

LONDON DIOCESAN FUND

DIRECTORS' AND TRUSTEES' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

A company limited by guarantee and registered in England no: 150856

Registered charity no: 241083

Eighty-eighth Report

Registered and principal office.
London Diocesan House
36 Causton Street
London
SW1P 4AU



GLOSSARY

BLF	Bishop of London's Fund, incorporated in 1882.
BLMF	Bishop of London's Mission Fund, a designated fund.
CCLA	CCLA Investment Management Limited. Known as Church, Charity and Local Authority Fund Managers Limited before 1994.
CPF	City Parochial Foundation, established by the City of London Parochial Charities Act, 1883.
FRS	Financial Reporting Standard.
ICTA	Income and Corporation Taxes Act 1988 (c. 1).
LDBF	London Diocesan Board of Finance, a charitable company
LDBS	London Diocesan Board for Schools, a charitable company.
LDF	London Diocesan Fund.
Measure	A law applying solely to the Church of England.
PCC	Parochial Church Council.
SORP	<i>Accounting and Reporting by Charities: Statement of Recommended Practice</i> (revised 2005) Charity Commission.
The Council	The Bishop's Council and Standing Committee.
The Fund	London Diocesan Fund.

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DIRECTORS' AND TRUSTEES' REPORT 2006 - PREAMBLE

The directors of the company, who are also trustees, present their report together with the audited financial statements for the year ended 31 December 2006.

REFERENCE AND ADMINISTRATIVE DETAILS, TRUSTEES AND ADVISERS

NAME AND REGISTERED OFFICE

The London Diocesan Fund is a company limited by guarantee and registered in England (no: 150856). It is a registered charity (no: 241083). Its registered and principal office is at London Diocesan House, 36 Causton Street, London, SW1P 4AU.

DIRECTORS, TRUSTEES AND MEMBERS OF THE DIOCESAN BISHOP'S COUNCIL

All members of the Bishop's Council and Standing Committee, described more fully below, are, except where specifically noted, directors of the company for the purposes of the Companies Acts and are Trustees under charity law.

The members on 14 May 2007, the date of approval of this report, were as follows.

President and Chairman

The Rt Revd and Rt Hon the Lord Bishop of London, R J C Chartres

Treasurer and Vice Chairman

Mr D E Loftus

The Chairman of the Finance Committee

The Ven the Archdeacon of Charing Cross,
Dr W M Jacob

Elected by The House of Laity, Diocesan Synod (3 seats)

Dr C C G Rawll (*resigned 31/07/06*)
Mrs S Burrell (*resigned 31/07/06*)
Mr C J Backhouse
Mrs M Ford (*from 15/11/06*)
Mr S J Jones

Ex officio

The Rt Revd the Bishop of Stepney, S J Oliver
The Rt Revd the Bishop of Kensington,
M J Colclough
The Rt Revd the Bishop of Edmonton,
P W Wheatley
The Rt Revd the Bishop of Willesden,
P A Broadbent
The Rt Revd the Bishop of Fulham,
J C Broadhurst
The Ven the Archdeacon of London,
P A Delaney
The Ven the Archdeacon of Charing Cross,
Dr W M Jacob
The Ven the Archdeacon of Hackney,
Dr L Dennen
The Ven the Archdeacon of Middlesex,
S J Welch (*from 13/05/06*)
The Ven the Archdeacon of Hampstead,
M C Lawson
The Ven the Archdeacon of Northolt,
R Treweek (*from 13/05/06*)
The Very Revd the Dean of St Pauls,
Dr J H Moses (*retired 12/07/06*)
The Revd Preb D N C Houlding,
Diocesan Synod House of Clergy
Mr D E Loftus, Diocesan Synod House of Laity

The following members were elected by the various Areas.

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Two Cities

The Revd Dr M R Dudley (*resigned 31/07/06*)
The Revd O C M Ross (*re-appointed 12/10/06*)
The Revd W T Taylor (*appointed 12/10/06*)

Mr S C Finch
Mr J D Freeman
Mr B O'Donoghue (*appointed 12/10/06*)
Mr E D Roberts (*resigned 11/10/06*)
Mr K D Stern

Kensington

The Revd S Archer (*resigned 24/05/06*)
The Revd O C M Ross (*resigned 11/06/06*)
The Revd A J Watson (*appointed 12/10/06*)
The Revd P S Williamson (*appointed 12/10/06*)
Mrs P M Cooper (*appointed 12/10/06*)
Mr H A Evans
Mrs J Hare (*appointed 12/10/06*)
Mr W F Michell (*resigned 31/07/06*)
Mr J P Normand

Willesden

The Revd N Henderson (*resigned 31/07/06*)
The Revd A R Corsie (*appointed 12/10/06*)
The Revd P W Stone (*appointed 12/10/06*)
Mr M A Carmody (*appointed 12/10/06*)
Mr J R Dolling
Mr C R Scowen
Mr D Slater (*appointed 12/10/06*)

Stepney

The Revd Preb R Swan
(*resigned 31/03/06*)
The Revd M L J Saunders (*appointed 29/12/06*)
The Revd G L Warren (*appointed 29/12/06*)
Mrs C Adekunle (*appointed 12/10/06*)
Mr P Crispin (†)
Mr L Humby
Ms J W Munro
Mr B Powell (*resigned 31/07/06*)

Edmonton

The Revd C J P Hobbs
The Revd Preb C G Pope

Mrs A K Atkins (*appointed 12/10/06*)
Mrs A L Ruoff
Mr J F Willmer
Mr I R M Woolf

Nominated by the Bishop of London

The Revd N R Holtam (*appointed 12/3/07*)
The Revd D G Meara (*appointed 9/3/07*)
The Revd A D Williams (*appointed 14/3/07*)
Ms M Murrell (*appointed 9/3/07*)

† The Trustees wish to extend their condolence to the family and friends of Mr Crispin, who died on 6 July 2006, and to record their appreciation of his work for the diocese.

For convenience, members are shown in the categories in which they are currently appointed. They may previously have served as members in a different capacity.

Dr P Rice is a member of the Bishop's Council and Standing Committee but is not a director of the Fund nor a trustee.

SENIOR STAFF

The bishops and archdeacons of the diocese exercise day to day control of the Fund. Keith Robinson, FCA, is the Fund's General Secretary. He also acts as secretary to the Bishop's Council though he is not a member. Some senior staff members have the title director in their job titles but they are not directors of the Fund for the purposes of company law.

PROFESSIONAL ADVISERS.

Auditors

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
RH11 9PT

Solicitors

Winckworth Sherwood
The Old Deanery
Deans Court
London
EC4V 5AA

Insurers

Ecclesiastical Insurance Group plc
Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

Bankers

Barclays Bank plc
Knightsbridge Business Centre
P O Box 32014
London
NW1 2ZG

HBOS plc
The Mound
Edinburgh
EH1 1YZ

Investment Managers

M&G Securities Limited
Laurence Pountney Hill
London EC4R 0HH

CCLA Investment Management Limited
80 Cheapside
London EC2V 6DZ

CONSTITUTION, STRUCTURE, GOVERNANCE AND MANAGEMENT

Summary information about the structure of the Church of England

The Church of England is organised as two provinces, each led by an archbishop (Canterbury for the Southern Province and York for the Northern). Each province comprises dioceses, of which there are 42 in England.

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

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

The Church of England is episcopally-led (there are over 100 bishops including Diocesan Bishops and Assistant and Suffragan Bishops). It is governed by an elected General Synod as its legislative and deliberative body at national level, making decisions on matters of doctrine, the holding of church services and relations with other churches. General Synod passes measures which, if accepted by Parliament, have the effect of acts of Parliament. It is made up of three groups or houses of members: the Houses of Bishops, of Clergy and of Laity, and meets in London or York at least twice annually to consider legislation for the broader good of the Church.

The three National Church Institutions

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

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

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

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

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

Saint Paul's Cathedral and Westminster Abbey

Saint Paul's cathedral is the mother church of the diocese and legally is constituted as a separate charity currently exempt from Charity Commission registration and supervision. Likewise, Westminster Abbey is a separate charity.

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

The Diocese of London

The Diocese of London was founded in Roman times and was re-founded in 604 by St Mellitus. It is one of the 44 dioceses of the Church of England. In its current form, it covers parts of London mostly north of the River Thames and west of the River Lee in Greater London and Surrey. There are over 400 parishes in the Diocese, each of which is a separate charity.

The Diocese is led by the Bishop of London. He has delegated certain powers to four Area bishops, the Bishops of Edmonton, Kensington, Stepney and Willesden, and a Suffragan, the Bishop of Fulham. There is an archdeacon for each area and also one archdeacon for the City of London and one for the City of Westminster. Each archdeaconry is subdivided into deaneries

Each deanery consists of several parishes. The Parochial Church Council (PCC) is the elected governing body of an individual parish. The PCC is made up of the incumbent as chair, the churchwardens and a number of elected and *ex officio* members. Each PCC is a corporate body and a separate charity. Except where shown, the transactions of PCCs do not form part of these financial statements

The statutory governing body of the Diocese is its Synod, which is an elected body with representation from all parts of the Diocese. It is governed by Standing Orders approved by the Synod inaugurated on 17th November 1970. Lay members are elected by deanery synods, which are in turn comprised of members elected by parish members. Clergy members are similarly elected by the clergy in deanery synods. The bishops and archdeacons of the Diocese are *ex officio* members. In addition, a small number of members may be co-opted or nominated. The Synod meets at least twice per year. The Diocesan Synod considers the annual expenditure budget. Many of the Synod's responsibilities are delegated to the Bishop's Council, which acts as a standing committee.

The Bishop's Council and Standing Committee ("the Council") consists of up to 30 members elected by Area by the Diocesan Synod; up to three members elected by the House of Laity of the Diocesan Synod; up to 16 *ex officio* members, being the mainly the bishops and archdeacons, and up to five members nominated by the Bishop of London. The Council meets at least three times per year and may consider matters through correspondence between meetings.

The Diocese conducts its financial affairs through a number of corporate bodies. The main body is the London Diocesan Fund ("the Fund") described more fully below

The London Diocesan Fund

The London Diocesan Fund ("the Fund") is a company limited by guarantee that was incorporated in England on 29th June 1918. Its registered number is 150856 and its registered address is at 36 Causton Street, London, SW1P 4AU. Its certificate of incorporation notes that it is licensed to omit the word "limited" from its title. It is a registered charity number 241083.

The objects for which The London Diocesan Fund is established and for which suitable powers are granted in the memorandum of association are, in summary, as follows

to promote and assist the work and objects of the Church of England for the advancement of the Christian religion in the Diocese of London, and in particular to organise and provide funds for the following departments of the Church's work

- maintenance of the Clergy generally, including Bishops Suffragan, Incumbents, Assistant Curates and Clergy;

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- erection and repair and endowment of Churches, Church Buildings, Schools, Mission Buildings, and Residences for Incumbents,
- training of candidates for the Ministry, Clerical and Lay;
- provision of Scripture Readers and other Lay Agents;
- provision of Pensions for the Clergy, and Lay Agents; provision for widows, orphans and dependents of the Clergy, and for necessitous Clergy;
- assistance towards endowment whether for Incumbencies or Curacies;
- religious education of the young,
- provision of expenses of Diocesan and central organisation;
- provision for Residences for Curates and Lay Agents, Institutes, Halls, Social Clubs, Refuges and Homes, and the repair and endowment of the same, and
- such other objects, if any, as it may from time to time be found desirable to promote for strengthening the religious or other charitable work of the Church.

The Fund is governed by a Memorandum and Articles of Association. The articles of association of the Fund may not be altered or varied without resolution of the Diocesan Synod. The memorandum and articles are regularly reviewed and amended from time to time, the last update being in May 2004.

Every member of the Council is a member of the company unless they decline to take membership. Each member undertakes to contribute to the assets of the Fund, in the event of its being wound up, such amount as may be required not exceeding £1.

The members of the Fund are trustees of the charity and also its directors for the purposes of the Companies Acts. Trustees receive induction and other training as appropriate to their needs. The Chairman of the Fund is the Bishop of London. The members elect a Treasurer, who is the Vice-Chairman.

In effect, the Fund acts as a committee of the Diocesan Synod and in particular undertakes the management of the Synod's financial affairs. The Fund also acts as custodian trustee and as agent to other boards, committees and trusts within the Diocese of London of the Church of England.

The Fund has delegated certain powers to its Finance Committee, described more fully below. The Finance Committee meets about five times each year. The Fund has also delegated certain powers to five Area Councils. The committees have power to co-opt members, subject to members being always in the majority. Day to day operational matters are delegated to the officers.

Finance Committee

The Finance Committee is a sub-committee of the Council. Its membership comprises laity and clergy. By a special resolution dated 10th December 1970 its lay membership must be in the majority. The Archdeacons and the Treasurer of the Fund are *ex officio* members.

The Finance Committee makes recommendations to the Council. In addition, for urgent or low value transactions, it can take immediate decisions.

The committee is chaired by the Ven. Dr W M Jacob, Archdeacon of Charing Cross and its members are shown in the table below.

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Members of the Finance Committee

Members of Council

The Rt Revd and Rt Hon the Lord Bishop of London,
R J C Chartres
The Ven the Archdeacon of London, P A Delaney
The Ven the Archdeacon of Charing Cross, Dr W M Jacob
The Ven the Archdeacon of Hackney, Dr L Dennen
The Ven the Archdeacon of Middlesex, S J Welch
The Ven the Archdeacon of Hampstead, M C Lawson
The Ven the Archdeacon of Northolt, R Treweek
The Revd Preb D N C Houlding
The Revd C J P Hobbs
The Revd Preb C G Pope
Mr C J Backhouse
Mr J R Dolling
Mr B O'Donoghue
Mr D E Loftus
Ms J W Munro
Mr J P Normand
Mr K D Stern
Mr I R M Woolf

Not members of Council

Revd A Roberts
Revd E Wong
Mr D Barton
Mr J Bell
Mr R Dean
Mr N Manns
Mr R N Perry
Dr S Willmington

Audit Committee

The Audit Committee is a sub-committee of the Council set up in 1996. Its terms of reference are regularly reviewed. The latest are dated 1st February 2007. Members are appointed by the Council for three years. Its membership may be drawn from the Council and the Finance Committee and from outside these bodies. At least two members (including the chair) are to be from the Council and current Finance Committee members must be in the minority.

The Committee reviews systems of internal financial control and the annual accounts prior to submission to the whole Council. The membership is shown in the table below

Members of the Audit Committee

Members of Council

The Revd O C M Ross
Mr J D Freeman (Chair)
Mr I R M Woolf

Independent members, not being members of Council

Mr N Fletcher
Mr R N Perry

Risk Management

As with other organisations, the Fund faces operational, financial and reputational risks. A working group of the Audit Committee has considered at length the major areas of risk to which the Fund is exposed, measuring both the likelihood and impact of those risks crystallising. The officers have explained the systems in place to manage and mitigate these risks. The results are recorded in a risk register. There is a regular annual review by the Council in terms of identification, assessment and monitoring of the risks and there is identification and discussion in particular of the greatest risks as identified through the combined score of likelihood and impact.

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Trustee Training

New Trustees are provided with a handbook outlining their main responsibilities. Dedicated training sessions have been provided for all Trustees. Other training is provided as necessary.

Related bodies

Under the terms of arrangements made in 1919, the Fund incorporates the functions of the London Diocesan Board of Finance and the Bishop of London's Fund of which brief details are given below.

The Bishop of London's Fund

Patron	The Most Revd and Rt Hon The Lord Archbishop of Canterbury
President:	The Rt Revd and Rt Hon the Lord Bishop of London
Treasurer.	Mr I R M Woolf
Trustees:	The Ven. W M Jacob The Ven P Delaney Mr E D Roberts
Secretary:	K O Robinson
Solicitors:	Winckworth Sherwood, The Old Deanery , Deans Court, London, EC4V 5AA
Office:	36 Causton Street, London SW1P 4AU

The Bishop of London's Fund was established in 1863 and was incorporated by the Board of Charity Commissioners for England and Wales under the Charitable Trustees Incorporations Act on 7th July 1882. The BLF is a registered charity (249021). The Finance Committee of the London Diocesan Fund constitutes its Executive Committee. Certain title and trust deeds are in the name of the BLF and a separate legal seal is kept. For day-to-day purposes and in accordance with a special resolution of 29th October 1918, its activities are subsumed into the London Diocesan Fund, with which it shares common objectives.

The trustees of the BLF are seeking a uniting direction with the Fund in order to give legal effect to the above substance. The trustees of the Fund approved a resolution on 16th May 2005. A uniting direction is made by the Charity Commission to allow two charities to be linked for administrative purposes where it is practical to do so. It may be either for common purposes or for common trusteeship. All material monetary assets relating to the BLF are included within the main Fund accounts.

The London Diocesan Board of Finance

President	The Rt Revd and Rt Hon the Lord Bishop of London
Chairman and Treasurer	Mr D E Loftus
Trustees:	The trustees of the LDF.
Secretary:	K O Robinson
Solicitors:	Winckworth Sherwood, The Old Deanery, Deans Court, London, EC4V 5AA

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Office: 36 Causton Street, London SW1P 4AU

The London Diocesan Board of Finance was registered in England as a company limited by guarantee on 30th April 1914. The Diocesan Boards of Finance Measure 1925 provided that every Diocese in the Church of England should have a Diocesan Board of Finance. It stipulated however that Dioceses with existing trust bodies (provided they were incorporated under the Companies Acts) were allowed to use these bodies to carry out the functions of the Boards of Finance. Clause 3(c) of the Memorandum of Association of the London Diocesan Fund (company number 150856) formed in 1918 specifically empowers the Fund to carry out (*inter alia*) all of the functions of the London Diocesan Board of Finance. The Articles of Association of the London Diocesan Board of Finance were amended on 7th June 1926 to amalgamate the functions of the Board of Finance into the Fund, excepting anything which was unable to be so amalgamated because of statutory provisions. The LDBF is a registered charity (249022) and a company limited by guarantee (135519).

OBJECTIVES, ACTIVITIES, ACHIEVEMENTS AND PERFORMANCE

The London Challenge

The principal activity of the Fund is to serve and support the parishes and people within the Diocese in their mission of proclaiming the gospel of Jesus Christ. It does this operationally through the payment and housing of parish clergy and chaplaincies and support to their ministry. The Fund also provides facilities and amenities to the wider population of London and to visitors to the city.

Ministry and associated costs, including property, therefore account for the great majority of the Fund's ongoing expenditure. This is financed principally via the collection of voluntary income from the parishes, termed "Common Fund". This is supplemented by rental and investment income.

Grants are received from a number of sources including the Church Commissioners and the City Parochial Charities Foundation. Grants are awarded to parishes by the Area Councils and to mission initiatives by the Bishop of London's Mission Fund (BLMF).

The London Challenge, which was launched in January 2002, focused the London Diocese on some common strategic objectives for the five years finishing in December 2006. Progress against each objective is set out in the Achievement and Performance section below.

One objective is to maintain a balanced budget. The recording of small financial surpluses during 2004 and 2005 represented a major success in this respect given the annual deficits of up to £1m recorded in the previous decade. The small financial deficit in 2006 witnessed increasing pressure on the Fund's financial position.

The London Challenge has been refreshed with clear objectives for the period 2007-2012. It was re-launched at St Paul's Cathedral on 8th February 2007. The new challenges are summarised below. Details are available on the diocesan web site.

Achievement and Performance

Progress against each of the strategic objectives of the London Challenge 2002-2006 is set out below. This represents cumulative performance over the period of the Challenge, i.e. over 5 years rather than just the single year 2006. Operational performance is outlined in the Financial Review.

Encourage the development of a course in the spirit of Alpha and Emmaus in every parish by 2004

Well over 50% of parishes are currently running such courses and information about the available range of courses has been made available to every parish.

Encourage growth in Electoral Rolls to 70,000 by 2005

Electoral Rolls stood at 47,500 in 1991. At the end of 2006, they stood at 69,000.

Achieve financial self support by 2003

Until the mid-nineties the stipends and pensions of the clergy were heavily subsidised from the national historic asset base administered by the Church Commissioners. Today, they are paid by parish donations.

Plan for a non-deficit budget by 2005

A small surplus was achieved in 2004 and in 2005. A non-deficit budget was planned for 2006. Because of a greater number of appointments than expected, a small deficit, less than ½% of expenditure, was recorded in 2006.

Request every Eucharistic community to carry out a training audit on an Area basis by the end of 2004

The training audit was translated into the Training Review 2006, the results of which are being implemented

Develop Ministry Leadership teams in 50% of our parishes by 2006

Adopted in the Kensington and Willesden Episcopal areas and lessons learnt are being applied more broadly across the Diocese.

Establish the St Ethelburga Centre by 2003, the tenth anniversary of the IRA bomb in Bishopsgate

Achieved - the St Ethelburga Centre was opened in November 2002

Establish a vocations centre for minority ethnic Anglicans by 2003

Not achieved. Of the 350 London men and women ordained in the last five years less than 25 have been from ethnic minority communities. There is an urgent need to ensure that the leadership of the diocese reflects the ethnic diversity of the church's membership. Those responsible for vocations no longer consider that this objective is best served through a separate vocations centre for ethnic minorities but progress in this area continues to be a major priority.

Plan for two new Church secondary schools by 2006

Progress has been made. Currently, the Diocese is planning for four new secondary schools.

Develop a fully interactive London web site and e-mail network by 2003

Achieved - the website was launched in 2003

Retain at least 480 clergy, men and women, in parish and specialist ministry Seek out inventive ways to fund additional clergy and provide ongoing training for them all

Achieved through 446 clergy posts supported from Common Fund and an additional 50 locally supported There are also 150 non-stipendiary ministers and 300 honorary curates with permission to officiate

Fundraising

The majority of the Fund's income is raised from parishes through common fund. Around 98% of the amounts pledged are collected. Parishes are supported in their fundraising by the Fund's finance advisers and other staff. Specific fundraising by parishes is also supported.

The Fund encourages donations in the form of legacies either to the Fund or one of the other diocesan charities or to parishes.

The Fund also supports other fundraising activity by associated charities though the donation of time and resources. For example, the Lent appeal in 2006 raised funds for world wide campaigns for the alleviation of suffering caused by human trafficking.

Investment performance

Investment performance is discussed below.

Statutory functions

The Fund has responsibility for the management of glebe property and investments to generate income to support the cost of stipends It is the Diocesan Authority for parochial and other trusts and incorporates the functions and responsibilities of the Diocesan Parsonages Board. The trustees are custodian trustees in relation to PCC property.

FINANCIAL PERFORMANCE – “THE BUSINESS REVIEW”

Section 417 (2) of the Companies Act 2006 will require every company to prepare a “business review”. The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company). In the case of the Fund the members and directors are the same individuals. This section is intended to satisfy the requirements of the law and to provide useful information for readers of these accounts.

General Fund

The Fund recorded a small operating deficit on the General Fund of around £82,000 in the year. This compares to the small surplus of around £20,000 in 2005. The deficit is less than ½ % of income and therefore the result can be regarded as having achieved the London Challenge objective of breakeven.

Spending on charitable activities increased slightly faster than the incoming resources. This led to the small deficit, with resources expended exceeding incoming resources.

General Fund income increased mainly because of the increased generosity of parishes through Common fund and because of excellent returns from property, described more fully below.

The main reason for the deficit was spending in excess of budget on property used to accommodate clergy. In the early part of the year, the cost of unplanned maintenance was greater than had been anticipated and despite restraint this ended the year over budget. In the later part of the year, more clergy were appointed to new posts than had been expected. Before a new person takes up a post the parsonage is brought up to modern standards. This is called ingoing works. Because of the greater number of appointments, the budget for ingoing works was exceeded. 40 works were undertaken against a budget for 30. Savings were made by the deferral of some of the works resulting from quinquennial inspections but the budget was in total still exceeded. Various other spending in excess of budget was mitigated by other items being constrained below budget.

Total Funds

An overall deficit of £4.6m (£5.1m in 2005) was recorded during the year and there was a net cash inflow of £0.5m (£3.3m outflow in 2005).

Overall incoming resources increased by 4.5% from £25.1m in 2005 to £26.3m in 2006 primarily because of the generosity of the thousands of people in the parishes in London who support the Fund's work. Income from property rentals and other sources also increased. Income from the Church Commissioners fell slightly. It now represents less than 3% of the Fund's income.

Overall outgoing resources increased by 2.1% from £30.2m in 2005 to £30.9m in 2006, increases in expenditure of General Fund being moderated by reductions in expenditure of designated and restricted funds.

The principal reasons for the deficit were: the deficit on the general fund described above, and the expected expenditure of designated funds for the purposes for which they were established. These purposes were in furthering the ministry and mission of the Church in London and in providing benefits to the people of London. Some of the support was given to individual projects and individual ministers of religion, notably via the Bishop of London's Mission Fund, other support took the form of provision of housing and other facilities for clergy; some took the form of loans and grants to parochial church councils and church schools.

There was a net cash inflow because some real property was sold. Gains of £6.1m (2005: £1.6m) were

realised on disposal of property. Property depreciation of £2.4m (2005: £2.5m) was charged in the year.

There were net other recognised gains of £26.0m (£28.8m in 2005), principally due to increases in property valuations of £23.1m (£26.5m in 2005), but also as a result of increases in investment valuations of £2.9m (£2.3m in 2005) due to another good year for the stock market.

There was, therefore, an increase in assets of £21.4m (£23.7m in 2005) for the year to £318.0m (£296.6m in 2005). The substantial majority of this is represented by property used in the Fund's charitable operations

Property

During the year, the property team continued to manage the estate to provide the best possible service to clergy and maximise the revenue from investment property and from functional property that was temporarily not in operational use. Continuing review of the estate against needs and use has required some property to be re-classified between functional and investment. At the same time, some functional property has been sold and replaced by better placed and more appropriate functional property.

The net effect of this complex set of re-allocations and transactions has been to realise gains of over £6m (as described more fully above) and to transfer £11.6m (2005: £3.4m) from the combined value of functional property to the combined value of investment property. As a consequence of these changes, some rental income that would previously have been shown as Functional Property Rental is now shown as Investment Property Rental and vice versa. The net effect is that Investment Property Income is higher and Functional Property Income is lower than it would have been had the mix continued as previously. Overall, property income has risen by around 6% across all funds and by around 10% on General Fund compared to 2005.

The budget and outlook for 2007

In 2006, the Church of England Pensions Board, in response to increasing longevity of the clergy, investment market conditions and new government regulations, increased the rate of contribution by the Fund in respect of clergy pensions by six percentage points from 33.8% to 39.8% of stipends. This represents an increased charge of around £½m for the Fund, depending on the exact mix and number of clergy. This announcement came late in the budgeting process.

The Common Fund is budgeted to grow by 2.6% in 2007. Other income sources are expected in aggregate to grow more slowly so that overall general fund income is budgeted to rise at 2%, much less than the general rate of inflation.

At the same time, it is clear that increasing mobility of clergy and increasing costs of property works meant that the budget in 2006 was insufficient to meet all needs.

Against this difficult background, the budget for the general fund in 2007 is for a deficit of £½m reflecting the unbudgeted pension fund contributions. The remaining budget has been balanced by limiting stipend and salary increases to the rate of growth in income, deferring some expenditure on maintenance of property and reducing many other programmes. The limited stipend increase has meant that the diocese has not progressed towards its stipend aspirations.

The outlook for 2008

The London Challenge and common prudence require the budget to be brought back into balance. Measures being considered include the increase of Common Fund income and the reduction of costs. There is a risk that donations from parishes will be insufficient to meet the increased costs and that reductions in costs may be insufficient or not be realised in a timely manner.

PLANS FOR FUTURE PERIODS

The London Challenge sets out seven commitments for 2007 to 2012. It is based on Revelations 21, creating a "holy city, the new Jerusalem" Each commitment has greater detail, which is available on the Diocesan web site at www.london.anglican.org This also has bulletins describing progress

The Seven Commitments are

1. We are committed to sharing the good news of Jesus Christ in 21st century London.
2. We are committed to equipping the servants of Jesus Christ
3. We are committed to telling the story of Jesus Christ afresh for this generation and especially for the young
4. We are committed to serving London and all her people
5. We are committed to expressing God's love in our World City
6. We are committed to making four Capital Investments
 - recruit and train 2012 Ambassadors for Jesus Christ under the age of 35 by 2012
 - increase provision in Church of England Secondary Schools by 2012 places by 2012
 - Raise £2,012,000 for development in Africa by 2012 (ALMA)
 - Raise £2,012,000 to support Mission in London by 2012
7. We are committed to generating the resources in finance and property to enable the church to respond adequately to the London Challenge.

These commitments include a commitment to maintaining a balanced budget and high standards of maintenance for the Fund's buildings, many of which are of architectural and historical importance.

POLICIES AND OTHER MATTERS

Investment Policy

The Fund holds investments on its own behalf and as Ecclesiastical Custodian Trustee for parishes under the PCC (Powers) Measure 1956.

The Fund keeps investments under its control under regular review and receives periodic guidance from an Asset Strategy Group which comprises both investment and property expertise. It currently operates an asset allocation objective of 80% invested in property / pooled investment funds and 20% in cash and bonds. The 80% element is targeted to be split 40% property and 40% equities but with an emphasis that well-performing property assets should not be sold to achieve these guideline percentages.

Reserves Policy and Designated Funds

A review of designated reserves was undertaken during the year, building on the review that took place in the previous year. The policy will be kept under regular review in the light of changing legal obligations.

General reserves are held specifically to finance working capital requirements to the extent that expenditure (principally stipends, salaries and property costs) is not matched by simultaneous receipt of Common Fund and investment income. Funds are held in liquid deposits paying commercial rates of interest. General reserves equivalent to approximately one month's expenditure are held in cash or near cash form for this purpose.

Funds with a value of £80.4m (2005 £73.6m) have been designated for particular purposes as described more fully in Note 11a to the accounts.

- Half of this value is represented by functional property and the associated parsonage reserve, which are used to house clergy in support of one of the principal charitable objectives of the Fund. As described in the notes, most clergy housing is not owned by the Fund but is recognised in the accounts in accordance with FRS 5.
- Over one third of these funds is represented by investment property (and the associated reserve for refurbishment etc.), which is discussed below.
- Some of these funds have been designated to enable loans to be made to further the charitable aims of the fund. The value of the funds will continue without material change as loans are made and repaid. The Diocesan Loan Capital designated fund of £4.5m is the major example. It is used mainly to provide loans to parishes, often to enable them to undertake major capital projects that would otherwise not be able to proceed.
- The remainder of the designated funds, with a value of £7.8m (2005: £8.5m), is designated for various particular purposes, especially enabling the Fund to evolve and take advantage of strategic development opportunities. Many of these funds are gradually being exhausted as they are spent for the purposes for which they were designated. Some of these funds may be expected to be re-endowed over time by further donations and designations.

Policy on Investments of Unrestricted but Designated Funds

Unrestricted but designated investments, amounting to £28m (2005 £21m) of the amounts discussed above, are held for two principal reasons

One is to reduce risks posed by large external changes in the environment in which the Fund operates and

THE LONDON DIOCESAN FUND (A company limited by guarantee)

Directors' and Trustees' Report and Financial Statements for the year ended 31 December 2006

to protect the Fund from insolvency or serious disruption to its work. One major risk for the Fund is the balance between the short term nature of income and the long term continuing needs of clergy. Clergy are office holders and are not employed by the Fund. Stipends are paid by the National Church Institutions, which look to the Fund to recompense them for the clergy in the diocese. Clergy are entitled to receive a basic stipend and, in practice, receive an enhanced stipend. This entitlement for many incumbents continues until they reach the age of seventy. For some, it is a lifetime entitlement. Clergy may have a legitimate expectation that they will continue to receive the enhanced stipend for as long as their entitlement to stipend continues. This represents a long term moral obligation for the Fund. On the other hand, the Fund's income consists mainly of voluntary donations by parishioners through their PCCs. If there was, for any reason, a major decline in parishioners' empathy to the Church, the Fund might be left with a major imbalance between income and expenditure. If Common Fund was to fall by a half, the unrestricted investments represent between two and four years of expenditure on maintaining the clergy.

The second reason for holding the designated investments is to ensure an equitable balance of expenditure between generations. There is a balance to be struck between providing for future generations and benefiting people today. Many of the assets used by the Fund today were provided by past generations and there is a need to provide assets for future generations.

Regardless of the reason for holding various assets all are invested with the aim of producing income to support the Fund's charitable work.

Restricted Funds

Funds with a value of £59m (2005: 48m) were restricted in their application in accordance with conditions specified by the donors. They are described more fully in Note 11b to the accounts. Glebe assets, amounting to around 90% of these funds, are required to be used either to house clergy or to provide income to pay stipends. The use of Glebe assets is governed by various Measures as set out in the notes.

Investment returns

Investment property with a net book value of £56.7m (2005: £34.3m) generated income of £2.5m (2005: £1.7m). The figures for the two years are not directly comparable because property was re-designated between functional and investment property to reflect the changing needs and deployment of the clergy.

Investments in equities, fixed interest securities and other quoted securities amounted to £20.9m (2005: £19.0m). These include sole trusts: details are in Note 6 to the accounts. Capital gains of £2.8m (2005: £2.1m) were recorded and dividends of £0.7m (2005: £0.7m) were received.

Pension Scheme

The majority of the employees of the Fund are members of the Church Workers' Pension Scheme. Further details are contained in note 13 to the financial statements.

Other Matters

It is the Council's opinion that the Fund's assets are available and adequate to fulfil the obligations of the charity.

Attention is drawn to note 8b of the financial statements which details the Fund's support of connected charities e.g. in the form of support given of £160,000 (£155,000 in 2005) to the London Diocesan Board for Schools and with reference to other support in respect of accommodation and office support. This is to ensure that the Diocese of London both fulfils its statutory education responsibilities and its desire that the Gospel of Christ is spread through educational ministry as through other ministries.

Members and Members' Interests

The Fund is a charitable company limited by guarantee and its trustees may derive no benefit, income or capital interest in the Fund's financial affairs other than reimbursement of out of pocket expenses. Attention is drawn to note 8b to the financial statements which totals expenses reimbursed to Council members. For information this note also totals the amounts paid to the clerical members of Council for their stipend. This is paid to them as Ministers of Religion in the Diocese rather than as Directors or Trustees of the Fund.

Disclosure of information to auditors

The trustees who held office at the date of approval of this trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the Fund's auditors are unaware; and each trustee has taken all the steps that he or she ought to have taken as a trustee to make himself or herself aware of any relevant audit information and to establish that the Fund's auditors are aware of that information.

FUNDS HELD AS CUSTODIAN TRUSTEE ON BEHALF OF OTHERS

As noted on page 32 the Fund is custodian trustee for trust assets of £25.2m (£21.9m in 2005). Detailed certificates of holdings were sent to parishes and other managing trustees as of December 2006. Most of these trusts are held on behalf of parishes whose charitable purposes in the advancement of religion are parallel to those of the Fund. Assets held under these trusts are held separately from those of the Fund. A statement of the custodian trustees' responsibilities is also found on page 46 together with financial statements, notes thereto and a non-statutory auditors' report to the custodian trustees between pages 45 and 51. Because of the large number of such trusts they are not listed separately. The Council has adopted a programme of work encompassing risk and investment management reviews of all trust holdings.

STATEMENT OF TRUSTEES' AND DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE TRUSTEES' ANNUAL 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 regulations

Company law requires the trustees to prepare financial statements for each financial year in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

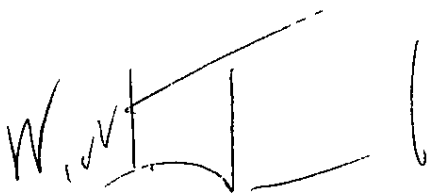
The financial statements are required by law to give a true and fair view of the state of affairs of the charitable company and of the excess of expenditure over income for that period

In preparing these financial statements, the trustees are required to.

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 group and the charity will continue in its activities.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charitable company and to prevent and detect fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



Ven W M Jacob

14 May 2007

Member of Council and Finance Committee Chairman

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE LONDON DIOCESAN FUND

We have audited the financial statements of the London Diocesan Fund for the year ended 31 December 2006 which comprise the Statement of Financial Activities, the Balance Sheet, the Summary Income and Expenditure Account, the Note of Historical Cost Profits and Losses and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The responsibilities of the charitable company's trustees, who are also the directors of the London Diocesan Fund for the purposes of company law, for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities on page 22.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Trustees' Annual Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and other transactions is not disclosed.

We read the Trustees' Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

THE LONDON DIOCESAN FUND (A company limited by guarantee)

Directors' and Trustees' Report and Financial Statements
for the year ended 31 December 2006

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31st December 2006 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Trustees' Annual Report is consistent with the financial statements.



KPMG LLP
Chartered Accountants
Registered Auditor
14 May 2007

1 Forest Gate, Brighton Road, Crawley, West Sussex, RH11 9PT

THE LONDON DIOCESAN FUND

(A company limited by guarantee)

Statement of Financial Activities - 31 December 2006

		Unrestricted funds	Restricted	Endowment	Total	Total
		General	Designated	Funds	Funds	
		£'000	£'000	£'000	£'000	£'000
Incoming Resources	Note					
Incoming Resources from generated funds						
<i>Voluntary income</i>						
Common Fund		16,488	-	-	16,488	15,533
Donations		401	30	118	549	605
Church Commissioners		422	287	-	709	856
City Parochial Foundation		1,097	-	-	1,097	1,069
Stipend refunds		1,654	-	-	1,654	1,351
<i>Activities for generating funds</i>						
Functional Property Rentals		882	-	141	1,023	1,594
Assigned Fees		404	-	-	404	400
<i>Investment income</i>						
Dividends and Interest Receivable	9b	1,187	252	288	1,727	1,928
Investment Property Rentals		2,533	-	-	2,533	1,749
Other Incoming Resources		-	107	-	107	52
Total Incoming Resources		25,068	676	547	26,291	25,137
Resources Expended						
Cost of generating funds						
<i>Investment management costs</i>						
Rental portfolio costs - agent fees		170	-	-	170	263
Investment Property repairs & maintenance		423	-	-	423	203
Charitable activities						
Ministry		15,453	319	28	15,800	14,884
Education & Outreach		505	-	-	505	538
Parish and Area Support Services		1,514	42	-	1,556	1,396
Clergy Housing		4,699	1,270	747	7,958	8,361
National Church		1,793	-	-	1,793	1,669
Grants to Parishes & Overseas	4	398	1,391	449	2,245	2,409
Governance Costs		195	-	-	195	178
Other resources expended		-	227	-	227	348
Total Resources Expended	2, 3	25,150	3,249	1,224	1,249	30,872
Net incoming/(outgoing) resources for year before transfers		(82)	(2,573)	(677)	(1,249)	(5,112)
Transfers between funds	11d	(48)	1,334	1,247	(2,533)	-
Other new resources		-	-	-	-	57
Net incoming/(outgoing) resources for year after total transfers		(130)	(1,239)	570	(3,782)	(5,055)
Other recognised gains and losses.						
Unrealised gains on investment assets	6	-	602	1,731	494	2,827
Unrealised gains on property assets	5	-	2,054	7,877	7,126	24,882
Realised gains/(losses) on investment assets		-	19	5	-	188
Realised gains/(losses) on property assets		-	5,423	627	-	1,627
Net Gains		-	8,098	10,240	7,620	28,777
Net movement in funds for the year		(130)	6,859	10,810	3,838	23,722
Balances at 1 January 2006		2,750	73,575	48,282	172,030	272,915
Balances at 31 December 2006		2,620	80,434	59,092	175,868	296,637

All incoming and outgoing resources relate to continuing operations

There is no difference between the net incoming resources for the financial year and their historical cost equivalent

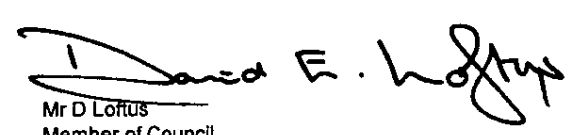
THE LONDON DIOCESAN FUND
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Balance Sheet at 31 December 2006

	Notes	Unrestricted General Fund £'000	Unrestricted Designated Funds £'000	Restricted Funds £'000	Endowment Funds £'000	Total 2006 £'000	Total 2005 £'000
Fixed Assets							
Functional Property	5	-	40,834	10,183	170,416	221,433	224,227
Investment Property	5	-	24,534	32,139	-	56,673	34,267
Investments	6	71	4,178	12,726	3,927	20,902	18,973
		<u>71</u>	<u>69,546</u>	<u>55,048</u>	<u>174,343</u>	<u>299,008</u>	<u>277,467</u>
Current Assets							
Debtors	8a	1,941	4,084	155	-	6,180	6,764
Cash and short term deposits	9a	2,083	11,671	4,057	1,525	19,336	18,830
		<u>4,024</u>	<u>15,755</u>	<u>4,212</u>	<u>1,525</u>	<u>25,516</u>	<u>25,594</u>
Creditors							
Amounts falling due within one year	10	1,475	2,980	168	-	4,623	4,537
Net Current Assets		<u>2,549</u>	<u>12,775</u>	<u>4,044</u>	<u>1,525</u>	<u>20,893</u>	<u>21,057</u>
Total Assets less current liabilities		<u>2,620</u>	<u>82,321</u>	<u>59,092</u>	<u>175,868</u>	<u>319,901</u>	<u>298,524</u>
Creditors							
Amounts falling due after one year	10	-	1,887	-	-	1,887	1,887
		<u>2,620</u>	<u>80,434</u>	<u>59,092</u>	<u>175,868</u>	<u>318,014</u>	<u>296,637</u>
Funds							
General		2,620	-	-	-	2,620	2,750
Designated	11a	-	80,434	-	-	80,434	73,575
Restricted	11b	-	-	59,092	-	59,092	48,282
Endowment	11c	-	-	-	175,868	175,868	172,030
		<u>2,620</u>	<u>80,434</u>	<u>59,092</u>	<u>175,868</u>	<u>318,014</u>	<u>296,637</u>

The financial statements on pages 25 to 44 were approved by the Diocesan Bishop's Council on 14 May 2007


Ven W M Jacob
Member of Council and
Finance Committee Chairman


Mr D Loftus
Member of Council

The notes on pages 29 to 44 form part of these accounts

THE LONDON DIOCESAN FUND

(A company limited by guarantee)

Summary Income and Expenditure Account - 31 December 2006

	2006 £'000	2005 £'000
<u>Non-capital movements</u>		
Gross income	26,291	25,137
Realised gains	6,074	1,747
Transfers to endowment funds	2,533	(2,065)
Other new resources	-	57
Total income	<u>34,898</u>	<u>24,876</u>
Total expenditure	(29,623)	(28,947)
Net (expenditure)/income on income funds before unrealised gains/(losses)	<u>5,275</u>	<u>(4,071)</u>

There was no income from non-charitable trading activity in the year

All incoming and outgoing resources relate to continuing operations

The Summary Income and Expenditure Account is derived from the Statement of Financial Activities on page 25, which together with the notes to the Accounts on pages 29 to 44 provides full information on the movement during the year on all the funds of the London Diocesan Fund

	2006 £'000	2005 £'000
Note of historical cost profits and losses		
(Deficit) for the financial year	(4,581)	(5,055)
Realisation of revaluation gains of previous years	6,074	1,815
Historical Cost (loss)/profit for the year	<u>1,493</u>	<u>(3,240)</u>

The notes on pages 29 to 44 form part of these accounts

THE LONDON DIOCESAN FUND

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Cash Flow Statement - 31 December 2006

		2006 Total	2005 Total
	Note	£'000	£'000
Net cash outflow from operating activities	12	(6,829)	(7,704)
Returns on investments and servicing of finance	12	<u>5,283</u> (1,546)	<u>5,271</u> (2,433)
Capital (expenditure)/inflow and financial investment	12	2,052	(964)
Cash (outflow)/inflow before use of Financing		<u>506</u>	<u>(3,397)</u>
Financing	12	-	85
(Decrease)/increase in cash in the period		<u>506</u>	<u>(3,312)</u>
Reconciliation of net cash flow to movement in net debt (see note 10)			
(Decrease)/increase in cash in the period		506	(3,312)
Cash flow arising from (increase)/decrease in debt		<u>-</u>	<u>(85)</u>
Movement in net debt in the period		506	(3,397)
Net funds at 1 January		16,943	20,340
Net funds at 31 December		<u>17,449</u>	<u>16,943</u>

THE LONDON DIOCESAN FUND

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Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, the Statement of Recommended Practice, Accounting and Reporting by Charities (2005) and the Diocesan Annual Report and Financial Statements Guide.

The accounts comply with the Charities Act 1993 and the Companies Act 1985. A summary of the principal accounting policies, which have been applied consistently except as stated, is set out below.

1.1 Basis of preparation

The Fund prepares its annual financial statements on the historical cost basis of accounting as adjusted for the revaluation of investments, investment properties and functional properties

1.2 Funds

The Fund has various types of fund for which it is responsible and which require separate disclosure. Note 11 shows the balances and movements on each fund together with details of their uses. Page 19 of the Trustees' report gives an overview of the Fund's Reserves Policy.

Unrestricted Funds

Unrestricted funds arise from all the accumulated surpluses and deficits in the provision of general charitable activities.

(a) General Funds

(b) Designated Funds (note 11a)

The latter are funds earmarked by the London Diocesan Fund Trustees for a specific purpose. The Trustees have discretion over the purpose and use of the funds. They can be re-allocated or otherwise undesignated without reference to outside agencies.

Restricted Funds (note 11b)

These are funds subject to specific conditions imposed by the donor or by the specific terms of a trust deed or other legal measure. Income and expenditure on restricted income funds is taken directly to those funds in the Statement of Financial Activities except to the extent that income is freely available for the general purposes of the LDF.

Endowment Funds (note 11c)

Permanent endowment capital must be held permanently whereas expendable endowment capital can be used but only in certain circumstances. Income arising is included in general or restricted funds depending on the terms of the trust instrument.

THE LONDON DIOCESAN FUND

(A company limited by guarantee)

1.3 Taxation status

The Fund is a registered charity and as such is able to take advantage of exemptions granted under section 505 ICT Act 1988. It is not liable to corporation tax on charitable income or income from charitable activities.

1.4 Statement of Financial Activities

All income and expenditure is accounted for on an accruals basis with the exception that dividends and interest income are credited to the relevant fund on a receipts basis.

<u>Income</u>	<u>Explanation</u>
Voluntary Income	
Common Fund	Contributions paid by the parishes in the Diocese of London to the LDF.
Donations	Gifts from external organisations.
Church Commissioners	Grant income from the Church Commissioners.
City Parochial Foundation	Grant income from the City Parochial Foundation.
Stipend refunds	Stipend refunds are payments in respect of clergy involved in largely local initiatives, financed directly by parishes or other institutions.
Activities for generating funds	
Functional Property rental income	Functional property is usually held to house clergy. Where property is not used for this purpose in the short-term, it is let out at market rate to generate additional income. Designated and Glebe functional rental income is receivable within general funds. Rental income from redundant churches is accounted for within restricted funds.
Assigned fees	Assigned fees are statutory charges for weddings and funerals. They are initially paid to the incumbent and then legally transferred by the incumbent to the LDF to be set against the overall stipends bill. They are not additional income to the basic stipend.
Investment Income	
Dividends and Interest receivable	Income arising is credited to the relevant funds on a receipts basis.
Investment Property rental income	Investment property is let out at market rate. Designated and Glebe investment rental income is receivable within general funds.

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<u>Expenditure</u>	<u>Explanation</u>
Cost of generating funds - investment management costs	
Rental portfolio costs* agent fees	Agent fees paid in relation to the management of the investment property portfolio.
Investment property repairs and maintenance	Repairs and maintenance relating to the investment property portfolio
Charitable activities	
Ministry	Ministry primarily includes the payment of clergy stipends and pensions.
Education & Outreach	Annual grant to the Board for Schools in London plus direct costs related to children's ministry, community ministry and social justice.
Parish and Area Support Services	Costs associated with the Areas including office costs, senior clergy expenses and the costs of advisers.
Clergy Housing	Clergy Housing represents the repairs, maintenance, depreciation and other property costs associated with the functional property portfolio
National Church	The London Diocese's contribution to the National Church's costs
Grants to Parishes & Overseas	Grants made to London parishes and overseas Dioceses
Governance Costs	
Governance Costs	Governance costs include the costs of governance arrangements which relate to the general running of the charity as opposed to those costs associated with charitable activities and fund raising. Governance costs include the costs of Diocesan Synod and the cost of legal advice provided to the Trustees.

1.5 Tangible Fixed Assets

Property

All functional property is held at depreciated replacement cost and investment property at market value. Assets in the course of construction are held at cost.

- (a) **Benefice Houses** The London Diocesan Fund is formally responsible for the maintenance and repair of such parsonages and has some jurisdiction over their future use or potential sale, but legal title is vested in the incumbent.

FRS 5 requires the accounting treatment to follow the substance of arrangements rather than their strict legal form. Accordingly the Council considers it appropriate to treat such properties as expendable endowment fund assets valued at insurance value. It is considered that this approximates, once depreciated, to depreciated replacement cost.

- (b) **Redundant churches and Burial Grounds** These classes of assets are held at nil value in the accounts as the Council believes that the cost of a practical valuation is onerous compared to the additional benefits to be gained. The LDF is unable to sell or change the use of any of these assets without reference to external organisations such as the Church Commissioners. These restrictions, together with the inherent difficulties of applying conventional property valuation methods, are all significant factors in the adoption of this valuation approach for these classes of asset.
- (c) **Assets in the course of construction and major capital projects** Property costs over £10k are capitalised where there has been significant enhancement to the underlying assets. In practice, all major capital projects are capitalised

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Depreciation

Fixed assets are depreciated over their useful economic life. Depreciation is charged on the following types of property, over their expected lives as follows.

- Leaseholds : over term of lease
- Freehold, Glebe : 50 years
- Benefice Houses : 150 years

Fixtures, fittings and equipment additions under £10k are written off fully in the year of purchase. Items over £10k are capitalised and depreciated over 5 years.

1.6 Investments

Investment Property

Freehold properties held for investment purposes have been included at the Council's best estimate of market value. Only major items of glebe and designated fund property held for investment purposes are valued. Other properties are included at a capital multiple of 20 years' rental. Investment Property is not depreciated.

Other Investments

Investments are stated at market value calculated by reference to the mid market value at 31 December. Realised gains or losses on disposal are calculated as the difference between disposal proceeds and carrying value.

1.7 Custodian Trusts

Trusts where the Fund acts as Custodian Trustee with no control over the management or use of the funds are not included in the balance sheet or Statement of Financial Activities of the Fund

A separate balance sheet and statement of financial activities is set out on page 48 with supporting notes on pages 49 and 50. The custodian trustee funds have been subject to a non-statutory audit and the audit report thereon covering pages 46 to 50 is found on page 51

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2 Surplus/(Deficit) on Income and Expenditure for the financial year

The surplus/(deficit) for the financial year is stated after charging	2006 £'000	2005 £'000
Depreciation	2,365	2,506
Auditors' Remuneration (including VAT)		
Audit	38	38
Non-Audit Services		
- Review of Custodian Trusts	6	6
- Project appraisal advice	-	10
- IT review	-	6
	<u>44</u>	<u>60</u>

3a Staff and Clergy Costs

<u>Costs of lay staff (not parochial or sector clergy)</u>	2006 £'000	2005 £'000
Wages and Salaries	1,788	1,780
Employer's National Insurance	147	147
Employer's Pension (note 13(a))	442	340
	<u>2,377</u>	<u>2,267</u>

The Full Time Equivalent average number of people employed on diocesan business was 55 (2005 58) During 2006, two extra people had employment contracts with the LDF but were funded externally and seconded elsewhere The total Full Time Equivalent for statutory purposes was, therefore, 57

The number of employees employed on diocesan business was 59 (2005 60) During 2006, two extra people had employment contracts with the LDF but were funded externally and seconded elsewhere The total number of employees for statutory purposes was, therefore, 61

The number of employees whose emoluments for the year exceeded £60,000 are as follows

£80,001-£90,000	<u>1</u>	<u>1</u>
£70,001-£80,000	<u>1</u>	<u>1</u>
£60,001-£70,000	<u>1</u>	<u>1</u>

Aggregate employer pension contributions for the employees above were £42,107 (2005 £40,521) payable to a defined benefit scheme (Church Workers Pension Fund)

Clergy holding parochial or archdiaconal posts

	2006 £'000	2005 £'000
Gross stipends	9,971	9,195
Employer's National Insurance	590	551
Employer's Pension (note 13(b))	3,093	2,883
	<u>13,654</u>	<u>12,629</u>
Average number of total clergy posts	<u>532</u>	<u>528</u>
Number of total clergy posts at 31 December	<u>537</u>	<u>529</u>

Clergy posts above include Common Fund clergy, off-Common Fund clergy and chaplains

3b Governance Costs and the allocation of Support Costs between Charitable Activities

	2006 £'000	2005 £'000			
<u>Indirect support costs</u> (allocated below)					
Salary and employment costs	908	884			
Office costs	242	264			
	<u>1,150</u>	<u>1,148</u>			
Resources Expended	Before allocation of support costs	Direct support costs	Indirect support costs	Total 2006	Total 2005
	£'000	£'000	£'000	£'000	£'000
Cost of generating funds					
<i>Investment management costs</i>					
Rental portfolio costs - agent fees	170	-	-	170	263
Investment Property repairs & maintenance	423			423	203
	<u>593</u>	<u>-</u>	<u>-</u>	<u>593</u>	<u>466</u>
Charitable activities					
Current Ministry	11,175	7	411	11,593	11,218
Clergy Pensions	3,000	-	-	3,000	2,777
Other Ministry	1,207	-	-	1,207	889
<i>Ministry</i>	<u>15,382</u>	<u>7</u>	<u>411</u>	<u>15,800</u>	<u>14,884</u>
Education & Outreach	382	6	117	505	538
Pansh & Area Support	955	222	379	1,556	1,396
Clergy Housing Property and Care of Churches Costs	4,647	725	221	5,593	5,855
Clergy Housing Depreciation	2,365	-	-	2,365	2,506
<i>Clergy Housing</i>	<u>7,012</u>	<u>725</u>	<u>221</u>	<u>7,958</u>	<u>8,361</u>
National Church	1,793	-	-	1,793	1,669
Grants to Panshes & Overseas	2,234	-	11	2,245	2,409
Governance Costs	-	184	11	195	178
Other resources expended	227	-	-	227	348
	<u>28,578</u>	<u>1,144</u>	<u>1,150</u>	<u>30,872</u>	<u>30,249</u>

Indirect support costs are allocated based on Full Time Equivalent (FTE) staff numbers as administrative costs primarily consist of salary and employment costs, subject to a de minimis threshold. Office costs that are incurred are directly attributable to the staff employed and are also analysed on this basis.

4 Grants Payable

Funding source (notes 11a & b)	General funds £'000	Designated funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2006 £'000	Total 2005 £'000
<u>Grants to Panshes</u>						
School Academy Grant Fund	-	-	-	-	-	300
City Parochial Foundation	387	90	-	-	477	512
Area Pastoral and UPA Funds	-	272	-	-	272	115
Bishop of London's Mission Fund	-	855	-	-	855	613
Funds for Pansh Benefit	-	174	299	7	480	644
	<u>387</u>	<u>1,391</u>	<u>299</u>	<u>7</u>	<u>2,084</u>	<u>2,184</u>
Overseas						
Angola and Mozambique (ALMA)	-	-	150	-	150	225
Grant administration allocation	11	-	-	-	11	-
Total	<u>398</u>	<u>1,391</u>	<u>449</u>	<u>7</u>	<u>2,245</u>	<u>2,409</u>

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5 Tangible Assets and Investment Property

	Designated Funds		Restricted Funds	Endowment Funds				Combined Total £'000
	Freehold Property £'000	Long Leasehold Property £'000		Leasehold Benefice Houses £'000	Expendable Freehold Benefice Houses £'000	Permanent Freehold Property £'000	Total £'000	
At cost or valuation								
At 1 January 2006	64,081	815	29,812	2,523	170,685	840	174,048	268,756
Additions	4,317	-	2,900	-	211	-	211	7,428
Transfers	214	-	3,344	-	(2,826)	(732)	(3,558)	-
Disposals	(2,641)	-	(188)	-	-	-	-	(2,829)
Revaluation	1,878	47	7,316	122	6,863	64	7,049	16,290
At 31 December 2006	67,849	862	43,184	2,645	174,933	172	177,750	289,645
Depreciation								
At 1 January 2006	2,820	71	1,120	136	6,019	96	6,251	10,262
Charge for the year	866	11	246	53	1,186	3	1,242	2,365
Transfers	4	-	78	-	(82)	-	(82)	-
Disposals	(300)	-	(21)	-	-	-	-	(321)
Revaluation	(129)	-	(561)	-	-	(77)	(77)	(767)
At 31 December 2006	3,261	82	862	189	7,123	22	7,334	11,539
Net Book Value								
At 31 December 2006	64,588	780	42,322	2,456	167,810	150	170,416	278,106
NBV Functional Property								
NBV Investment Property	40,054	780	10,183	2,456	167,810	150	170,416	221,433
	24,534	-	32,139	-	-	-	-	56,673
	64,588	780	42,322	2,456	167,810	150	170,416	278,106
Net Book Value								
At 31 December 2005	61,261	744	28,692	2,387	164,666	744	167,797	258,494

The Fund's major glebe and designated fund investment property were formally revalued on 31/12/05

The next formal valuation is due 31/12/10, with interim year-end valuations being performed in the intervening years

Benefice and all functional houses are carried at depreciated insurance value which is a reasonable equivalent of depreciated replacement cost

There are no assets in the course of construction within Glebe and Benefice Houses at 31 December 2006 (2005 £679k and £272k respectively)

As part of the continuing review of investment properties, the revaluation figure above includes adjustments in respect of property that was designated as investment property during the year and property that was no longer appropriate to be designated as investment property

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6 Investments

	01/01/06 £'000	Additions £'000	Disposals £'000	Revaluation £'000	Transfers £'000	31/12/06 £'000
General Funds						
M&G Investments	55	-	-	-	16	71
Designated Funds						
Treasury Stock	75	-	(1)	(3)	-	71
M&G Investments	4,233	16	(731)	605	(16)	4,107
CBF Investment Fund Shares	44	-	(44)	-	-	-
	<u>4,352</u>	<u>16</u>	<u>(776)</u>	<u>602</u>	<u>(16)</u>	<u>4,178</u>
Restricted Funds						
<u>Glebe</u>						
M&G Investments	6,700	-	-	1,090	-	7,790
<u>Sole Trusts</u>						
Listed Investments	21	-	-	(1)	-	20
M&G Investments	3,454	-	(2)	560	-	4,012
CBF Investment Fund Shares	938	22	(153)	83	-	890
CBF Fixed Interest Securities Fund	14	1	-	(1)	-	14
	<u>11,127</u>	<u>23</u>	<u>(155)</u>	<u>1,731</u>	<u>-</u>	<u>12,726</u>
Endowment Funds						
<u>Sole Trusts</u>						
Listed Investments	4	-	-	-	-	4
M&G Investments	2,433	-	-	396	-	2,829
CBF Investment Fund Shares	955	-	(6)	99	-	1,048
CBF Fixed Interest Securities Fund	44	-	-	(2)	-	42
CBF Property Fund	3	-	-	1	-	4
	<u>3,439</u>	<u>-</u>	<u>(6)</u>	<u>494</u>	<u>-</u>	<u>3,927</u>
Total Fixed Asset Investments	<u>18,973</u>	<u>39</u>	<u>(937)</u>	<u>2,827</u>	<u>-</u>	<u>20,902</u>

Cost or valuation

Cost represents the cost or market value at the date of gift or transfer to the Fund

Central Board of Finance (CBF) investments are valued by the CCLA

Investment Information:

The majority of M&G investments relate to M&G Charfund. This investment fund's stated objective is to provide a high and growing income while protecting capital from inflation. The policy is to invest in equities and convertible stocks, to provide a yield about 60% higher than that of the FTSE All-Share Index.

The CBF Investment Fund provides facilities exclusively for Church of England parishes, dioceses and other church charitable trusts to invest capital for the long term. It is invested mainly in equities with a wide diversification of good quality holdings in the United Kingdom and overseas. The investment fund aims at steady income and capital appreciation to provide long-term protection from inflation, whilst adopting an appropriate ethical investment policy.

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7 Investments in subsidiary undertakings

The London Diocesan Fund owns 100% of the issued share capital of a subsidiary undertaking, Causton Street Farms Limited (registration number 2768104). The company has been dormant since 1 January 2005. The subsidiary is excluded from consolidation because it is not material to the financial statements of the Diocese.

8a Debtors

	General £'000	Designated £'000	Restricted £'000	2006 £'000	2005 £'000
Contributions to the Common Fund	463	-	-	463	589
Rent Receivable	647	-	75	722	542
Prepayments and accrued income	132	-	2	134	158
	<u>1,242</u>	<u>-</u>	<u>77</u>	<u>1,319</u>	<u>1,289</u>
Loans to Parishes					
- Diocesan Bishop's Council awarded	-	2,709	-	2,709	3,888
- Area Council awarded	-	815	-	815	652
	<u>-</u>	<u>3,524</u>	<u>-</u>	<u>3,524</u>	<u>4,540</u>
Loans to individuals	18	175	-	193	212
Other Debtors	681	385	78	1,144	723
	<u>1,941</u>	<u>4,084</u>	<u>155</u>	<u>6,180</u>	<u>6,764</u>

	2006 £'000	2005 £'000
<u>Movements in Loans to Parishes</u>		
At 1 January	4,540	4,115
Additions (new loans and interest)	759	1,068
Repayments	(1,775)	(643)
At 31 December	<u>3,524</u>	<u>4,540</u>

During the year, interest on Diocesan Bishop's Council awarded loans to parishes was charged at the rate agreed when the loan was awarded - usually in the range of 5% - 6%. No interest was charged on other loans.

8b Related Parties

Payroll Services

These are undertaken on behalf of a number of local church based projects whereby the Fund acts as a payroll agent. At 31 December 2006 other debtors included £237k (2005 £270k) and other creditors included £30k (2005 £68k) in respect of gross salary and employer's National Insurance.

London Diocesan Board for Schools

The London Diocesan Fund and the London Diocesan Board for Schools are separate charities but various Diocesan bodies appoint the majority of the trustees/directors of the two organisations. A number of members are trustees/directors of both charities.

The Rt Revd and Rt Hon the Lord Bishop of London, R J C Chartres is President and Chairman of the London Diocesan Fund and President of the London Diocesan Board for Schools.

The Rt Rev P A Broadbent (resigned 20 July 2006) and the Archdeacon of Middlesex (appointed 20 July 2006), trustees of the London Diocesan Fund, served as Chairman of the London Diocesan Board for Schools during the year. Mr C J Backhouse is also a trustee of both the London Diocesan Fund and the London Diocesan Board for Schools.

Mr I R M Woolf, a trustee of the London Diocesan Fund, is employed by the London Diocesan Board for Schools.

The London Diocesan Fund makes an annual grant to the work of this Board amounting to £160k (2005 £155k). The Board is a charitable company (reg no 198131). At 31 December 2006 other debtors included no salary and office cost recharge debtors (2005 £39k).

The London Diocesan Fund makes the following donations in kind to the London Diocesan Board for Schools. These relate to office space and provision of house services e.g. reception, cleaning, utilities, IT and payroll support etc. The estimated values of such services is

	2006 £'000	2005 £'000
Accommodation	89	89
House services	83	82
	<u>172</u>	<u>171</u>

Other

The Ven P A Delaney a trustee of the London Diocesan Fund is a trustee of the City Parochial Foundation, a post he held during 2005 and 2006.

Trustees' Expenses/Remuneration

In 2006 the London Diocesan Fund reimbursed a total of £24k to 11 members (2005 £23k to 13) of the Bishop's Council. The expenses related mostly to working expenses e.g. as Archdeacon, Area Dean or other official. By virtue of their clerical office the Diocese is responsible for a substantial part (if not all) of the stipend of the clerical members of the Bishop's Council, along with national insurance and costs associated with housing. The stipends, national insurance and pension of Bishops is borne and funded by the Church Commissioners. The following was paid to 19 other members of the clergy (2005 13) in 2006 who were members of the Bishop's Council.

	2006 £'000	2005 £'000
Stipend	279	234
Employers NI	17	13
Pension	89	79
	<u>385</u>	<u>326</u>

Under the Repair of Benefice Buildings Measure 1972 the Diocese is responsible for the upkeep of parsonages. 8 members of Bishop's Council during the year (2005 3) were housed in parsonages by virtue of their clerical office. 1 clergy employee (2005 0) was housed in a parsonage.

A further 7 members of Council (and Finance Committee) (2005 7) and 1 clergy employee (2005 2) were housed in properties owned by the London Diocesan Fund.

9 Cash and short term investments

a) Balances	General funds £'000	Designated funds £'000	Restricted funds £'000	Endowment funds £'000	2006 £'000	2005 £'000
Central Board of Finance Deposits	66	2,610	1,829	1,525	6,030	5,086
Halifax Bank of Scotland Deposit	1,309	8,969	2,228	-	12,506	13,221
Cash at Bank and in hand	708	92	-	-	800	523
	<u>2,083</u>	<u>11,671</u>	<u>4,057</u>	<u>1,525</u>	<u>19,336</u>	<u>18,830</u>

b) Investment Income Analysis	General funds £'000	Designated funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2006 £'000	Total 2005 £'000
Dividends	545	-	139	-	684	714
Cash and Deposit interest	499	252	146	-	897	1,006
Fixed interest investments	6	-	3	-	9	9
Loan interest	137	-	-	-	137	199
Total	<u>1,187</u>	<u>252</u>	<u>288</u>	<u>-</u>	<u>1,727</u>	<u>1,928</u>

10 Creditors

	General funds £'000	Designated funds £'000	Restricted funds £'000	Endowment funds £'000	31/12/06 £'000	31/12/05 £'000
Amounts falling due within one year:						
Parish Loans Payable	-	882	-	-	882	1,075
Grants Payable	122	2,087	49	-	2,258	1,978
Other Creditors	786	11	7	-	804	769
Accruals and deferred income	567	-	112	-	679	715
	<u>1,475</u>	<u>2,980</u>	<u>168</u>	<u>-</u>	<u>4,623</u>	<u>4,537</u>

Amounts falling due after more one year

Church Commissioners re value linked loans	-	1,887	-	-	1,887	1,887
Total	<u>1,475</u>	<u>4,867</u>	<u>168</u>	<u>-</u>	<u>6,510</u>	<u>6,424</u>

Value Linked Loans due to the Commissioners become repayable when the house on which they are secured is sold. They are concessionary loans made by the Church Commissioners for onward lending to parishes, usually for housing of assistant clergy. The properties purchased with Value Linked Loans are held within Designated Fund Property.

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11a Designated Funds

	01/01/06	Incoming Resources	Outgoing Resources	Unrealised Gains	Transfers	31/12/06
	£'000	£'000	£'000	£'000	£'000	£'000
Designated Funds						
Functional Property	38,839	-	(877)	876	109	38,947
Investment Property	21,279	-	-	1,178	2,077	24,534
Parsonage Reserve	536	663	(126)	-	(36)	1,037
Fund Property Reserve	-	4,795	(138)	-	(1,109)	3,548
Designated Trusts	1,702	75	(191)	-	-	1,586
Mission Opportunity	2,024	3	(235)	304	-	2,096
Bishop of London's Mission Fund	1,444	410	(855)	-	-	999
Clergy Training and Support	1,169	4	(66)	195	(20)	1,282
City Parochial Foundation Funds	701	-	(90)	-	(8)	603
Area Pastoral Funds	597	32	(250)	-	305	684
Urban Priority Area Funds	104	5	(22)	-	16	103
Area Bank Accounts	87	48	(42)	-	-	93
Diocesan Loan Capital	4,500	-	(20)	70	-	4,550
Centrally Sponsored Area Project Reserve	280	16	(129)	-	-	167
Bishop of London's Reserve	250	62	(181)	-	-	131
Audit, Systems & Other Improvements	26	1	(26)	-	-	1
School Academy Grant Liability	37	3	-	33	-	73
Total Designated Funds	73,575	6,117	(3,248)	2,656	1,334	80,434
					Note 11d	

Designated Fund Descriptions (refer to the Trustees' report for information regarding the Fund's reserves policy)

Designated Fund Property	Functional property (£41m) is held to house clergy, supporting one of the principal activities of the Fund. The Value Linked Loans creditor, as described in note 10, is included within this reserve. Investment property (£25m) is held to generate income which contributes towards stipend payments and other charitable activities.
Parsonage and Fund Reserves	The Parsonage and Fund reserves are used for the purchase and refurbishment of Parsonage and Fund Property respectively. When a property is sold, the sale proceeds are credited to the relevant fund.
Designated Trusts	This fund represents proceeds arising from the sale of parsonage-based properties that were in use by those parishes but were legally owned by the Diocese. Each sale of such property is assessed on a case-by-case basis and where there is a compelling reason the sale proceeds may be designated for parish purposes, usually to fund a parish based development or replacement facility.
Mission Opportunity	This fund was established to meet specific clergy and related costs that will be necessary in implementing Diocesan mission and ministry policy.
Bishop of London's Mission Fund (BLMF)	This fund is used for significant Diocesan wide mission initiatives. Each application is assessed on a case-by-case basis by the BLMF board, an internal committee chaired by the Bishop of London. The BLMF does not fund capital projects.

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11a Designated Funds (continued)

Clergy Training and Support	This fund is for providing general clergy training and support
City Parochial Foundation (CPF) Funds	From 2005, the CPF grant and corresponding expenditure is accounted for through general funds. Previously received CPF money has been designated to meet grants awarded in 2004 and earlier and to provide an Area loan capital fund. Decisions on new loans are taken by the Area Councils.
Area Pastoral Funds	This represents funds for each of the five Episcopal Areas which can be used for Area specific projects. Decisions on the use of the funds are taken by Area Councils.
Urban Priority Area Funds	This represents funds for each of the five Episcopal Areas which can be used for building and other projects relating to Urban Priority Areas. Decisions on the use of the funds are taken by Area Councils.
Area Bank Accounts	These are the Kensington and Willesden Area bank accounts which are used to directly support each of these Areas.
Diocesan Loan Capital	A £4.5m loan capital fund was set up in 2005 to provide loans to parishes with individual loans granted not normally exceeding £100k. Requests from parishes are first considered by the Loans Monitoring Group, a sub-committee of the Finance Committee before being voted on at full Finance Committee level.
Centrally Sponsored Area Project Reserve	This fund is used to fund (a) Asbestos monitoring and removal (b) Gutter cleaning for Diocesan Supported Parishes and (c) Land registration costs.
Bishop of London's Reserve	This fund will be used primarily to meet London Challenge 2012 launch costs, Senior Staff training and the costs of an interfaith adviser.
Audit, Systems & Other Improvements	This fund is used to meet significant one-off costs relating to audit driven, system and other improvements.
School Academy Grant Liability	This fund has been set up to meet the cost of a £300k grant to St Mary Magdalene Academy Trust. To comply with accounting standards the full amount was recognised as expenditure in 2005 although in practice the grant will be drawn down in subsequent years.

11b Restricted Funds

	01/01/06	Incoming Resources	Outgoing Resources	Unrealised Gains	Transfers	31/12/06
	£'000	£'000	£'000	£'000	£'000	£'000
Glebe Property Fund	28,692	-	(246)	7,877	5,999	42,322
Glebe Investment Fund	12,433	535	(178)	1,090	(4,507)	9,373
Sole Trust Expendable Funds	6,181	371	(477)	641	-	6,716
Redundant Churches Fund	933	266	(324)	-	(245)	630
Replacement Church Projects	43	2	-	-	-	45
BLMF restricted fund	-	6	-	-	-	6
Total	48,282	1,180	(1,225)	9,608	1,247	59,092

Note 11d

Restricted Funds

Glebe Property Fund	This represents the net book value of glebe property with movements shown in note 5. Rental income from glebe property is credited to general funds where it is used to fund clergy stipend payments. As with Designated Fund Property, the fund is split between functional (£10m) and investment (£32m) property.
Glebe Investment Fund	This represents the carrying value of glebe investments and cash. Investment income from glebe property is credited to general funds where it is used to fund clergy stipend payments. The use of Glebe assets detailed above is governed by the Diocesan Stipends Fund Measure (1953) and the Endowments and Glebe Measure 1976.
Sole Trust Expendable Funds	This fund represents the expendable capital and accumulated income element of some 100 restrictive Trusts which are held for specific parish or diocesan purposes. These Trusts are consolidated with the main LDF accounts as the LDF acts as Sole Trustee and therefore has control. The permanent endowment element is disclosed in note 11c. Each Trust is governed by its own trust instrument which may be in the form of a Charity Commission scheme for example.
Redundant churches	This fund represents the Diocesan Pastoral Account (DPA) and is primarily used for redundant church rentals and maintenance expenses. The DPA is governed by the Pastoral Measure 1983 as amended by subsequent legislation.
Replacement Church projects	This fund represents monies held to provide a new place of worship usually from the proceeds of the previous site under section 46 of the Pastoral Measure.
BLMF restricted Fund	This fund deals with donations to the Bishop of London's Mission Fund (see note 11a) which are to be held under the terms of reference of the BLMF only or indicate other specific restrictions.

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11c Endowment Funds

	01/01/06	Incoming Resources	Outgoing Resources	Unrealised Gains	Transfers	31/12/06
	£'000	£'000	£'000	£'000	£'000	£'000
Parsonage House Capital	167,052	-	(1,238)	6,985	(2,533)	170,266
Sole Trust Permanent Endowment	4,978	-	(10)	634	-	5,602
Total	172,030	-	(1,248)	7,619	(2,533)	175,868

Note 11d

Parsonage House Capital	This fund represents the net book value of Benefice Houses (see note 5)
Sole Trust Permanent Endowment	This fund represents those amounts held under the LDF's Sole Trusteeship where the capital is not expendable (see note 11b). The £10k of outgoing resources is comprised of grants to parishes where small Trusts have been wound up with the approval of the Charity Commission and depreciation on Permanent Endowment Freehold Property (see note 5)

11d Transfer Between Funds - Detailed Breakdown of Movements

Statement of Financial Activities analysed

	General £'000	Designated £'000	Restricted £'000	Endowment £'000	Total £'000	Notes
Parsonage additions	-	(36)	(174)	210	-	1
Burial Ground Sale Proceeds	-	321	(321)	-	-	2
Property reclassifications	-	1,077	1,666	(2,743)	-	3
City Parochial Foundation	8	(8)	-	-	-	4
Clergy Training Fund	20	(20)	-	-	-	4
Redundant Churches Rental	(76)	-	76	-	-	5
	(48)	1,334	1,247	(2,533)	-	
		Note 11a	Note 11b	Note 11c		

1. Transfers from the Parsonage and Glebe reserves for the building/purchase of parsonages
2. As a policy, Burial Ground sale proceeds allocated to the Diocesan Pastoral Account (DPA) are split between the Area Pastoral and Urban Priority Area (UPA) funds within designated funds
3. Reclassifications of properties - for example a designated functional property nominated in 2006 as the 'formal' parsonage would require a transfer from designated funds to endowment funds
4. Transfer of 2005 receipts owing to general funds
5. Transfer of rents receivable for redundant churches to Redundant Churches Fund

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12 Notes to the cash flow statement

	31/12/06 Total Funds £'000	31/12/05 Total Funds £'000
Note 1 Reconciliation of operating deficit to operating cash flows		
Operating (Deficit)/Surplus	(4,581)	(5,112)
Depreciation charges	2,365	2,506
(Increase)/Decrease in debtors	584	(732)
(Decrease)/Increase in creditors	86	905
Investment and Rental Income	(5,283)	(5,271)
	<u>(6,829)</u>	<u>(7,704)</u>

Note 2 : Gross Cash Flows

Returns on investments and servicing of finance

Dividends and Interest Receivable	1,727	1,928
Rental Income	3,556	3,343
	<u>5,283</u>	<u>5,271</u>

Capital Expenditure and investment

Sale of property	8,558	4,552
Purchase of tangible fixed assets	(7,428)	(5,246)
Sale of investments	961	6,150
Purchase of investments	(39)	(6,477)
New capital resources	-	57
	<u>2,052</u>	<u>(964)</u>

Financing

Repayment of Loans	-	(15)
New Value Linked Loans	-	100
	<u>-</u>	<u>85</u>

Note 3 Analysis of Changes in net debt

	01/01/06 £'000	Cash Flows £'000	31/12/06 £'000
Funds			
Cash at bank and in hand	523	277	800
Short Term Deposits	18,307	229	18,536
	<u>18,830</u>	<u>506</u>	<u>19,336</u>
Debt due within one year	-	-	-
Debt due after one year	(1,887)	-	(1,887)
	<u>(1,887)</u>	<u>-</u>	<u>(1,887)</u>
	<u>16,943</u>	<u>506</u>	<u>17,449</u>

13 Pensions

(a) Lay staff

The London Diocesan Fund participates in the Church of England Defined Benefit Scheme section of the Church Workers Pension Fund, a pension scheme administered by the Church of England Pensions Board to provide benefits based on total pensionable salaries. The assets of the Pension Fund are held separately from those of the London Diocesan Fund.

At 31 December 2006 the London Diocesan Fund had 54 active members and 50 deferred pensioner members in the Pension Fund (2005: 56 and 42 members respectively).

The London Diocesan Fund is unable to identify its share of the underlying assets and liabilities as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the defined benefit scheme. Paragraph 9(b) of FRS17 requires the London Diocesan Fund to account for pension costs on the basis of contributions actually payable to the scheme in the year (see note 3(a)).

A triennial valuation of the Pension Fund was carried out as at 31st December 2004 and the scheme was shown to be in deficit. The London Diocesan Fund's contribution rate was increased from 21.02% to 25.78% of gross pensionable salary with effect from 1 January 2006. The new rate represents the future service contribution plus an amount to eliminate the deficit over 10 years (or average future service, if less).

One member (2005: 1) of the London Diocesan Fund's staff participates in a pension scheme under the auspices of the London Pensions Fund Authority. This fund was valued as at 31st March 2004 and the employer contribution rate was revised from 12.2% to 13.8% with effect from 1 April 2005. Although the LPFA have been able to separately identify the underlying assets and liabilities the full principles of FRS17 have not been applied as the overall figures are not material.

(b) Clergy

From 1 January 1998, Diocesan clergy became members of the new Church of England Funded Pensions Scheme. This scheme provides the part of their pension that relates to pensionable service *after* 1 January 1998. The scheme's assets are held separately from those of the London Diocesan Fund. Past service clergy pensions, for service *before* 1 January 1998, are paid by the Church Commissioners at no cost to the Diocese.

The London Diocesan Fund employs 520 members of the scheme out of a total membership of approximately 10,000 active members. The Church of England Funded Pensions Scheme is a defined benefit scheme but the London Diocesan Fund is unable to identify its share of the underlying assets and liabilities - each employer in that scheme pays a common contribution rate. Paragraph 9(b) of FRS17 requires the London Diocesan Fund to account for pension costs on the basis of contributions actually payable to the scheme in the year (see note 3(a)).

The latest valuation of the scheme was carried out as at 31 December 2003. This revealed a shortfall of £91m, with assets of £196m and a funding target of £287m, assessed using the following assumptions:

- Investment return of 6.8% per annum
- Increase in pensionable stipends of 3.8% per annum
- Pension increases of 3.8% per annum

Following the results of the 2003 triennial valuation, the London Diocesan Fund's contribution rate increased from 29.5% to 33.8% of pensionable stipends with effect from 1 April 2005. The new rate represents the future service contribution plus an amount to eliminate the deficit over 15 years (or average future service, if less).

Following a subsequent informal review of the Scheme's funding position, the London Diocesan Fund's contribution rate increased again to 39.8% of pensionable stipends with effect from 1 January 2007 as an interim measure, pending the results of the next formal valuation of the Scheme as at 31 December 2006.

14 Members' Liability

The London Diocesan Fund is a company registered in England as a company limited by guarantee, having no share capital. At 31 December 2006 there were 47 members (2005: 44) who are liable to contribute £1 each in the event of the company being wound up. The maximum number of members permitted by the Memorandum and Articles is 54.

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**The following pages do not form part of the statutory accounts
of the London Diocesan Fund for 31 December 2006**

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THE LONDON DIOCESAN FUND

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Report of the Custodian Trustees

The Council of the London Diocesan Fund, acting as Custodian Trustees, present the report and non-statutory financial statements for the year ended 31 December 2006

Legal Status

Under the PCC (Powers) Measure 1956, the London Diocesan Fund acts as custodian trustee of parish buildings and land. It also acts as custodian trustee for monies held on specific trust. These pages report the specific trust holdings only and provide an aggregation of the financial assets of approximately 330 separate trusts.

Certain title and trust deeds are held in the name of the Bishop of London's Fund. This is a body that pre-existed the formation of the London Diocesan Fund in 1918 and in which property and capital were vested. For day to day purposes, its activities have been subsumed into the London Diocesan Fund since 1 January 1918.

Review of the Year

The overall value of funds held by the London Diocesan Fund as custodian trustee rose by £3.3m to £25.2m in 2006.

Total incoming resources rose by 3.6% from 2005 to 2006. This reflected an increase in investment income, generated primarily from the general upward trend in investment returns.

At £2.0m, total resources expended were £0.4m lower than in 2005. This was primarily due to a £0.9m decrease in transfers to managing trustees. In 2005 the total £0.9m transfers consisted of two trusts, where the sale proceeds from two parish buildings were transferred to the parish. There were no similar transfers in 2006.

Against this there was a £0.6m increase in resources expended to the objects of the trusts. This represents routine expenditure from the trust funds, as permitted by the individual trust's governing documents. The increase was owing to an increase in Permanent Endowment expenditure of £0.4m and an increase in expendable capital expenditure of £0.2m. These increases related primarily to building project expenditure from two trusts during 2006.

Additional capital resources of £2.8m were received during the year. Of this, £2.1m related to two new trusts, both of which resulted from the sale of church halls.

The gains on investment assets at £1.5m reflected the increase in the value of equity holdings, resulting from the bullish stockmarket during 2006.

Statement of Custodian Trustee's responsibilities

Under charity law, the custodian trustees are responsible for preparing the Trustees' Annual Report and the financial statements for each financial year which show a true and fair view of the state of affairs of the charity and of the excess of expenditure over income for that period.

In preparing these financial statements, generally accepted accounting practice entails that the custodian trustees:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether the recommendations of the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements,
- state whether the financial statements comply with the trust deed and rules, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue its activities.

(continued on next page)

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Report of the Custodian Trustees (continued)

The custodian trustees are required to act in accordance with the trust deed and the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the custodian trustees to ensure that, where any statements of accounts are prepared by them under section 42(1) of the Charities Act 1993, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities.

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

DISCLOSURE OF INFORMATION TO AUDITORS

The custodian trustees who held office at the date of approval of this trustees' report confirm that, so far as they are each aware, there is no relevant audit information of which the Charity's auditors are unaware, and each custodian trustee has taken all the steps that he or she ought to have taken as a custodian trustee to make himself or herself aware of any relevant audit information and to establish that the Charity's auditors are aware of that information.



Ven W M Jacob
Member of Council and
Finance Committee Chairman

14 May 2007

Custodian Trusts Balance Sheet at 31 December 2006


	Notes	Market Value 2006 £'000	Market Value 2005 £'000
Assets			
Fixed Asset Investments	2	21,867	18,805
Current Asset Investments	3	3,367	3,132
Net Assets		<u>25,234</u>	<u>21,937</u>
Funds			
Permanent Endowment	2	11,946	11,510
Non Permanent Capital	2	9,921	7,295
Unexpended Income	3	3,367	3,132
		<u>25,234</u>	<u>21,937</u>

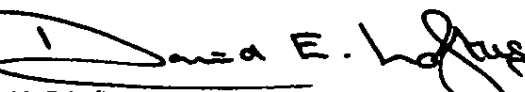
The notes on pages 49 and 50 form part of these accounts

Statement of Financial Activities for the year ended 31 December 2006

	Endowment Fund £'000	Expendable Capital £'000	Unexpended Income £'000	Total 2006 £'000	Total 2005 £'000
Incoming Resources					
Donations	-	-	37	37	35
Investment Income	-	-	491	491	455
Income direct to Beneficiaries	-	-	411	411	416
Total Incoming Resources	-	-	939	939	906
Resources Expended					
Income paid to Beneficiaries	-	-	(411)	(411)	(416)
Transfer to Managing Trustees	-	(1)	-	(1)	(886)
To Objects of the Trusts	(593)	(635)	(342)	(1,570)	(1,072)
Total Resources Expended	(593)	(636)	(753)	(1,982)	(2,374)
Net (Outgoing)/Incoming Resources	(593)	(636)	186	(1,043)	(1,468)
Additional new resources	94	2,701	11	2,806	923
Transfer between Funds	-	-	-	-	-
Net (Outgoing)/Incoming Resources for the year	(499)	2,065	197	1,763	(545)
Gains/(Losses) on Investment Assets	935	561	38	1,534	1,675
Net Movement in Funds for the year	436	2,626	235	3,297	1,130
Funds at 1 January 2006	11,510	7,295	3,132	21,937	20,807
Funds at 31 December 2006	<u>11,946</u>	<u>9,921</u>	<u>3,367</u>	<u>25,234</u>	<u>21,937</u>

The non statutory financial statements were approved by the Diocesan Bishop's Council acting as custodian trustee on 14 May 2007


Ven W M Jacob
Member of Council and
Finance Committee Chairman


Mr D Loftus
Member of Council

Notes to the Custodian Trusts Financial Statements

1. Principal Accounting Policies

These non-statutory financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the statement of recommended practice, 'Accounting by Charities'. A summary of the principal accounting policies, which have been applied consistently except as stated, is set out below

a Basis of Preparation

Under the PCC (Powers) Measure 1956, the London Diocesan Fund acts as custodian trustee of parish buildings and land. The London Diocesan Fund also acts as custodian trustee for monies held on specific trust. These pages report the specific trust holdings only and provide an aggregation of the transactions and balances of the financial assets of some 330 trusts.

The Balance Sheet at 31 December 2006 has been prepared, together with a Statement of Financial Activity, which analyses the movement in funds. Comparative figures for 2005 have been provided.

The financial statements have been prepared on a basis consistent with figures included in the London Diocesan Fund's Balance Sheet. As custodian trustee, the Fund prepares these financial statements on the historical cost basis of accounting, adjusted for the revaluation of investments.

As the Fund has no day to day control over their disposition, custodian trusts are not included within the Fund's main figures.

A cash flow statement has not been prepared as the custodian trustees consider that each custodian trust meets the criteria of a 'small' company for this purpose.

A specific trust bank account is maintained for trust transactions. Each trust has its own designated investment ledger and account codes.

It is the Fund's policy that where possible all income should go direct to the beneficiaries.

b Fund Balances

All funds are subject to the specific conditions imposed by the donor or by the terms of the trust deed or other applicable legal measure. The expendable capital funds and unexpended income are classified as restricted funds. Endowment funds are funds subject to the condition that they be held as permanent capital.

Income and expenditure on restricted funds are taken directly to the appropriate fund except to the extent that income is freely available to the managing trustees, and unexpended income from endowment assets is carried forward as a restricted fund.

c Investment Income

Dividend and interest income is accounted for on a receipts basis, primarily quarterly. Rental income is accounted for on an accruals basis.

d Other Income and Expenditure

Additional capital represents capital introduced to an existing custodian trust, or the creation of a new trust.

Expenditure shown under transfer to managing trustees represents transfers of assets back to the sole trusteeship of managing trustees. Such transfers are agreed between the London Diocesan Fund as custodian trustee and the applicable managing trustees.

Expenditure on objects of the trusts represents the spending of capital and income in line with the terms of the trust deed or other applicable governing document.

e Investments

Investments are stated at market value, calculated by reference to the mid market value at 31 December. Unlisted investments within notes 2 and 3 are comprised primarily of M&G Chanfund income units.

Realised and unrealised gains or losses on investments in the year are credited to the appropriate funds.

Notes to the Custodian Trusts Financial Statements (continued)

2. Fixed Asset Investments represented by Permanent Endowment Capital

	1 January 2006	Additions	Disposals	Transfers	Revaluation	Other Asset / Liability Movements	31 December 2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Listed Investments	210	29	(33)	-	2	-	208
Unlisted Investments	2,200	76	(64)	-	341	-	2,553
Investments held by the Central Board of Finance							
Fixed Interest	273	6	-	-	(12)	-	267
Investment Fund Shares	5,727	89	-	-	601	-	6,417
Property Fund	27	-	-	-	4	-	31
Deposit Fund	3,074	-	(543)	-	-	-	2,531
Other Assets/(Liabilities)	(1)	-	-	-	-	(60)	(61)
	11,510	200	(640)	-	936	(60)	11,946

Fixed Asset Investments represented by Expendable Capital

Listed Investments	297	-	(1)	-	10	-	306
Unlisted Investments	1,965	-	(1)	-	320	-	2,284
Investments held by the Central Board of Finance							
Fixed Interest	214	-	-	-	(9)	-	205
Investment Fund Shares	2,344	75	(110)	-	235	-	2,544
Deposit Fund	2,526	1,785	(584)	-	-	-	3,727
Other Assets/(Liabilities)	(51)	-	-	-	-	906	855
	7,295	1,860	(696)	-	556	906	9,921
Total Fixed Assets	18,805	2,060	(1,336)	-	1,492	846	21,867

3. Current Asset Investments represented by Unexpended Income from Permanent Endowment Assets

Listed Investments	97	-	(7)	-	6	-	96
Unlisted Investments	148	-	-	-	15	-	163
Investments held by the Central Board of Finance							
Fixed Interest	8	-	-	-	-	-	8
Investment Fund Shares	114	10	-	-	12	-	136
Deposit Fund	1,903	276	(251)	-	-	-	1,928
	2,270	286	(258)	-	33	-	2,331

Current Asset Investments represented by Unexpended Income from Expendable Capital Assets

Investments held by the Central Board of Finance							
Fixed Interest	17	-	(3)	-	(1)	-	13
Investment Fund Shares	34	2	-	-	4	-	40
Deposit Fund	865	208	(167)	-	-	-	906
	916	210	(170)	-	3	-	959
Other Assets	(54)	-	-	-	-	131	77
Total Current Assets	3,132	496	(428)	-	36	131	3,367
TOTAL	21,937	2,556	(1,764)	-	1,528	977	25,234

THE LONDON DIOCESAN FUND

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INDEPENDENT AUDITORS' REPORT TO THE CUSTODIAN TRUSTEES OF THE FUNDS

We have audited the financial statements of the Custodian Funds for the year ended 31 December 2006 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's trustees as a body, in accordance with section 43 of the Charities Act 1993 and regulations made under section 44 of that Act. 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.

Respective responsibilities of trustees and auditors

The custodian trustees' responsibilities for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities on page 46.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the charity has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Trustees' Annual Report and consider the implications for our report if we become aware of any apparent misstatements within it. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the custodian trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 December 2006 and of its incoming resources and application of resources for the year then ended, and

- have been properly prepared in accordance with the Charities Act 1993.

KPMG LLP

Chartered Accountants
Registered Auditor

1 Forest Gate, Brighton Road, Crawley, West Sussex, RH11 9PT

14 May 2007