



## **Finance Sub-Committee Report**

### **1. Financial report 2006 and Management Report of the auditors**

The financial report 2006 was approved and authorised for issue by the Officers on 31 May 2007. The results record an overall reduction in funds and reserves of CHF 1.9 million, which include an increase in unrestricted and designated funds of CHF 1.9 million and a decrease in restricted funds of CHF 3.8 million. CHF 3.3 million of the reduction in restricted funds concerned the 9<sup>th</sup> Assembly. General reserves increased to CHF 9.1 million, and had thus reached the target set by Central committee.

The sub-committee reviewed the Management Report of 31 August 2007 from the auditors, KPMG, concerning observations arising from the audit mandate 2006. The auditors reported that issues raised in the prior year, principally concerning staffing and documentation of policies and procedures, are being or have been addressed and that no new significant issues arose from the 2006 audit.

An appendix to the Management Report sets out anticipated changes in Swiss law introducing a requirement that the auditor assess and report upon the internal control system. WCC will be required to present documented policies and procedures and demonstrate the adequacy of internal controls. The legal text is not yet finalised but is expected to be effective from 1 January 2008.

In accordance with Rule VIII, 2.a.1, and given that the Central committee does not meet in this calendar year, the finance sub-committee **recommends** that Executive committee approve the accounts for 2006.

### **2. Appointment of the auditors**

Following the audit tender of 2004 KPMG were appointed as auditors for 2004 and the four years thereafter, subject to annual appointment in accordance with Rule VIII.

Given that Central committee does not meet in this calendar year, the finance sub-committee **recommends** that Executive committee appoint KPMG as auditors for 2007.

### **3. Financial overview to July 2007**

The sub-committee reviewed the financial results for the year-to-date July 2007 and the latest forecast for the full year. Restricted funds record an increase of CHF 1.8 million compared with a full-year forecast decrease of CHF 1.1 million. Results at the end of July record an increase in unrestricted funds of CHF 1.5 million compared with a full-year forecast of CHF 1.9 million.

At 31 December 2006 general reserves have reached the target figure equal to 50% of annual staff costs, being CHF 9.1 million. However, in 2007, as a result of the Council's financing of the Ecumenical Centre renovation project it is estimated that a transfer of CHF 1.5 million to the designated building fund from the general reserves will be required.

The sub-committee discussed the forecast shortfall of CHF 400,000 in other income against budget. Income from the Bossey guest house activities is forecast to be CHF 200,000 less than budgeted following a decision not to offer facilities for weddings and other evening events. This is expected to be compensated by an equivalent reduction in costs. Reorganisation of the communications department in 2006-2007 has resulted in delayed production of journals normally delivered to subscribers. As a result income from publications subscriptions is also expected to be CHF 200,000 less than budgeted

A review of stewardship issues highlighted challenges encountered in meeting increasingly complex reporting requirements from certain funding partners, in particular where back-donor government funding is concerned. In addition, there had been increased focus on offices outside Switzerland. Finance staff has conducted on-site compliance reviews in respect of the EHAIA offices. PricewaterhouseCoopers delivered a specially mandated review of the Pacific office and a further follow-up review was conducted by finance staff.

In view of the planned repatriation of the Pacific desk to Geneva the finance sub-committee **recommends** that the Executive committee require the development of a plan in respect of the closure of the local office.

#### **4. Budget 2008**

The finance sub-committee reviewed the draft budget 2008 compared with the framework presented at the previous meeting in February 2007 and as amended by the actions taken on the recommendations.

The draft budget 2008 presents total income of CHF 38.9 million and total costs of CHF 40.7 million resulting in a net reduction in funds and reserves of CHF 1.8 million. Unrestricted funds increase by CHF 325,000 compared to a recommended figure of CHF 550,000 while designated funds decrease by CHF 1.2 million, of which CHF 600,000 is transferred to the restricted Assembly fund and CHF 600,000 is applied to cover programme costs in the current year. There is therefore a net decrease in unrestricted and designated funds of CHF 0.9 million following five consecutive years of planned increase. Restricted funds decrease by CHF 0.9 million, principally consisting of a reduction in programme funds of CHF 1.5 million and an increase in the Assembly fund of CHF 0.8 million.

The staff costs incorporate a potential cost-of-living increase of 1%, as recommended, but exceed the target level of CHF 18.0 million set by Executive Committee in February 2007 by CHF 700,000 following the addition of the equivalent of almost four full-time staff positions. The sub-committee is concerned that these additions to budget have been made, and is also concerned that they will place an on-going burden on the Council's finances.

CHF 250,000 of direct costs plus staff time allocation for the DOV Living Letters are included in the budget but are not covered by specific programme contributions, although this was a condition for their inclusion as stipulated by Executive Committee in February 2007.

It was noted and raised with the programme sub-committee for its consideration that Central committee had required that emphasis be placed on the strategy for increased visibility of WCC, and that therefore in this context it was not understood why the draft budget 2008 for Communications had been reduced by CHF 563,000, including CHF 392,000 in staff costs, compared with the financial summary presented in the Programme Plans 2008-2013. At the same time other programme budgets had been increased; P3's draft budget was CHF 495,000 higher than stated in the Programme Plans 2008-2013.

While the new strategy for Communications is yet to be developed, it has to be considered what signal is being given concerning the priorities of the Council when budget reductions are being implemented.

In accordance with Executive committee's guidance in February 2007, no provision for the accumulation of a reserve for the 2011 IEPC has been included in the draft budget as no specific programme contributions have been raised.

Finance sub-committee requests that staff report back to the finance committee in February 2008 on progress in funding identified for the DOV Living Letters and on any financial evolution which could result in a budget amendment in favour of Communications at that time.

Finance sub-committee **recommends** that Executive committee:

- approve the draft budget 2008 as submitted (and as attached as FIN05);
- require that the expected evaluation of ENI be taken into consideration when developing the Communication strategy;
- require that the implementation of spending plans are carefully monitored against actual income results in order to ensure that the budgeted net result is respected.

## 5. Framework Budget 2009

The finance sub-committee reviewed the draft framework budget 2009 compared with the draft budget 2008. Total costs are shown as CHF 42.0 million, an increase of CHF 1.3 million compared to the draft budget 2008. The CHF 1.3 million includes a CHF 1.0 million increase in direct programme costs and CHF 0.3 million in additional staff costs.

Increases in direct costs for 2009 in the programme plans for 2008-2013 include the following: CHF 0.3 million for EHAIA; CHF 0.2 million for a consultant for the project on indigenous peoples; CHF 0.2 million net cost increases in the project *Called to be the one Church* which includes a budget of CHF 0.4 million for the planned meeting of the Faith and Order plenary commission; CHF 0.1 million for EAPPI; and other adjustments individually below CHF 0.1 million.

In order to present a balanced framework budget, programme income is forced to increase by CHF 2.9 million resulting in a total income target of CHF 41.8 million of which CHF 27.0 million is required for the programmes (excluding multi-lateral sharing and ACT Development). This represents an increase of 12.5% over annual programme income levels of CHF 24.0 million for 2006-2008.

In previous years spending patterns have included the use of programme fund balances reflected each year in the decrease in restricted funds. In 2007 and 2008, programme fund balances are forecast to decrease by CHF 1.0 million and CHF 1.5 million respectively, closing at CHF 2.5 million at the end of 2008. At that date the balances will be comprised principally of the fund for the CWME 2010 conference and scholarship funds.

As programme fund balances are not available to support costs in 2009 increased income is required to maintain spending even at prior year levels.

The draft framework does not provide for any increase in unrestricted and designated funds. Additionally, in accordance with Executive committee's guidance in February 2007, no provision for the accumulation of a reserve for the 2011 IEPC has been included in the draft framework as no specific programme contributions have been anticipated at this point.

After discussion with the programme sub-committee the finance sub-committee **recommends** that Executive committee:

- require the preparation of framework scenarios to be presented at Finance committee in February 2008. The scenarios should take account of realistic income levels for 2009; one scenario framework should be a conservative framework, income being set at the same level as 2007 with the sole addition of expected contribution decreases and new pledges;

- require that framework scenarios provide for an increase in unrestricted funds of at least CHF 300,000;
- require that a framework for 2010 be presented along with the 2009 scenarios at the finance committee in February 2008;
- require that the framework scenarios include provision for the 2011 IEPC if contributions are pledged.

## 6. Renovation of the Ecumenical Centre

The sub-committee heard a progress report on the renovation at the Ecumenical Centre budgeted at CHF 6.6 million over the period 2006-2010. Major building works have commenced in September 2007.

To date, offers have been accepted from five contractors for a total of CHF 3.5 million, each within the budget limit approved by the Finance committee. The officers of the Finance committee have been informed of the principal details of the tender offers, and have reviewed the selection proposals prior to signature of the contracts concerned.

Almost all contracts for the work which will be conducted over the period to 2010 should be attributed by the end of 2007. As required by the Executive committee in its meeting of February 2007, the officers of the Finance committee will receive regular progress reports to ensure monitoring of the expenditure in relation to the approved plan.

Aware that the cost of the renovation will have an impact on cost-sharing arrangements with related organisations renting office space in the Ecumenical Centre, the finance sub-committee require that staff present to the Finance committee in February 2008 progress on discussions with the related organisations on the proposed new cost-sharing arrangements.

## 7. Income strategy

Since the last meeting of the finance sub-committee, the fund development manager resigned, and the position has not yet been filled. The sub-committee encourages the Council to proceed as soon as possible with the recruitment, since this is considered a high priority.

The principal financial challenge for the Council is fund-raising in order to be able to realise the programme plans. The report presented on progress with the income strategy objectives highlights the fact that the target for programme income for CHF 24 million has been and is expected to be met for the period 2006-2008, but that little experience has yet been gained in working with non-traditional donors. While the continued support of the traditional funding partners is essential to the Council, it is clear that the full programme plans for 2009-2013 can only be met with the participation of new partners.

The sub-committee discussed the fact that during the Round Table meeting in May 2007, which was attended by the moderator of the Finance committee, a representative of a specialized ministry proposed that a meeting be planned between the officers of the finance committee and funding partners to discuss longer-term commitments for the ongoing funding of the Council's programme work.

The 60<sup>th</sup> anniversary of the WCC presents an opportunity to launch a fund-raising campaign for the Council. The Rev Carmen Lansdowne has drafted a preliminary proposal and has offered her services as chairperson to an organising committee for such a campaign.

The finance sub-committee **recommends** that Executive committee:

- require that the income strategy to be presented at the February Finance committee meeting include realistic pre-defined milestones for generation of contributions from non-traditional sources;
- require that the agenda for Central committee in February 2008 include a session for cross-cultural sharing of fund-raising experiences with the objective of developing the governing bodies' role in fund-raising;
- require that the proposal to organise a meeting between members of the finance committee and funding partners be pursued during Central committee, invitations being extended by the Core Group of the Round Table, which might address the organisation of a finance meeting during its November session;
- support the development of a proposal to launch a fund-raising campaign, to be led by Rev Carmen Lansdowne, on the occasion of the 60<sup>th</sup> anniversary celebrations.

## **8. Membership contributions**

An update on membership contributions reported that there were 114 non-paying churches in 2006, as listed in the annual Financial Report. Further, the success of the new contributions calculation mechanism is called into question by the fact that little real progress is being made with those churches which contribute less than the amount proposed. A shortfall of CHF 3 million in the membership contributions would be collected if 33 churches each paying less than required met the target. Attempts to build dialogue with those churches by correspondence in 2006 have been unsuccessful, with no response obtained from 24 of the 33 churches contacted.

Recognising that personal contact is required with the churches, in February 2007 Executive committee mandated a task team consisting of Rev Dr Margaretha Hendriks-Ririmasse, Metropolitan Dr Vasilios Karayiannis and Bishop Ivan M Abrahams to accompany the work on membership contributions and to ensure focus on the role of the Central committee members in increasing the financial participation of the churches in the fellowship. The finance sub-committee proposed that Rev Carmen Lansdowne also join the task team. The task team will present a report on progress in its dialogue with the churches at the next finance committee.

The finance sub-committee agreed with a proposal to include in the next annual Financial Report an analysis of membership contributions by church family, in addition to the schedule of contributions which is presented by region.

## **9. Capital expenditure 2007-2011 and financing plans**

The sub-committee reviewed the revised capital expenditure plan for 2007, which presented a total of CHF 2.4 million, compared with CHF 3.5 million approved in February 2007.

Certain capital expenditure limits approved for 2007 have been slightly exceeded, particularly for IT and cafeteria equipment which required urgent replacement. At the same time, there is postponed spending of CHF 1.2 million on the renovation work, which results in an increased expenditure in 2008 of the same value. The renovation project limit stands unchanged at CHF 6.6 million over the period 2006-2011.

The capital expenditure plan for the period 2008-2011 was also reviewed. Compared with the plan presented at Finance committee August 2006, total spending for the period 2006-2011 had increased by CHF 0.5 million. The main factor in the increase of CHF 0.5 million is the need to renew servers and other IT equipment. The resultant increase in depreciation, estimated at CHF 60,000 per annum, is factored in to the draft budget 2008 and framework 2009.

The financing plan was reviewed together with the evolution since Finance committee August 2006. The plan shows that the project can be financed over the period even when the reduced increases to unrestricted funds proposed in the current draft budgets 2008 and 2009 are taken into account. Planned loan limits to cover the project costs remain at CHF 2 million as previously approved. Based

on the assumptions, general reserves drop to CHF 8.4 million in 2009 and then increase towards CHF 9 million by 2011.

The finance sub-committee **recommends** that Executive committee:

- approve the revised capital expenditure limits for 2007, limiting expenditure to CHF 2.4 million;
- approve the budgeted capital expenditure of CHF 3.6 million for 2008.

#### **10. Report of the Audit Committee**

Rev. Carmen Lansdowne reported that she had attended the meeting of the audit committee held on 14 May 2007 following her appointment as representative of the finance committee. As reported above the 2006 audit process was completed satisfactorily within the planned timeframe and no new issues were raised by the auditors. The new audit committee mandate was presented and discussed at the meeting.

The moderator of the Finance committee reported that he had received a letter, dated 14 September 2007, from the moderator of the audit committee, Mr. J. G. Pittendrigh, proposing amendments to the audit committee mandate text which was approved by Executive committee in February 2007.

After discussion of the proposed amendments the sub-committee accepted all except the proposal to render optional the nomination of one finance committee member to the audit committee.

The sub-committee requested the staff to report back to the moderator of the audit committee its decisions concerning the proposed amendments.

The sub-committee approved the revised audit committee mandate and a copy will be made available to members of the Executive committee on request.

#### **11. Review of investment results 2007; investment policy**

The report on investment results to August 2007 was reviewed. It was confirmed that there had been no change in investment guidelines since the sub-committee meeting of February 2007. The general investments of CHF 9 million were held entirely in CHF deposits and bonds; the endowment fund of CHF 6 million was invested 40% in shares, and 60% in deposits and bonds. Overall, investment and currency gains totalled CHF 300,000 at 31 August, while the forecast for the year was CHF 380,000.

As required by the Executive committee in February 2007, staff presented an amendment to Investment Policy concerning the requirements to ensure sound governance in respect the Council's financial investments, as set down in point 4. The sub-committee approved the proposed amendment, requiring that the investment advisory group consist of the associate general secretary for FSA, two finance managers and one programme executive or finance manager of a related organisation.

The sub-committee **recommends** that Executive committee:

- approve the definition of the membership of the investment advisory group; and
- require that the Investment Policy be reviewed at the Finance Committee in February 2008.

#### **12. Draft policy for WCC offices outside Switzerland**

The finance sub-committee reviewed the draft policy. Since the meeting of February 2007, the document had been completed to further define policy in respect of WCC's responsibilities towards both its field staff and those staff appointed by a host organisation further to the terms of a service agreement between the latter and WCC.

It was confirmed that the draft had been reviewed by the staff leadership group. The sub-committee noted that Executive committee had required in February 2007 that the policy be completed and submitted for approval to the Executive committee. The sub-committee considered that the policy directives were within the sphere of responsibility of the staff leadership group, with the exception of the requirement specifically approved in the Executive committee meeting of February 2007 that the general secretary's decisions to open and close offices outside Switzerland be reported to the Executive committee.

The sub-committee **recommends** that Executive committee:

- recognise the authority of the staff leadership group to approve the policy ; and
- refer the policy back to the staff leadership group for final approval and implementation.

### **13. Draft procurement policy**

The sub-committee reviewed the draft policy on procurement, covering the processes for the selection of suppliers and the placing of orders for the acquisition of goods and services in all aspects of the Council's work.

After discussion, the sub-committee confirmed its agreement with the standards set down in the policy, recognizing that these would bring a formal structure to the existing processes, and resultant improvements both in control and in expense management.

The sub-committee considered the recommendation which had been made in February 2007 by the Executive committee requiring that the procurement policy be presented at its next meeting for approval. Just as in the case of the draft policy for WCC offices outside Switzerland, the sub-committee considered that the policy directives were within the sphere of responsibility of the staff leadership group.

The sub-committee therefore **recommends** that Executive committee:

- recognise the authority of the staff leadership group to approve the policy ; and
- refer the policy back to the staff leadership group for final approval and implementation.

### **14. Any other business**

#### **(i) Staff Policy, Document No. 10**

Further to the review of the Staff Policy document No. 10, the following observations were raised with the Staffing and Nominations Committee:

Concerning section I, Recruitment, Selection and Retention, consideration should be given to advertising all vacancies publicly, without delaying advertisement while an internal selection process is undertaken. While the possibility of maintaining a preference for an internal candidate could be retained, the recruitment process would in this way suffer no delay.

Concerning the exceptional cases in which a contract subject to renewal under the current Reg II.1.13 is concerned, it is proposed that the specific conditions under which exceptions be granted be set down in the Staff Policy. A formulation for consideration is as follows:

*The contract referred to in Reg II.1.13 may be extended only once for a further three year period by the Central or Executive Committee. In the case where the proceedings of an Assembly, commission meeting, or a short number of years to retirement are concerned, the general secretary may seek the*

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*approval of the governing bodies for the second contract to reflect an extension for a period longer than three years.*

Following the recommendation of the 9<sup>th</sup> Assembly, the staff Rules and Regulations, to which reference is made in section II, 1, paragraph 1, were to be revised. The work of revision takes place under the direction of the general secretary.

The finance sub-committee **recommends** that Executive committee:

- require that the revised Rules and Regulations be presented at the Executive committee of September 2008;
- consider the offer of Rev Dr Larry Pickens to provide support in the form of technical expertise in human resources, to assist the general secretary in the Rules and Regulations' drafting process.

**(ii) Reimbursement of travel costs for governing body members**

In the context of the ongoing review of WCC policies and procedures it is suggested to staff that the policy covering requests for the reimbursement of travel costs for governing body members should be reviewed to ensure that it includes the following text:

*In cases where the costs of a governing body member's travel are to be covered by the WCC, arrangements should be made through the WCC conference office. In cases where reimbursement of other travel arrangements are requested the amount of reimbursement should, without exception, be limited to the equivalent cost of that which would have been incurred had travel been arranged by WCC. Consultation with the WCC conference office should be made in advance to agree the amount to be reimbursed.*

Staff is requested to present the policy for the reimbursement of travel costs for governing body members for review and approval at the Finance committee in February 2008.

**(iii) Contact details for members of Executive Committee and Central Committee**

To facilitate contact between members of the governing bodies, the finance sub-committee **recommends** that Executive committee require that contact details be distributed to members before or at Central Committee 2008.