



Original

Document No. **GEN/FIN 02**  
English

FOR ACTION

## Preliminary Finance Report

### 1. Introduction

It has been the practice of the moderator of the finance committee to present an overview of WCC finances to the central committee before the finance committee begins its work. The report provides firstly an historical perspective; secondly, an assessment of the current financial situation; and finally, a view of the future financial perspectives and challenges for the Council.

### 2. 2008 Financial report

The audited financial report was authorised for issue on 8 May 2009 by the officers of the finance committee.

Net (deficit)/surplus (CHF million)	2008	2008 budget	Var fav/(unfav)
Unrestricted funds	(0.4)	0.3	(0.7)
Restricted programme & other funds	(2.0)	(2.8)	0.8
Restricted endowment funds	(1.8)	-	(1.8)
<b>Total net deficit</b>	<b>(4.2)</b>	<b>(2.5)</b>	<b>(1.7)</b>

In 2008 WCC reported an overall reduction in funds and reserves of CHF 4.2 million, compared with the budgeted reduction of CHF 2.5 million. In a climate of global financial crisis, the principal reason for the unfavourable result was investment losses of CHF 1.8 million incurred in the restricted endowment funds.

In addition, WCC suffered a deficit of CHF 0.4 million in unrestricted funds, compared to the budgeted increase of CHF 0.3 million, breaking the pattern of five consecutive years of growth in those funds. Foreign currency rates fell abruptly against the Swiss franc towards the end of the year, resulting in exchange revaluation losses, particularly in treasury positions. In accordance with the Council's policies, foreign currency losses and gains on general treasury are recognised in the unrestricted funds.

I am pleased to be able to report that no investment losses were recorded in unrestricted funds, following the decision in September 2008 to reduce interest rate risk on investments of CHF 9.3 million backing the General Reserves. The balance sheet of the Council remained strong at 31 December 2008, with a high level of liquidity.

### 3. General Reserves

The General Reserves, reflecting assets available to the Council after meeting liabilities and obligations and without recourse to land and buildings, closed at CHF 9.9 million. Central committee has set a policy that General Reserves be equal to 50% of total staff costs; for 2008, this target was CHF 8.9 million. Levels higher than the standard policy target were set for 2007 to 2008 because the Council has planned to finance major capital expenditure projects partly from its own funds during 2009 and 2010.

General reserves are affected by both increases to unrestricted funds and capital expenditure. The finance committee will consider reports on capital expenditure and its financing in order to make recommendations about expenditure limits as well as targets for unrestricted funds growth.

#### 4. Revised budget 2009

In June 2009, forecast reductions in membership and programme contributions, in particular those resulting from the impact of unfavourable fluctuations in foreign exchange rates, caused the general secretary to take the unprecedented step of issuing a revised budget reducing planned expenditure by CHF 1 million.

The revised budget 2009 continues to include a planned reduction in restricted funds of CHF 2.1 million, including a reduction of CHF 1.7 million in programme funds. If this budget is realised in full, programme fund balances will be reduced to CHF 2.7 million at 31 December 2009, including CHF 1.4 million reserves for the Edinburgh centennial event and other restricted balances. General programme balances may thus be reduced to less than CHF 1 million, compared to CHF 19 million in 2001.

#### 5. Results to July 2009 compared to revised budget

At 31 July 2009, total income is close to target for seven months at CHF 19.8 million. This result includes over CHF 0.3 million of currency gains recorded in unrestricted funds following the strengthening of certain foreign currency rates compared to their low point at December 2008. In addition, the restricted endowment fund reports investment gains of CHF 0.4 million.

Total expenditure is CHF 20.4 million, representing 54% of the full year budget, or a CHF 1.5 million lag compared to the pro-rata target due to the timing of expenditure. Typically, direct programme expenditure is higher in the second half of each year.

<b>Results to July 2009 compared to revised budget</b>		July 2009 CHF 000s	Revised Budget full year CHF 000s	Targ et 58%
<b>Income</b>	Membership and UDI	3,584	6,048	59%
	Programme Contributions	11,953	23,512	51%
	Investments and currency gains/(losses)	711	30	
	Rentals, sales & misc. income	3,596	5,927	61%
	<b>Total income</b>	<b>19,844</b>	<b>35,517</b>	<b>56%</b>
<b>Expenditure</b>	Grants	2,036	4,215	48%
	Staff costs	10,632	18,459	58%
	All other programme costs and transfers	7,686	14,855	52%
	<b>Total costs and transfers</b>	<b>20,354</b>	<b>37,529</b>	<b>54%</b>
<b>Surplus/(Deficit)</b>		<b>(510)</b>	<b>(2,012)</b>	
Increase/(Decrease) in Restricted Funds		(1,331)	(2,105)	
Increase Unrestricted funds		821	352	
Decrease in Designated funds		-	(259)	
<b>Net Surplus/ (Deficit) for the year</b>		<b>(510)</b>	<b>(2,012)</b>	

#### 6. Future perspectives

Programme contributions have decreased by over CHF 5 million or almost 20% in the last six years. The global financial crisis of 2008 has aggravated this underlying long-term trend.

A draft budget for 2010 will be reviewed by the finance committee. At this stage, it includes total income of CHF 33.7 million and an addition to unrestricted funds of CHF 350,000 which is only half of the target figure set by central committee in February 2008.

Although funding requests have been sent to our partners in July as planned, formal responses are not expected until later in the year. There is a risk that some funding partners may not be able to fulfil our requests for contributions.

We need to remain vigilant about the financial risks involved in major capital expenditure projects. The four-year fire security upgrade of the Ecumenical Centre is nearing completion at an expected cost of CHF 6.6 million and the main hall has been renovated at a cost of CHF 1.3 million. In addition the finance committee will review revised plans to extend the conference facilities at the Ecumenical Institute for an estimated CHF 7 million to be financed by bank loans. The collective impact of these plans on the financial stability of WCC will be considered by the committee.

The framework budgets for 2011 and 2012 provide us with an opportunity to consider the financial implications of medium-term plans in the years leading up to the next assembly.

Plans include the following:

- the International Ecumenical Peace Convocation is a major event planned for 2011 at an estimated cost of CHF 2.3 million;
- a central committee meeting is scheduled in both 2011 and 2012, at an annual cost of CHF 700,000;
- from 2011, the project to extend the conference facilities at the Ecumenical Institute is expected to generate both annual income and operating expenses of about CHF 1 million; and
- the preparation for the 10<sup>th</sup> assembly involves costs and a focus on fund-raising in the years up to 2013.

Given the current uncertainties concerning income, and other risks to be considered, the finance committee will consider the importance of planning for contingencies and alternative scenarios.

## **7. Income strategy**

I am particularly pleased that a full-time director of income development has been appointed. This will be a key role in the coming years in ensuring WCC continues to attract the interest of its members and funding partners to provide the contributions needed to carry its work forward. In addition I am pleased to report that the Korean Methodist Church has agreed to second a member of staff to reinforce the income development team thus further strengthening the capacity to tackle the challenges ahead.

The decreasing level of membership contributions and the declining number of member churches contributing remains a serious concern. However, I am pleased to note that some successful efforts have been made by governing body members to encourage inactive churches to renew their relationship with the Council by making their membership contributions.

WCC is faced with the need to raise considerable funds to cover the costs of the IEPC and the 10<sup>th</sup> assembly. The IEPC is planned to cost CHF 2.3 million; to match the 9<sup>th</sup> assembly budget, CHF 6.4 million should be raised in the coming four years for the next assembly. Also, there is a target of CHF 1 million to be raised towards the extension of the conference facilities at the Ecumenical Institute. At the same time, the ongoing programme work of the Council needs to be funded.

This fund-raising effort is required at a time when we can expect that our traditional partners may have less resources to share. Its success will depend upon the active participation of governing body members as well as programme staff working together in this common cause. At its meeting in February 2008 the central committee approved the formation of a Fundraising Advisory Group; this group needs support and encouragement from all of us. An income strategy will not produce the results we seek unless we bring it alive with our commitment and enthusiasm.

## 8. Pension fund

The WCC pension fund has become a cause for considerable concern following disastrous investment results in 2008. The fund's assets covered only 80% of its obligations at the end of 2008, representing a deficit of about CHF 20 million. In February 2009, at the request of executive committee, I met with the pension fund board to review the financial situation and its proposed remedial actions. Financial markets have recovered considerably to July 2009 and some improvement in the financial situation of the pension fund can be anticipated.

The finance committee will meet with the moderator of the pension fund board to review a report of the remedial actions taken, and perspectives for the future of the pension fund. The finance committee will consider implications for WCC as employer.

## 9. Governance

In fulfilling its governance role, the finance committee will also consider the following:

- Comprehensive auditor's report 2008;
- Report from the audit committee, including recommendation for appointment of auditors for 2009; and
- Status of issues raised in the internal control self-evaluation required by Swiss law for 2008.

I am appending to my report the *Finance Overview* presented to executive committee this week. Questions on the finance overview will be welcomed by the finance committee.

Dean Anders Gadegaard  
Moderator of the finance committee