



Original

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FOR ACTION

## Report of the Finance Committee

### 1. Financial Report 2006

The finance committee reviewed the Financial Report 2006, which had been approved for issue by the Officers in May 2007 and received by the executive committee in September 2007. The results recorded an overall increase in unrestricted and designated funds of CHF 1.9 million, increasing general reserves to CHF 9.1 million. General reserves exceeded programme funds, marking a turning point in the financial structure of the WCC balance sheet.

### 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 did not meet in 2007, the executive committee appointed KPMG as auditors for 2007.

### 3. Appointment of audit committee member

In accordance with the audit committee mandate approved by executive committee in September 2007, new members of the audit committee are appointed by the finance committee. Rev. Carmen Lansdowne reported that the audit committee proposed the appointment of Mr Myles Stott, a British chartered accountant. This appointment followed upon the resignation of the former moderator of the audit committee, Mr James Pittendrigh.

The finance committee approved the appointment of Mr Myles Stott.

### 4. KPMG report to management 2006

The finance committee reviewed a letter from KPMG to the moderator of the audit committee which states that a formal management report would not be issued for 2006 as the auditors did not identify any new significant issues and considered that actions had been or were being taken to resolve the issues raised in the previous year's report.

### 5. Internal Control System Project

A new legal requirement, effective 1 January 2008, requires that auditors examine whether an internal control system exists and take the control system into account when planning and executing the audit. The new requirement takes effect for the financial statements 2008 for which audit opinion is expected to be issued in April 2009.

The WCC has existing internal controls and policies. Nevertheless, compliance with the new law will require a thorough review and documentation of processes and policies, in particular those governing the completeness and accuracy of the financial statements.

The finance committee discussed a document outlining the structure of a proposed project to ensure compliance with the new law identifying milestones to completion by December 2008. The moderator of the audit committee and the KPMG audit manager participated in the discussion. The KPMG manager confirmed that the auditors will monitor the project and emphasised the importance of identifying the most significant processes in the scoping phase of the project.

The finance committee **recommends** that central committee

- mandate a WCC internal control system project for which the project sponsors will be the moderator of the finance committee and the associate general secretary for FSA;
- require that a progress report be prepared for the next executive committee meeting.

## 6. Preliminary financial results 2007

The preliminary financial results 2007 were presented to the committee showing an overall surplus of CHF 2.8 million. It is anticipated that general reserves will increase to CHF 10.3 million. The preliminary results indicate that programme funds increase by CHF 1.1 million to CHF 7.1 million during a year in which programme contributions exceeded budget and programme expenditure tended to be below the plan.

The moderator of the finance committee reported that he had reviewed the staff loans as at 31 December 2007. He advised the members of the finance committee that there were over 20 staff loans at that date. It was reaffirmed that it is important to ensure that reimbursement is required within six months.

Three issues were discussed in detail. Firstly, changes in both Swiss law and International Financial Reporting Standards in respect of pension funds would result in an adverse effect in the manner of reporting the potential liability of the WCC to the pension fund in its financial statements 2007. The finance committee heard that consultation is in progress with the auditors concerning the accounting policies to be applied for the 2007 financial statements.

Secondly, the executive committee had approved a budget for 2008 including the transfer of designated programme funds of CHF 600,000 to the assembly fund and CHF 600,000 to cover programme expenses. The finance committee considered a proposal to effect these transfers in the 2007 financial statements to reflect the decrease in unrestricted and designated funds and equivalent increase in Restricted Funds.

Finally, the committee discussed the fact that the provision for untaken vacation had increased by CHF 70,000 to CHF 530,000. This represents both an unnecessary application of unrestricted funds and an indicator of an unhealthy trend in the working patterns of staff.

The finance committee **recommends** that central committee

- with reference to rule VIII, 2. b) 2), delegate to the officers of the finance committee the responsibility of decision concerning the accounting policies to be applied for the presentation of the financial statements 2007;
- approve the recording in 2007 of the transfers from the designated programme fund, originally approved for budget 2008 and as detailed above; and

- require that the general secretary issue instructions to directors and managers of staff concerning the need to ensure that vacations are planned and taken, in the interests of both staff welfare and the productive accomplishment of our work.

### 7. Income strategy 2008-2010

The committee heard the report on the income strategy, which outlined five approaches. Firstly, the membership campaign would be intensified, calling on the further involvement of central committee members. The objectives would be to improve communication with churches, in order to build commitment and meet the CHF 7 million goal. In 2007, membership contributions were still short of this target, at CHF 6.6 million.

The second approach in the strategy is to continue to strengthen the relationships with the specialized ministries through the annual round table meeting, and a programme of visits to the funding partners. The third approach recognizes the need for a focused effort to strengthen the fund-raising capacity of staff, and to work more closely with the Communication team.

The fourth element of strategy is to work with foundations. Following the specific contribution of a specialized ministry, there will be a new staff position dedicated to this aspect of the work. A fund-raising target of CHF 200,000 is to be achieved after the first full year of operation. The fifth strand of the strategy is the new focus on individual giving, which aims to increase the number of individuals participating from 400 to 1,000, raising the target to CHF 200,000 after the second year of operation.

The committee discussed the report. Amongst other issues the committee suggested that staff explore the possibility of using the services of an external consultant in leading certain initiatives in the strategy.

The finance committee **recommends** that central committee

- support the implementation of the income strategy;
- emphasize the importance of the contribution to be made by the task team on membership income, formed by members of the finance committee, in making contact with member churches on behalf of the central committee to discuss their financial commitment;
- encourage members to volunteer their services, and to form an advisory group to consult with staff on matters of income development;
- require that the income strategy document include targets and milestones for the expected outcomes in strengthening relationships with the specialized ministries.

### 8. Budget 2008

Budget 2008 had been approved at the executive committee meeting in September 2007, with total income of CHF 38.9 million and total expenditure of CHF 40.75 million, and an increase in unrestricted funds of CHF 325,000. The executive committee had required that if there be any favourable financial evolution identified in relation to the budget 2008, this be reported to this meeting of finance committee, in order to consider a budget amendment in favour of Communication.

In addition, staff had been requested to report on the funding for the Living Letters programme. Formerly, it had been required that this activity be conducted only if direct funding had been obtained.

The finance committee heard that revisions had been made to the budget 2008 to incorporate the impact of preliminary closing fund balances from 2007, and to take account of reallocations of programme contributions notified by funding partners since September 2007. When these and other factors were included in a re-worked budget, a favourable outcome was identified, resulting in the proposal to increase budgeted expenditure for Communication by CHF 123,000.

Although there had been some small direct funding for Living Letters, it was now the case that the planned expenditure for the activity could be covered within the overall project contributions for DOV and the programme contributions for Public Witness, without any recourse to unrestricted income. The finance committee accepted that the Living letters activity be funded in this way.

The revised budget, incorporating the increase in expenditure in favour of Communication, includes CHF 39.51 million total income and total expenditure of CHF 42 million. The increase in unrestricted funds of CHF 325,000 is maintained.

The finance committee **recommends** that central committee

- approve the revised budget 2008;
- require that a presentation on staff statistics, including evolution 2007-2009, be made to the next finance sub-committee meeting.

### 9. Framework budgets 2009

Following review of a framework budget at the executive committee meeting in September 2007 which required the addition of CHF 2.9 million in income to cover a projected expenditure of CHF 42 million, the executive committee required that at least two scenarios be prepared by staff for presentation to the central committee.

The finance committee reviewed two framework budget scenarios for 2009. The first maintains income at a similar level to that obtained in 2007 and proposes reductions in programme expenditure to CHF 39.22 million. The target increase in unrestricted funds is shown as CHF 300,000. The second scenario introduces some potential new income and proposes its allocation.

After review of the documentation the finance committee expressed concern with the method which had been applied to reduce costs in the framework. Rather than determining the priority activities and planning to postpone or close other activities, the approach would appear to have been that of trimming costs across many different activities. This does not seem to reflect the assembly directive "to do less and do it well".

In general the finance committee was concerned to ensure that the prioritisation decisions would follow the recommendations of the assembly. In particular it was noted that a proposed reduction of CHF 194,000 in expenditure on the youth project was included in the framework.

The finance committee requested that the Communication budget 2009 take account of an evaluation of ENI to be carried out as required by the executive committee.

The finance committee **recommends** that central committee

- require that the first, conservative, scenario should be used as a basis for developing the draft budget 2009. Additional expenditure should only be included if related income has been confirmed;
- require that the finance committee officers form a working group together with representatives of the programme committee to guide staff on the priorities to be taken into account in developing the draft budget 2009.

### 10. Framework budget 2010

The finance committee reviewed a presentation of programme direct and staff costs for 2010 based on the staff understanding of priorities and plans. Expenditure totalled CHF 40.33 million compared with CHF 39.06 million in the framework budget 2009, scenario 1.

It was noted that there were increases of CHF 500,000 in the expenditure of the programme Justice, Diakonia and Responsibility for Creation and questioned whether this reflected correctly the priorities.

The reduced focus on diakonial work in the WCC was a cause for concern. In this respect, some members of the finance committee reported that they were following closely the continuing debate around the mandate of the new organisation in formation, ACT Alliance.

It was discussed whether an annual central committee meeting was desirable. Staff were requested to investigate alternative possibilities for consideration at the next executive committee.

The finance committee received the framework budget and encouraged staff to work on its development for presentation at the next executive committee.

### 11. Capital expenditure planning

The committee heard a brief progress report on the Ecumenical Centre renovation project. The report confirmed that following the tender process, contracts signed to date to a value of CHF 5.6 million were all within budget. Remaining contracts to be attributed for a value of about CHF 1 million indicate that the project will be completed within the overall budget figure of CHF 6.6 million.

Work commenced in autumn 2007, slightly behind schedule following delays in obtaining the building permit and in the tender process. This is not expected to compromise the completion date in 2010.

The committee heard a brief report confirming that capital expenditure for 2007 totalled CHF 1.9 million, consisting principally of the ongoing project at the Ecumenical Centre, and the renovation of the villas at Bossey. Total expenditure was CHF 0.5 million under plan because of the delays in works at both sites.

The committee then reviewed the capital expenditure plan for 2008, which had been revised following approval at the last executive committee. The total planned expenditure for the year is CHF 4,151,000, including CHF 3.5 million for the Ecumenical Centre renovation. The capital expenditure plan limit is increased from CHF 3.6 million due to amounts carried forward from 2007.

The financing plan for capital expenditure for 2007-2011 was reviewed, confirming that general reserves would decline to CHF 8.8 million in 2009, reflecting the investment in the renovation project. Assuming an increase in unrestricted funds in budget 2010 of CHF 700,000, the general reserves should then recover to the target level of CHF 9.3 million.

The financing plan includes contracting loans of CHF 2 million for the renovation of the Ecumenical Centre, as previously approved. It was confirmed that reimbursement at the level of CHF 200,000 per year continues for the Bossey loans, which total CHF 6.9 million at 31 December 2007.

The finance committee **recommends** that central committee approve the capital expenditure limit of CHF 4,151,000 for 2008.

### 12. Update on the finances of the Bossey Ecumenical Institute

The finance committee reviewed a report summarizing the income and expenditure of the Bossey Institute from 2003 to 2007.

From 2003 to 2006, the Bossey Institute was a core programme of WCC. In 2007, the Bossey Institute became a project within the programme Education and Ecumenical Formation. From 2003 to 2006, the annual shortfall in overall funding for Bossey was covered by an allocation of unrestricted income.

From 2007, Bossey draws upon general programme contributions. The different structure does not allow for a ready comparability between 2003-2006 and the year 2007 as far as measuring any shortfall in funding is concerned.

Total income and expenditure in 2007 was approximately CHF 3.7 million. The total number of students per year averages 35. Guest house income totalled CHF 1.2 million in 2007, reduced from the previous year following the decision no longer to offer the Bossey facilities for wedding parties.

The update was reviewed and received.

### **13. The barn renovation project at the Bossey Ecumenical Institute**

The committee reviewed an outline of the project to renovate the barn, converting it into a facility with a large meeting room for over 50 people, accommodation in the form of 20 rooms and three apartments. The project would allow larger groups to stay at the Château. Such groups often have to be refused at present because only one large meeting room, the main lecture hall, is available, and it is difficult to offer use of that hall during term-time.

The project would be developed in an ecologically responsible manner. The Bossey Institute also hopes to develop a related ecological gardening project. Studies in eco-theology would be accompanied by practical gardening work. Green-label vegetables would be produced for the Institute.

The overall project cost is estimated at CHF 6 million. While fund-raising would be undertaken, a preliminary financial plan suggested that the project would be self-financing, with income generated by guests being sufficient to cover running costs, depreciation and mortgage interest.

The finance committee **recommends** that central committee require that

- the staff leadership group identify the staff resources for the coordination of the project;
- the preliminary financial plans be reviewed and tested in detail;
- steps be taken to acquire the necessary building permits; and
- the project plan be presented for review and decision at the next executive committee.

### **14. Update on financial investments**

As required by the Investment Policy, the finance committee reviewed the investment returns from each of the WCC's investment portfolios. It was confirmed that there have been no changes in investment guidelines since the finance committee last met. The general investment account holds CHF 9.3 million held in Swiss franc bonds and deposits, while the Endowment fund investment account, totalling CHF 6.3 million is invested 60-70% in bonds and deposits with the balance invested in equities. CHF 0.8 million is invested in Oikokredit. The consolidated financial statements include CHF 2.9 million of investments held by the Ecumenical Trust on behalf of WCC, and invested as decided by the board of trustees.

The finance committee reviewed the policy and procedures for monitoring investment management performance. The policy requires that an investment advisory group be formed, defines the conditions for membership, the frequency of meetings and the tasks of the group.

The finance committee **recommends** that central committee:

- approve the policy and procedures for the monitoring investment management performance;
- require that the Investment Policy, and in particular the ethical guidelines, be reviewed and submitted for approval at the next meeting of the executive committee.

**15. 60th anniversary fund campaign**

Rev. Carmen Lansdowne expressed her disappointment that it had not been possible to launch a fund-raising campaign marking the 60<sup>th</sup> anniversary of the WCC, as it had been proposed at the executive committee meeting in September. Due to lack of staff resources, preparatory work could not be accomplished in the time available.

It was noted that it would always be possible to identify another anniversary or occasion which could be marked by such a campaign.

Rev. Carmen Lansdowne confirmed that she was willing to offer her services in a voluntary and advisory capacity to support fund-raising, and would be willing to lead an advisory group of central committee members.

**16. Staff rules and regulations**

The committee heard a brief report on the progress made in reviewing the staff rules and regulations. The project work had just begun, with initial focus on compliance with the Swiss law. It was confirmed that a report would be made to executive committee in September 2008.

**17. Task team on membership contributions**

The Rev Carmen Lansdowne reported that the task team on membership contributions had not yet been active, but would convene a meeting during the current central committee to determine its action plan for 2008.