain on revaluation	<u>5,311</u>	<u>8,818</u>

13 Investments

	Group		Charity	
	2018	2017	2018	2017
	£000	£000	£000	£000
Fair value at beginning of the year	176,450	164,795	172,481	161,235
Acquisitions at cost	25,745	21,187	25,089	20,907
Disposals at opening fair value / cost	(17,867)	(19,559)	(17,140)	(19,302)
Net (losses) / gains on revaluation	(5,768)	10,027	(5,479)	9,641
Fair value at end of the year	<u>178,560</u>	<u>176,450</u>	<u>174,951</u>	<u>172,481</u>
Historic cost at end of the year	<u>111,708</u>	<u>103,573</u>	<u>108,954</u>	<u>100,877</u>
Net gains / (losses) on disposal of investments				
Proceeds	17,809	19,629	17,113	19,348
Opening fair value	17,867	19,559	17,140	19,302
Net realised (losses) / gains in year	<u>(58)</u>	<u>70</u>	<u>(27)</u>	<u>46</u>
Analysis of Investments at 31st December				
Church of Scotland Investors Trust - Growth Fund	125,591	129,038	125,591	129,038
Church of Scotland Investors Trust - Income Fund	22,485	21,690	22,485	21,690
Church of Scotland Investors Trust - Deposit Fund	26,875	21,753	26,875	21,753
Ordinary Stocks and Shares and Unit Trusts	3,609	3,969	-	-
	<u>178,560</u>	<u>176,450</u>	<u>174,951</u>	<u>172,481</u>

14 Investment in Subsidiary Company

The share capital of the Church of Scotland Insurance Services Limited is wholly owned by the Church of Scotland General Trustees, apart from one share which is held by the Church of Scotland Trust out of 530,000 issued shares and is authorised and regulated by the Financial Conduct Authority. The Company arranges cover for most classes of insurance and continues to insure Church of Scotland congregations as well as the congregations of other denominations. It does not have charitable status for tax purposes. The investment in the Subsidiary Company is stated at the underlying value of its net assets.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

14 Subsidiary Company (continued)

A summary of the trading results is shown below. The information is taken from the audited financial statements of the Church of Scotland Insurance Services Limited and includes transactions with the Church of Scotland General Trustees.

	2018 £000	2017 £000
Turnover	1,754	1,735
Investment Income	74	74
Total Income	1,828	1,809
Expenditure	(424)	(407)
Operating Profit	1,404	1,402
(Loss) / Gain on Investment Assets	(320)	410
Profit on ordinary activities before taxation	1,084	1,812
Taxation Credit / (Charge)	27	(5)
Net Operating Profit before Gift Aid payment	1,111	1,807
Gift Aid payment to the General Trustees	(1,386)	(1,425)
Reserves brought forward	6,726	6,344
Reserves carried forward	6,451	6,726
 Subsidiary Company Funds:		
Assets	8,215	8,509
Liabilities	(1,234)	(1,253)
Total Funds (including 530,000 ordinary shares of £1 each)	6,981	7,256

15 Loans - Group and Charity

Loan movements were as follows:

	Interest Free £000	Interest Bearing £000	2018 £000	2017 £000
Value at beginning of the year	1,709	3,067	4,776	4,613
Other Gains / (Losses)	164	49	213	30
Loan commitments drawn down	2,322	770	3,092	4,563
Movement in Provisions	184	231	415	(376)
Loans repaid	(3,067)	(1,800)	(4,867)	(4,054)
Value at end of the year	1,312	2,317	3,629	4,776
Less : Amounts repayable within one year	821	1,133	1,954	2,883
Amounts repayable after one year	491	1,184	1,675	1,893

Interest free and interest bearing loans are normally advanced for periods of between five and eight years, and are repayable by half yearly instalments.

Short Term Loans are normally advanced for a period no more than one year with interest rates ranging between 0% to 5% depending on the circumstances of the loan application.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

16 Debtors	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Interest Receivable	106	86	106	86
Subsidiary Company Insurance Debtors	1,611	1,638	-	-
Debtors and Prepayments	80	233	34	175
	<u>1,797</u>	<u>1,957</u>	<u>140</u>	<u>261</u>

Subsidiary Company Insurance Debtors are stated after provisions for impairment of £Nil (2017: £Nil).

17 Creditors: Amounts falling due within one year	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Grants voted but not paid	380	377	380	377
Subsidiary Company Insurance Creditors & Provisions	1,062	1,060	-	-
Sundry Creditors and Accruals	1,166	2,273	1,134	2,246
Due to the Church of Scotland Unincorporated Councils and Committees	977	147	977	147
	<u>3,585</u>	<u>3,857</u>	<u>2,491</u>	<u>2,770</u>

18 Provision for Liabilities and Charges	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Deferred Taxation on unrealised investment gains				
At beginning of the year	166	161	-	-
Provision for year	(27)	5	-	-
At end of the year	<u>139</u>	<u>166</u>	<u>-</u>	<u>-</u>

19 Permanent Endowment Funds - Group and Charity	Group				Charity	
	Balance 1 Jan 2018 £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2018 £000
Providing Suitable Buildings - Fabric Funds	3,240	110	-	(110)	(114)	3,126

The above funds are represented by a number of endowment funds held, the income from which is required to be used for the benefit of congregational fabric needs.

20a Restricted income Funds - Group and Charity	Group				Charity	
	Balance 1 Jan 2018 £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2018 £000
Supporting Parish Ministry						
Glebe Funds	37,047	483	(268)	(311)	(277)	36,674
Consolidated Stipend Fund	93,341	3,588	(3,062)	438	(3,310)	90,995
	<u>130,388</u>	<u>4,071</u>	<u>(3,330)</u>	<u>127</u>	<u>(3,587)</u>	<u>127,669</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

20a Restricted income Funds (Continued)

	Balance 1 Jan 2018 £000	Income £000	Expenditure £000	Transfers £000	Other Gains / (Losses) £000	Balance 31 Dec 2018 £000
Providing Suitable Buildings						
Consolidated Fabric Fund	539,311	923	(7,850)	6,995	4,263	543,642
Individual & Temporary Funds	8,705	16,589	(9,419)	(7,012)	(90)	8,773
Central Fabric Fund	18,638	1,851	(1,236)	-	(241)	19,012
	<u>566,654</u>	<u>19,363</u>	<u>(18,505)</u>	<u>(17)</u>	<u>3,932</u>	<u>571,427</u>
Total Restricted Funds	<u>697,042</u>	<u>23,434</u>	<u>(21,835)</u>	<u>110</u>	<u>345</u>	<u>699,096</u>
					2018 £000	2017 £000
Total Restricted Funds					699,096	697,042
Restricted Revaluation Reserve (note 20b)					(481,532)	(476,221)
Other Restricted Funds					<u>217,564</u>	<u>220,821</u>

The stipend funds are restricted for stipend purposes and the Trustees use the income to support the ministry costs of individual congregations. The restricted fabric funds are held for the purpose of supporting fabric needs of congregations. Transfers between funds generally represent balances held in respect of individual congregations being transferred from one fund to another. (note 30)

20b Restricted Revaluation Reserve - Group and Charity

	2018 £000	2017 £000
Opening Revaluation Reserve balance	476,221	467,403
Revaluation (loss) / gain for the year	(4,297)	(754)
Depreciation reversal	9,608	9,572
Movement in year	<u>5,311</u>	<u>8,818</u>
Closing Revaluation Reserve balance	<u>481,532</u>	<u>476,221</u>

21 Unrestricted income Fund - Group and Charity

	Balance 1 Jan 2018 £000	Income £000	Expenditure £000	Transfers £000	Total Gains / (Losses) £000	Gift Aid Distribution £000	Balance 31 Dec 2018 £000
Other - General Fund	7,920	432	(1,591)	-	(213)	1,386	7,934

22 Designated Funds

	£000	£000	£000	£000	£000	£000	£000
(a) Group							
Other - Subsidiary Company	7,256	1,828	(397)	-	(320)	(1,386)	6,981
(b) Charity							
Other - Subsidiary Company	7,256	-	-	-	(275)	-	6,981

This value equates to the net assets of the Subsidiary Company and will fluctuate in line with this.

23 Analysis of group net assets among funds

	Endowment £000	Restricted £000	Unrestricted £000	Designated £000	Revaluation £000	2018 Total £000	2017 Total £000
Tangible Assets	-	35,277	-	2	481,532	516,811	515,439
Investments	3,126	163,598	8,226	3,610	-	178,560	176,450
Long Term Loans	-	1,675	-	-	-	1,675	1,893
Current Assets	-	18,990	222	4,603	-	23,815	25,699
Current Liabilities	-	(1,976)	(514)	(1,095)	-	(3,585)	(3,857)
Provisions for Liabilities and Charges	-	-	-	(139)	-	(139)	(166)
	<u>3,126</u>	<u>217,564</u>	<u>7,934</u>	<u>6,981</u>	<u>481,532</u>	<u>717,137</u>	<u>715,458</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

24 Financial instruments

The group and charity have the following financial instruments:

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Loans and receivables held at amortised cost				
Loans	3,629	4,776	3,629	4,776
Interest receivable	106	59	106	59
Subsidiary company insurance debtors	1,611	1,638	-	-
Debtors	80	259	34	202
Short term deposits	15,933	16,860	15,933	16,860
Other deposits	26,875	21,751	26,875	21,753
Cash at bank and in hand	4,130	3,997	1,185	1,155
	<u>52,364</u>	<u>49,340</u>	<u>47,762</u>	<u>44,805</u>
Investments at fair value	<u>151,685</u>	<u>154,699</u>	<u>148,076</u>	<u>150,728</u>
	<u>204,049</u>	<u>204,039</u>	<u>195,838</u>	<u>195,533</u>
Financial liabilities measured at amortised cost				
Grants voted but not paid	380	377	380	377
Subsidiary Company Insurance creditors and provisions	1,062	1,060	-	-
Sundry creditors and accruals	1,165	2,273	1,133	2,246
Due to Church of Scotland Unincorporated Councils and Committees	977	147	977	147
	<u>3,584</u>	<u>3,857</u>	<u>2,490</u>	<u>2,770</u>

25 Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Net income/(expenditure) for the financial year (as per the statement of financial activities)	1,679	18,305	1,679	18,305
Adjustments for:				
Depreciation	9,609	9,572	9,608	9,572
Donated Assets	(7,018)	(8,574)	(7,018)	(8,574)
Losses / (Gains) on investments	5,827	(10,097)	5,781	(10,069)
Net (Gains) on property	(3,917)	(8,012)	(3,917)	(8,012)
(Decrease) / Increase in Provision for Loans	(415)	376	(415)	376
(Decrease) / Increase in Deferred Tax Provision	(27)	5	-	-
Decrease in Debtors	160	548	121	582
Decrease in Loans due from Congregations	(3,305)	(4,594)	(3,305)	(4,594)
Increase / (Decrease) in Creditors	(273)	895	(279)	910
Net cash provided by (used in) operating activities	<u>2,320</u>	<u>(1,576)</u>	<u>2,255</u>	<u>(1,504)</u>

26 Analysis of cash and cash equivalents

	Group		Charity	
	2018 £000	2017 £000	2018 £000	2017 £000
Short term deposits	15,933	16,860	15,933	16,860
Cash at bank	4,131	3,999	1,185	1,157
Total cash and cash equivalents	<u>20,064</u>	<u>20,859</u>	<u>17,118</u>	<u>18,017</u>

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

27 Analysis of Fabric Grant Awarded to Congregations

		2018 £000	2017 £000
Providing Suitable Buildings			
Standard			
Churches / Halls -	67 (2017 - 79)	811	1,137
Manses -	14 (2017 - 21)	226	250
		<u>1,037</u>	<u>1,387</u>
Less: Grants lapsed or cancelled		(12)	(93)
		<u>1,025</u>	<u>1,294</u>
Priority			
Churches -	18 (2017 - 21)	415	386
Manses -	3 (2017 - 6)	57	399
		<u>472</u>	<u>785</u>
Less: Grants lapsed or cancelled		-	(112)
		<u>472</u>	<u>673</u>
Bequests		<u>111</u>	<u>155</u>
Total Net Grants Awarded		<u><u>1,608</u></u>	<u><u>2,122</u></u>

28 Capital Commitments

As at 31 December 2018, the General Trustees had approved a number of capital projects which will enable congregations to draw down on balances within the Consolidated Fabric Fund. Due to these projects comprising both capital and revenue expenditure and with some projects having a number of funding partners, the extent of the capital commitment cannot be estimated with any accuracy other than being limited to the amount held in name of the congregation concerned.

29 Contingent Liabilities

A contingent liability exists in relation to grants received from the Community Fund, the Heritage Lottery Fund and Historic Environment Scotland in respect of work at buildings vested in the General Trustees. Some or all of the individual grants could become repayable in certain circumstances, such as the sale of the properties within a specified period from the date of receipt of the grant. In cases where the proceeds of sale and other funds held by the Congregations concerned were less than the amounts of the grants repayable, there could be a liability falling on the General Trustees to repay the balance of grants. At 31 December 2018 the contingent liability, representing the total grants awarded, amounted to approximately £5,212,738 (2017 - £4,171,000). As at 31 December 2018 there is also a contingent liability for grants approved in principle of £792,000 (2017 - £886,000) and loans to congregations of £3,302,000 (2017 - £3,337,000)

A further contingent liability exists in that the General Trustees are the titular proprietors of the bulk of the Congregational property of the Church of Scotland. The individual Congregations are charged with the maintenance and adequate insurance of their property but in the event of their not having the resources to meet statutory obligations these would fall on the General Trustees. It is not possible to quantify this potential liability but at 31 December 2018 the Trustees are not aware of any specific liability against which provision need be made.

THE CHURCH OF SCOTLAND GENERAL TRUSTEES

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED for the year ended 31st December 2018

29 Contingent Liabilities (Continued)

The Trustees have taken a number of steps to mitigate any potential liability that could arise from congregations not adequately maintaining and / or insuring their properties such as; annual and quinquennial inspections by Presbyteries; introduction of simplified versions of the Property Register and Manse Condition Schedule; monitoring and follow up of Quinquennial Reports by the Trustees; holding regular property seminars throughout the country; regular deputation visits by Trustees; implementation of comprehensive compulsory insurance schemes for buildings, liabilities and contents for congregations; appointment of a full-time Safe Buildings Consultant.

30 Transfers of funds

There have been numerous transfers of balances between funds throughout the year, the net effects of which are shown in notes 19 to 22. These generally represent balances held in respect of individual congregations being transferred from one fund to another.

31 Related party transactions and controlling party

The Church of Scotland General Trustees are a component element of the Church of Scotland which has Designated Religious Charity status. This also includes The Unincorporated Councils and Committees of the General Assembly of the Church of Scotland and The Church of Scotland Investors Trust, neither of which is controlled by the other but both of which are related parties and report individually to the General Assembly.

The General Trustees paid over to the Ministries Council, which is one of the Church of Scotland's Unincorporated Councils and Committees, the sum of £3,418,720 (2017 - £3,444,000) representing net revenue income from its Stipend and Glebe Revenue Funds.

The General Trustees paid £114,126 to the Ministries Council's Go For It Fund representing that Council's one-half share of the Levy on property sales (2017 -£124,000) and gave a grant of £30,000 to the Chance to Thrive project (2017 - £30,000).

The Church of Scotland Unincorporated Councils and Committees receive monies and make payments on behalf of the Church of Scotland General Trustees via a current account. At the end of the financial year, the sum of £977,000 was due to the Church of Scotland Unincorporated Councils and Committees from the Church of Scotland General Trustees (2017 - £147,000). Both bodies are answerable to the General Assembly of the Church of Scotland. The General Trustees paid internal support costs to the Unincorporated Councils and Committees of £1,304,000 in respect of accommodation, information technology, human resources, finance and payroll administration, legal services and direct staff costs (2017 - £1,203,000).

In addition, some of the congregations of which individual General Trustees are members or Trustees have deposits/investments with the General Trustees and received interest/dividends. These arrangements were all on an arm's length basis in line with agreements with all other congregations.