



QUESTIONS ANSWERED

Central Funds and the Aged & Infirm Clergy Fund



ARCHDIOCESE
OF ST ANDREWS & EDINBURGH



Introduction

This document was compiled to answer questions submitted to the Archdiocese of St Andrews & Edinburgh on 14 February 2023 about the Aged & Infirm Clergy Fund.

Question 1

"It would be helpful to know exactly how the AICF was set up. (a) Is it a Pension Fund? (b) Is it bound by the Pensions Regulator? Or (c) is it simply a designated bank account?"

Answer

The AICF is both a fund and an organisation.

The AICF is the Aged and Infirm Clergy Fund of the Archdiocese of St Andrews & Edinburgh. It was created in 1933 by Archbishop McDonald for the benefit of 'Aged & Infirm' incardinated clergy of this archdiocese - to be operated by the same incardinated clergy.

In the same way as incardinated clergy receive 'bed & board' and a modest living allowance (not a salary) while they are in active service, incardinated clergy receive an allowance (not a pension) when in retirement. From 1933 to 2018, the AICF was governed by the "AICF Constitution" and managed by its own members through the "AICF Management Committee."

In 2018, the AICF Management Committee proposed at their AGM that the AICF Constitution should be replaced as it was 'confused and confusing' and was no longer fit for purpose. Following a majority vote of incardinated clergy at the AICF EGM in 2019, the AICF adopted a Trust Deed in Scots Law – which is now its governing document.

The AICF is managed by the Board of Trustees of the Archdiocese, and the Archdiocesan College of Consultors perform the consultancy role previously performed by the AICF Management Committee, which no longer exists.

The AICF is a "Restricted Fund" within the archdiocese. This means that the use of the fund is restricted to the purpose of supporting incardinated clergy in retirement.

The AICF is not, therefore, a Pension Fund.

It is not bound by the Pensions Regulator. It is a pooled fund which is used by the Archdiocese to meet its canonical responsibility to support priests in retirement. Please refer to the 'Facing the Challenge' Webinar FAQs document (issued in October 2021) point 1 for a fuller description and discussion of diverse retirement models.

[Answer continued over]



[Continued]

This FAQ pack, along with a link to a recording of the Webinar (of August 2021), was issued by email to all clergy and Parish Finance Committee members in late October 2021.

If replacement copies are required, these can be provided.

In 2018 the Archbishop established an “AICF Working Group” which considered the possibility of setting up a defined benefit pension scheme, or alternatively setting up and funding individual defined contribution accounts within a group personal pension scheme – as possible alternatives to the AICF pooled fund.

However, these alternatives were rejected as they would have required additional funding and would have incurred additional operational costs.

The AICF is not a designated bank account.

In charity finance the term “designated” refers to a fund that has had a purpose assigned to it by the Trustees, but which can be amended by the Trustees for any other purpose. The appropriate category for a fund such as the AICF is a “restricted fund”, which can only, legally, be used for the specified purpose. The AICF has a portfolio of investments (including one property) and a bank account.

Question 2

"The recent AICF update to parishes from the Archdiocese stated 'The AICF could not fund its expenditure in 1972, so this deficit is 50 years in the making'. (a) What was the reason for this not being addressed until the middle of the pandemic and cost-of-living crisis, during which so many have been hit hard financially? (b) What, if any, accountability existed for the errors leading to the gross underfunding? If none, why is that the case?"

Answer

Archbishop Cushley was appointed in 2013. Since 2013 he has appointed professionally qualified and experienced lay people to the Board of Trustees (under the Cardinal there were only four Trustees all of whom were clerics).

The Board of Trustees also serves as the canonical Finance Council of the Archdiocese.

Since 2013 the Archbishop and the Trustees have taken a number of important steps to address the financial problems facing the Archdiocese, including the closure of non-essential loss-making activities (like a B&B operation run out of the Gillis centre) and the reduction of the costs of the Curia.

It was as part of their efforts to stabilise the financial position of the Archdiocese that the Trustees were obliged to review the diocesan liability with regard to the payment of retirement allowances for elderly priests going into the future.

To this end, in 2014 the Trustees commissioned Willis, Towers, Watson (a firm of actuaries who specialise in pensions and Charities) to estimate the liability. It was the result of this independent actuarial assessment that led to the realisation of the depth of the financial problem facing the Archdiocese.

This actuarial assessment was (according to best practice) reviewed in 2017 and is currently again under review.

[Answer continued over]



[Continued]

The current AICF renewal project began in 2018 when the AICF Management Committee reported to the Archbishop that the AICF rules and structure were no longer fit for the purpose of ensuring retirement provision.

They asked that the Archbishop and Trustees to take on the challenge of managing the provision of funds for priests' retirement, to ensure that allowances could be paid in future as needed by retired and retiring priests.

The pandemic in 2020 disrupted much of society and the economy. Specifically, for the AICF, lockdown was announced just before the beginning of a series of meetings with Priests and Parishes to discuss the AICF funding challenge. Because of the Pandemic, the programme which had been planned to raise awareness of and to begin to address the AICF deficit, was delayed and it was only in 2021 and 2022 that it was able to be re-started.

As noted, the Archbishop and the Trustees have been working since 2013 to assess and address the issues which face the Archdiocese. They cannot be held accountable for historical mistakes, and neither are they able to answer for actions or lack of action in previous years.

Why raise AICF funds during Covid and cost of living challenges?

The AICF was transformed in June 2019. There followed a period of detailed analysis to establish the feasibility of asking parishes for the funding amounts proposed by the 2017/18 actuarial review: which were £10K per priest per annum (without addressing the historic shortfall), or £25K per priest per annum (if the historic shortfall were also to be cleared by these annual contributions).

[Answer continued over]



[Continued]

The Trustees decided that the priority was to stop the shortfall from getting worse by laying the foundation for future regular parish-based funding contributions, and as a consequence decided to address the historic shortfall as a separate funding project.

The Trustees postponed requests for AICF funding in 2020 due to Covid (cf. Webinar & FAQs), but by 2021 AICF funding could no longer be delayed.

For which reason the Trustees asked the archbishop to invite parishes to contribute an amount based upon the figure of £10K per priest (cf. again Webinar & FAQs).

Later in 2021 the Archbishop established a “Pension Crisis Committee” which reviewed the data, and also looked at possible funding models.

The webinars in July and August 2021 tabled three possible funding models (cf. again Webinar and FAQs).

Indicative votes were taken at each Webinar both of which favoured a “tiered AICF assessment increase, to be added to the general assessment invoice”.

The Trustees subsequently voted for the tiered AICF assessment increase, to be added to the general assessment invoice and the archbishop incorporated this into a Decree (09/22 – Aged and Infirm Clergy Levy).

This funding approach replaces the AICF Special collections and the lesser-known Clergy Levy.

Question 3

"The AICF currently has a balance of £1.8m, with an additional £4.3m reserve. (a) When the reserve was first set up in 2014, was consideration given to moving physical assets and cash into the fund rather than simply making a provision?"

Answer

a. The £4.3m provision (shown in the balance sheet and in note 17 to the accounts) is an accounting entry to recognise that the Archdiocese has an obligation to pay allowances to retired priests. The amount of the provision is the estimated cost for priests who are already retired. At the time that the provision was made, options to identify cash that could be added to the fund were being sought.

The Trustees agreed to make annual transfers from the General Fund to the AICF for five years, which totalled £1.5m between 2015 and 2019.

As of December 2019, the balance on the AICF was £1.5m, so without those transfers the balance would have been £0.

Question (cont.)

(b) "Was any analysis prepared to plan for future funding of the AICF in 2015 when the first actuarial valuation was carried out? It would be helpful to see any calculations and plans from this time."

(c) "In a letter to Parishioners in June 2016 from the then Director of Finance it was advised that the Trustees had settled on two main measures to fund the AICF. The first was income from the investment of property proceeds and the second was a second collection each year in the parishes."

Were these incomes deemed high enough at the time to alleviate the AICF deficit and meet future requirements? If so, why was this not the eventual outcome?"

Answer

b) and c). An AICF working group was formed in 2014, which made the following recommendations for funding:

- i. Annual transfers from Central Funds to the AICF for a 5 year period (2015-2019). A total of £1.5M was transferred across the five years. Whilst the measures implemented did cover the AICF expenditure, they also left the central operational fund in deficit, which is not sustainable.
- ii. The additional second AICF collection each year did generate more income in the first year and then faded away. The total income from AICF collections was inadequate when compared to expenditure (covering 50% or less). The insufficiency and unpredictability of these collections made them unsuitable as retirement contributions.
- iii. Their third recommendation was to impose a levy on parishes which the 2015 working group chose not to implement (probably in the hope that the two above measures would solve the problem – which, unfortunately, they did not).

Question 4

"From our reading of the accounts for the three-year period, it would appear that the Curia was running at a surplus. To be specific, in 2019 the Curia held a surplus of £2.3m; in 2020 the surplus was £209k resulting from the lockdown during the pandemic; in 2021 the Curia's surplus rose to £2.5m. During this same period parishes showed a surplus of £481k in 2019; a deficit of £965k in 2020 and a surplus of £1.3m in 2021.

Based on these figures, why was the main assessment levy not reduced in 2020 or as soon as the accounts became available in 2021? This predated the AICF levy and would have given rise to a less punitive new levy during a period when many parishes were struggling."

[Answer over]

Answer

It is helpful to clarify some of the terms used here, in order to answer these questions:

“The Curia”

The people (Archbishop and lay staff) undertaking the central administration of the registered Charity that is the Archdiocese of St Andrews & Edinburgh.

“Central Funds”

All of the centrally administered funds of the Archdiocese. These include:

- “Unrestricted Funds” which can be used as determined by the Trustees; and
- “Restricted Funds” which means funds that can only be used for restricted purposes. The largest restricted funds are the AICF and Mount Vernon Cemetery. Others include the Mission and Friendly Society, the Care Fund and the Margaret Sinclair Fund.

- Restricted Funds also include “Endowment Funds”, which are even more restricted. These are usually older funds where the restriction requires that the money be invested and only the income be used for specific purposes, for example training of seminarians.

“The Archdiocese”

A single charity which encompasses the Centre and all the parishes. When reading the Archdiocesan accounts, the assets, income and expenditure totals represent, therefore, the total of central funds and all of the funds belonging to parishes.

[Answer continued over]

[Continued]

To understand the overall position and the different central and parish funds within the accounts of the Archdiocese, the key pages are the Statement of Financial Activities and notes 18,19 and 20.

2019 – Net movement in Central Funds £2.36m:

- £2.11m gains on investments
- £0.25m of other movements:
 - £83k deficit on Unrestricted Funds
 - £307k surplus on Restricted Funds (Mission Fund, one off sale in the Taggart Bursary fund, transfers to AICF).
 - £24k surplus on Endowment Funds
- £481k surplus on parish funds

2020 – Net movement in Central Funds £209k:

- £167k gains on investments
- £42k of other movements:
 - £77k deficit on Unrestricted Funds
 - £133k deficit on Restricted Funds (mainly AICF with no special collections).
 - £252k surplus on Endowment Funds
- £965k deficit on parish funds

[Answer continued over]

[Continued]

2021 – Net movement in Central Funds £2.53m:

- £1.92m gains on investments
- £610k of other movements:
 - £198k surplus on Unrestricted Funds
 - £392k surplus on Restricted Funds (Additional income and transfers in AICF).
 - £20k surplus on Endowment Funds
- **£1.29m surplus on parish funds (after contributions to the AICF)**

Totals for 2019, 2020, 2021:

- Unrestricted Central Funds £38k surplus (excluding gains on investments).
- Parish Funds £806k surplus (after contributions to the AICF).

The general (and AICF) assessment or levy is a percentage of the previous year's income. Therefore, in a year where income drops, such as the unprecedented Covid time, the assessment amount drops. The 2020 assessment, based on 2019 income totalled £645,312. The 2021 assessment, based on 2020 income totalled £486,511 a reduction of 25%.

[Answer continued over]

Question 5

"With regard to the Archdiocesan bank balances, we note that £4.4m (32% increase from 2020) was in the Curia bank account and £9.4m (6% increase from 2020) in parish bank accounts at the end of 2021. We make the point that meanwhile, parish buildings are closing, older people have further to travel to Mass, important services at these parishes will be lost and we seemingly cannot secure a pension for our retired priests. In this context, we find it hard to see how the amount of just under £14m in the bank accounts, unused, could justify the imposition of a new levy on parishes. Could the Curia and Parishes with large excess funds, in the spirit of one community, allow these funds to be used to fund the AICF?"

[Answer over]



Answer

The bank and parish deposit balances of the Archdiocese at 31 December 2021, as shown on the balance sheet, were:

Central funds £4.45m, Parish funds £17m, total £21.45m.

The Central Funds bank balances are divided as follows:

£2.09m Unrestricted funds

£2.04m Restricted funds

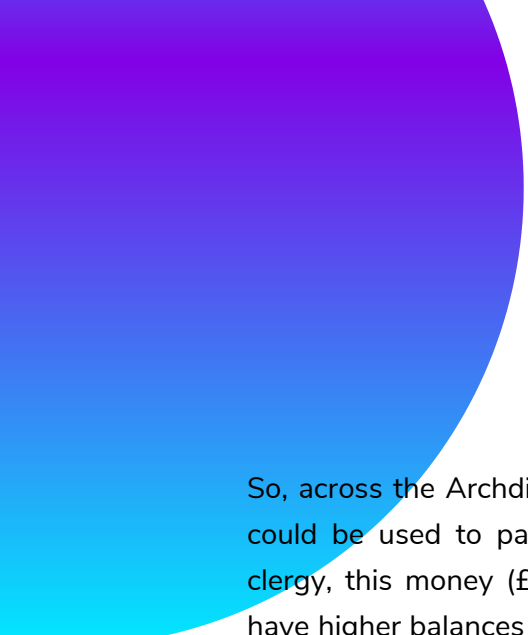
£0.31m Endowment funds

The Parish funds are divided as follows:

£9.4m in parish bank accounts

£7.7m deposited into Central Funds' investments

[Answer continued over]



So, across the Archdiocese there are significant funds which could be used to pay for retirement allowances for retired clergy, this money (£17m) belongs to some parishes which have higher balances (whether this money is held locally or in the centre).

The Centre has only £2m in unrestricted funds – which is the amount necessary to maintain a charity of our size.

The measures currently being pursued (ie a request for parish contributions and a means tested parish levy) are precisely the means by which the Trustees are proposing to use the funds sitting in parish accounts to fund the AICF “in the spirit of community”.

To pay for the retirement allowances of those clergy who are already retired - a liability which the actuaries estimate at between £7m-£8m – the Trustees propose to request lump sum contributions from those parishes with large cash reserves, donations and legacies from wealthy individuals.

The trustees have also introduced a levy on parish property sales. To pay for the allowances of those clergy currently working – The Trustees are proposing annual contributions from all Parishes using the new assessment with a sliding scale of percentages of offertory income.

In sum: Parishes with higher income levels are being asked to contribute much larger amounts to the AICF than parishes with low incomes.

Moreover, those parishes with large bank balances and/or large loans to the Centre, will additionally be approached to contribute large donations into the AICF to reduce the historic shortfall amount.

To be clear, the sale of assets can assist with the AICF fund shortfall but does NOT replace regular parish funding for the AICF, which will need to continue for as long as we have incardinated clergy.

[Answer continued over]

Archdiocese Balance Sheet as at 31 December 2021

Balance sheet as laid out in the 2021 accounts with Parish Deposits split out within central unrestricted fund						
	Parishes £m	Central unrestricted fund £m		Central restricted funds £m	Total £m	
		Parish deposits	Rest of unrestricted			Notes
Tangible assets	17	-	8	-	25	Buildings
Heritage assets	1	-	-	-	1	Statues, chalices, crucifixes etc in all Parishes
Investments	-	8	8	4	20	
Debtors	1	-	-	-	1	
Bank	9	-	2	2	13	
Parish Deposits	8	-	-	-	8	
Creditors	-	-8	-4	-	-14	
Total	36	-	14	6	56	

Figures above summarised to show illiquid and liquid assets

	Parishes £m	Central unrestricted fund £m		Central restricted funds £m	Total £m	
		Parish deposits	Rest of unrestricted			Notes
Illiquid assets	18	-	8	-	26	Assets that are in use and cannot easily be sold
Liquid assets	18	-	6	6	30	Investments and cash at bank. Readily available

Summary of Bank and deposits

Bank and Deposits	17	-	2	2	21	
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Question 6

(a) Did the Archdiocese undertake an individual impact assessment with regard to the diversity of parishes and their individual needs, prior to deciding on the terms of the levy?

(b) When the levy was being set, were the small parishes addressed and how the levy would affect them? It would appear that the new levy would place the smaller parishes at a greater disadvantage in managing their affairs. For example, a 20% overall levy on one of our parishes, which only has £11k offertory income, would leave them only £8,800 to manage. By contrast, another parish within the archdiocese with, for example, offertory collections of £140k, with a 33% overall levy payable, would still be left with £94k to run their parish. Our view was that to threaten the financial stability of the smaller, poorer parishes would lead to their inability to fulfil the objectives of the Charity set out in its Trust Deed (see query 8)."

(c) Was consideration given to a more tiered system whereby parishes with the lowest income might be required to make only a nominal or nil contribution?"

[Answer over]



Answer


The overarching impact assessment for the introduction of this AICF levy for parishes was shared in the 'Facing the Challenge' Webinars of July & August 2021.

- New income will be required in parishes in order to finance clergy retirement allowances.
- Careful prioritisation of expenditure will be required.

This overarching impact assessment was made in the following context:

- Grants from common sources are not available for clergy retirement funding.
- The selling of assets (the 'family silver') approach to funding is unsustainable.
- The main regular income source for the AICF is contributions from parishioners.

[Answer continued over]



The annual cost per Priest of making provision for living costs in retirement was assessed by external actuaries in 2018 as £10,000 per Priest per annum. Because parish incomes vary significantly the AICF assessment was set using a progressive or tiered percentage charge on income, so that parishes with higher income pay a higher percentage.

This approach was based on internal assessment of the variation in parish income and informed by discussion of options at the 2021 Pension Crisis Committee and subsequent webinars, including feedback from those attending. The resulting 2022 AICF assessment range is between £2,500 and £31,000. So the use of the progressive or tiered percentage charge on income has lessened the impact on those parishes with lower income.

Many poorer parishes are clustered with larger parishes providing the opportunity in many instances to share some costs. Because the disparity of assets and income across the parishes in this archdiocese is significant, this disparity has been reflected for many years, (and continues to be reflected), in the annual Diocesan Levy (called the General Assessment).

As a result, for many years, poorer parishes in this Archdiocese have been supported financially by richer parishes. Indeed, a number of parishes in the Archdiocese are simply not self-sufficient and would not be able to operate on a stand-alone basis. Please refer to the relevant 'blue bar' charts showing Net Asset and Income by parish in the Webinar of August 2021.

[Answer continued over]



The introduction of the AICF levy has indeed exacerbated the above challenging economic positions in both rich and poor parishes.

However, the rates for this new levy reflect the actuarial assessed cost of providing clergy retirement for our active clergy – whose average age is currently 60 years.

Had an AICF levy been introduced 50 years ago (or indeed 40 or 30 years ago) the contributions required each year would have been much lower.

The AICF Levy rates introduced in 2022 are being closely monitored and will be reviewed annually.

It is significant to note, that the sum total of the General Assessment and the new AICF Assessment in this Archdiocese as a percentage of total parish offertory income (on average 31%) is roughly equivalent to the Assessment levelled in all other Scottish Dioceses (what this demonstrates is that the Assessment in this Diocese has been significantly lower than the Scottish average for many years) and is still significantly less than the equivalent assessment in the Archdiocese of Glasgow.

Question 7

(a) "When parishes were first alerted to the Archdiocese's intention to introduce a new way to maintain the AICF, was a visit considered at that point to those parishes which would be most affected by the new measures? We raise this because the Buildings Survey conducted two years ago, which resulted in a heavy financial toll on parishes, has led to one of our parishes facing closure of parish buildings. This has caused distress to those parishioners, many of whom have been faithful for more than sixty years."

(b) "Have the Trustees given consideration to improved management of the situation wherein one particular parish appears to have been able to spend £740k on renovation work while in another parish nothing was offered from the Archdiocese to help to meet the £300-£400k costs which would be incurred to repair its buildings?"

[Answer over]

Answer

Sadly, the historic lack of regular property inspections over many years across the archdiocese has resulted in unpleasant surprises in many parishes and in the centre.

The recent property health checks across the entire archdiocese were instigated at the request of the Trustees to establish the current state of the assets that are our buildings (which form a large part of the £57m assets figure) and to ensure any requests for approval of funds for expensive renovations were being made on a prioritised basis.

The Trustees considered that the condition of parish buildings (and therefore the requirement for future repair and renewal expenditure) was part of the picture of the financial situation of the Archdiocese and of every parish and was needed so that Parishes could make plans for the future.

As a result, the Trustees have not provided any central funding for property renovations for several years,

but instead encouraged parishes to provide their own funding by the use of their own deposits to the centre, their own assets, external grants and fundraising.

The parish which spent £740K on renovations has sourced those funds without any central funding.

Frequently a parish within a cluster has assets at their own disposal (eg vacant buildings) which they can use (by selling or renting out) to fund necessary repairs elsewhere.

However, a request for central funding from a single parish in a poor area with no other assets at their disposal and an essential property repair which is beyond their means will be considered by the Trustees as a high priority. For example, the Trustees have recently approved a loan of £80K to a poor parish with a major roof repair precisely because it is in a poor area and has no funds.

Question 8

“As a registered charity the trust deed specifies four purposes, namely:

- **Advancement of the Roman Catholic religion**
- **Advancement of education**
- **Relief of poverty**
- **Cure/alleviation of human sickness and disease**

(a) In light of the Holy Father’s specific focus on the poor in his Christmas homily, might the four purposes benefit from a review in terms of their importance and weighting? This raises the possibility that funding might then be freed up for the AICF.”

(b) We are unable to justify purposes which place ‘advancement of the Roman Catholic religion’ and ‘advancement of education’ (82% of expenditure in 2021) over the ‘relief of poverty’ (only 11%) or ‘cure/alleviation of human sickness and disease’ (7%), which would include of course our commitment to our retired clergy. We wish to point out that the £57m in reserves does not sit comfortably with the fact that many in our communities are dependent upon foodbanks.”

[Answer over]

Answer

These four charitable purposes have historically been the four types of activity which qualified as charitable in Scotland.

The Church undertakes all of them.

It can be challenging to allocate expenditure between these headings. For example, in a parish, how would you allocate the running costs of your buildings and the living costs of your Priest between these headings?

The allocation shown in the accounts is estimated, as described in note 9. Many parishes support St Vincent de Paul, food banks and other activities. However, the financial impact of these activities is not shown in the Archdiocesan accounts.

Therefore, the monetary amounts shown in the Archdiocesan accounts cannot be used to fully report the charitable activity that is undertaken. The figure of £56m mentioned in the accounts is comprised of:

The figure of £56m mentioned in the accounts is comprised of:

£26m of buildings	Cannot be used for another purpose unless the buildings are closed and sold
£6m of restricted funds	Must be used for the restricted purpose
£6m of central unrestricted assets less liabilities	We are required to have reserves, and this is where they should be. The income from the investments reduces the assessment paid by Parishes.
£1m of parish debtors	Legacies notified but not yet received, gift aid due
£17m of parish bank balances and central deposits	This is where the cash balances of the Archdiocese are (in a number of rich parishes).

Question 9

“Given the Curia’s approximate £5m surplus from 2019 to 2021 (see query 4), what was the reason for not deploying part of this to alleviate the AICF’s deficit? It appears that £3.2m of the Curia’s surplus was held in Unrestricted Funds. It also appears that in December 2021, there was £4.4m held in the Curia bank.”

Answer

The figures in the accounts for the central unrestricted fund are:

	2019 £k	2020 £k	2021 £k	Total £k
Gains / losses on investments	1,625	83	1,498	3,206
(other) Income / expenditure / transfers	-83	-77	198	38
Total	1,542	6	1,696	3,244

The market value of investments increased over these 3 years, but values do also decrease in some years. These investments are held to produce income which reduces the general assessment that parishes pay. If these investments were sold to fund the AICF, the investment income would fall and the general assessment would have to increase to replace it. An analysis of bank balances is given in the answer to Question 5.

Question 10

“Parishes have always contributed to the AICF, initially by way of special collections, and, now, the new parish levy.”

(a) “Is a contribution usually made by the Curia?”

(b) A contribution from the Curia of £180k was noted in the accounts for 2020 whilst no payment to the AICF was apparent in 2021. This figure represents 6% of its income of £3m during 2020 and 2021. By contrast, parishes with an income of £10k are now asked to contribute 9% to the AICF. We wondered how the Curia’s contribution to the AICF is calculated?”

(c) Has it been a regular occurrence for the Curia to contribute to the AICF over the last 50 years?”

(d) Is it planned for the Curia to contribute regularly in the future, and how this is to be calculated?”

[Answer over]

Answer

“The Curia” is the people (Archbishop and lay staff) undertaking the central administration of the registered Charity that is the Archdiocese of St Andrews & Edinburgh.

a) Are contributions made to the AICF Fund from (other) central funds? The AICF has not been able to meet its liabilities since 1972 and so has been “supported” from central funds since then. In the ‘Facing the Challenge’ Webinar of Aug 2021 a bar chart was generated specifically to show AICF Income & Expenditure from 2006-2020. This bar chart shows the trend across 15 years.

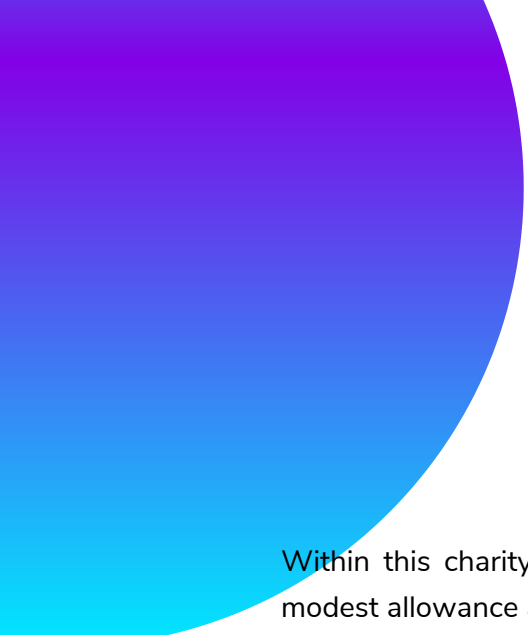
Of particular note are the years when expenditure exceeds income – when assets from the centre were sold precisely in order to bridge gap between income and expenditure. Also shown are the 2015 measures with transfers of funds (around £1.5M) from the centre to the AICF - which resulted in an operational deficit in the centre. Refer to Q3 above and its response.

The 2015-19 transfers from unrestricted funds to the AICF have reduced the unrestricted reserves. To continue to make annual transfers from unrestricted funds to the AICF would require an increase in the “general” assessment paid by parishes.

The approach developed during consultations in 2020, 2021 and 2022 is, instead, a separate assessment for the AICF which is more transparent about the purpose and allocation of the funds.

In the public, private and charity sectors the business receiving benefit of service from a person’s work typically pays their salary, their National Insurance Contributions and their pension contributions. It is a general accounting and budgeting convention to report expenditure showing where it arises, in this case the cost of a priest’s retirement is part of the cost of the priest’s working life, which is spent in parishes. Central funds pay salary, National Insurance and pension contributions for staff working in the centre.

[Answer continued over]



Within this charity, the parish pays the clergy's bed & board, modest allowance and National Insurance Contribution, but until now has not paid the priest's retirement contribution.

Had any parish treasurer noticed in the past that the priest's retirement contribution was missing, the priest would probably have replied – "It's paid by the AICF". One of the surprises that has emerged during this process is that a large number of priests in this Archdiocese thought (until very recently) that a separate 'paid-up' fund existed from which retirement allowances were paid.

Most clergy were unaware that for many decades the then Trustees had been selling off central assets in order to cover the cost of retirement allowances - which means clergy retirement allowances have been being largely paid from central funds for the last 50 years.

This policy (of selling assets to pay pensions) is universally recognised as a mistaken and financially unsound way to proceed. Assets should NOT be sold to fund pension contributions in any sector.

Question 11

“It would be helpful to understand how the movements are made in Curial funds from Unrestricted Funds to both Restricted Funds and Endowment Funds. It would appear that these amounted to £118k in 2021, £493k in 2020, and £456k in 2019.”

(a) What are the circumstances giving rise to such an occurrence? It would seem that a reduction in Unrestricted Funds indicates less would be available for such purposes as the AICF.”

(b) In Section 4.3 of the Trustees Report of the 2021 accounts, one of the objectives of the Archdiocesan Accounts is to increase Unrestricted Funds in order to provide support to parishes. We wish to know what is forestalling this happening.”

[Answer over]

Answer

Transfers between funds are shown in more detail in note 18 of the financial statements.

- Transfers from Parish to Central Funds are generally assessments and special collections being paid to the centre. Interest on parish deposits is a transfer from central funds to parishes.
 - Transfers from unrestricted central funds to restricted are generally where there is a shortfall in a restricted fund which has to be covered, for example Seminarians costs, Catholic Education special collection and transfers into the AICF
- a) The AICF is a restricted fund, so past transfers from unrestricted to AICF have reduced unrestricted funds and increased restricted.
- b) It is an objective to increase unrestricted funds so that we can support parishes. As noted in other answers, assessment income has reduced in line with parish income during the years impacted by Covid, and transfers have been made from unrestricted funds to the AICF to enable allowances to continue to be paid to retired priests over the past few years

Question 12

“We note that in December 2021, £46m was held in Fixed Assets, £20m of which comprised investments, but we do not know what these are. The remaining £26m held in tangible assets are denoted in the accounts at cost price. Has any valuation been done on these buildings, and, if so, has any thought been given to selling some buildings or artwork in the Curia to lower the £7m deficit in the AICF or assist with parish renovations?”

Answer

Note 14 of the 2021 accounts gives information about the investments. Note 20 shows how these investments are divided between the different funds.

Central unrestricted funds have £15.7m of investments, but as noted at question 5 above £7.7m of this is required to repay Parish deposits if required. Fixed assets are shown in note 12.


The Investment Properties are included at market value (these are properties rented to tenants). All property that is occupied and used by the Archdiocese (Gillis, parish halls and houses) are included in the accounts at cost (or estimated cost).

If we revalued these properties in the accounts, we would have to pay for a professional valuation and then we would have to update that valuation every 5 to 7 years. This additional, ongoing cost, is not considered to be justified.

We know that we own these buildings, and we know that if we sold them there would be a significant gain, but these buildings are all in use.

The main building within Central Funds is Gillis, some parts of the building are in active use as offices for the Curia and meeting spaces used regularly for pastoral activity.

[Answer continued over]



The Gillis building has been subject to continuous review since the appointment of new Trustees in 2013.

This review work has resulted in closure of the loss-making B & B activity and in St Mary's University taking part of the site as a paying tenant. There is on-going work to obtain rental income from the remaining unused space.

All other buildings owned by central funds are rented out, producing an annual income which helps to reduce the assessment paid by parishes.

The detailed balance sheet in appendix 2 of the accounts shows that £17.6m of the £26m of fixed assets is in parishes.

Building closures are generally assessed based on the condition of the building and level of use, and practicality of keeping the building open.

Where parish buildings are closed and sold, part of the extraordinary income proceeds is now taxed by Decree 08/22. Currently these taxes are being added to the AICF by agreement of the Trustees.

Question 13

The system for supporting ailing parishes for many years has been based upon the positive use of unused monies by way of loans from parishes to the Curia which in turn has provided loans to other parishes in need.

- (a) We would appreciate clarification as to the accuracy of the unconsolidated balance sheet of 2020 which appears to show £7.7m in loans from parishes to the Curia, but only £0.3m outstanding from parishes to the Curia. If our reading is accurate, does this mean that the Curia holds a net amount of £7.4m due to parishes?
- (b) With just £4.4m in Curia bank accounts does that suggest that parish monies are tied up in Curial assets?
- (c) Is it possible for that balance to be used to help the AICF or to be a source of revenue for parishes struggling to survive?"

[Answer over]

Answer

The position of bank balances and parish deposits has been addressed in the answer to Question 5, above.

- a) Yes, the deposits exceed the loans.
- b) Yes, some of the parish deposits are covered by investments which would be sold if full repayment to parishes was required.
- c) Parish deposits held in central funds cannot be added to the AICF unless this is approved by the Parish owning the deposit. Over £200k was contributed to the AICF by parishes in this way during 2021, in addition to the amounts that were requested.

As described in earlier answers, Parishes have £9m of current accounts and £8m of deposits, totalling £17m. (Some of) this money can only be added to the AICF if individual parishes make voluntary lump sum contributions to the AICF.

Some such contributions have been made during 2021 and 2022. The full range of options for lump sum contributions to the past deficit is described in earlier answers.

The other part of the funding plan, for future “normal” annual contributions is the new AICF levy (a progressive percentage of offertory income), which replaces the previous special collections.

Question 14

“We understand from the 2021 accounts that £2.2m is held in cash for future investments. We would appreciate information about the existing £18m investments, and would suggest that rather than any further investment of this being pursued, that the figure held in cash is redeployed to the AICF.”

Answer

Note 14 of the 2021 accounts shows £2.27m of cash held for re-investment (compared to £719k in 2020). The 2021 balance reflects unusual circumstances as at 31/12/2021.

As described at section 4.1 of the Trustees report on page 6 of the accounts, at the end of 2021 the investment portfolios were re-organised to reflect the purposes for which they were held.

We had also reviewed and updated the ethical restrictions, the changes included ceasing investments in fossil fuels, as discussed with the Caritas, Justice and Peace committee on the investment holdings and given these updated instructions to the investment managers.

The managers were working to complete the re-organisation of the portfolios and moving out of investments which did not fit the new restrictions.

These changes were underway on 31/12/2021, so the level of cash was unusually high for a short period of time.

The answer to question 12 above gives more details about the £18m of investments.



ARCHDIOCESE
OF ST ANDREWS & EDINBURGH

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