Document No FIN21

Report of the Finance Sub-committee

1. Financial Report 2007

The audited financial report 2007 presented a surplus of CHF 2.8 million. General reserves were increased to CHF 10.4 million. The accounts were approved and authorized for issue by the officers of the finance committee on 14 May 2008.

Given changes in both Swiss law and International Financial Reporting Standards concerning the requirements to record a potential liability to pension funds, the WCC financial statements were presented in accordance with its own accounting policies. The accounting policies are stated in the financial report, and are consistent with those of prior years. The decision no longer to present the financial statements under IFRS was taken by the officers of the finance committee, following delegation of the decision authority by central committee in February 2008.

The finance sub-committee **recommends:**

(a) that executive committee approve the financial report 2007, given that central committee does not meet until September 2009, and in accordance with Rules VIII 2 (a) (1);

(b) that executive committee require that a member of the finance sub-committee meet with the members of the Pension Fund Board before the year end to review the current financial situation of the pension fund.

2. KPMG management report 2007

A report was received from the auditors, KPMG, on control issues observed in the course of the financial audit of the year 2007, completed in May 2008. The report focused in particular on the status of issues which had been identified in prior years, concluding that actions had been taken as agreed. The process for the monitoring of financial reports received from partners which benefited from grants in 2007 was in progress at the time of the audit, and will be subject to review in the 2008 audit. The auditors raised a new recommendation concerning the requirement to test IT back-ups and to document and test a disaster recovery plan.

The finance sub-committee received the report.

3. Appointment of auditors 2008

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. It was discussed during the audit committee meeting in April 2008 that a tender process would be launched early in 2009 to prepare an appointment proposal for financial year 2009.

Given that central committee will not meet until 2009, the finance sub-committee **recommends** that executive committee appoint KPMG as auditors for 2008.

4. Review of results to July 2008 and forecast 2008

The results for July 2008 compared to budget and forecast 2008 were reviewed. A small net surplus of CHF 234,000 was reported in July, compared with a budgeted deficit of CHF 2.5 million for the year.

Results included CHF 400,000 in foreign currency losses, resulting from revaluation of USD and EUR balances held when rates decreased sharply in January and February 2008. Further, net unrealised investment losses totalled CHF 457,000 in July, sustained on the endowment fund portfolio of CHF 5.9 million. No interest income is forecast for the Ecumenical Institute and a decrease in the value of the endowment fund of CHF 0.2 million is forecast.

Several factors are forecast to affect adversely the budgeted addition to unrestricted funds. The foreign currency losses, estimated at CHF 400,000 for the year as mentioned above, will be charged to unrestricted funds. Membership income is forecast to be CHF 250,000 less than budgeted, following the impact of the actual USD and EUR rates compared with the rates applied in the budget. A provision of CHF 60,000 is forecast to cover potential bad debts; and an additional provision of CHF 100,000 has been included to cover the value of social charges on untaken vacation, as recommended by the auditors.

In the forecast process programme and infrastructure cost reductions were identified with favourable impact on the call on unrestricted income. As a result, the 2008 forecast estimates a credit of CHF 287,000 to the unrestricted funds, close to the budget target of CHF 325,000.

In order to achieve the forecast result, it will be necessary that the programme and infrastructure costs now set out in the forecast are treated with the quality of a revised budget, representing new limits for 2008 expenditure.

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

(a) in order to avoid risk of further bad debts sustained with related organizations, executive committee require that the staff leadership group complete its planned review of the extent of services to related organizations by December 2008. In addition, their legal status should be verified and an annual process should be introduced to review the financial statements and budgets of those organizations.

(b) the executive committee adopt the forecast as a revised budget 2008.

5. Budget 2009

Following the recommendation of central committee in February 2008, a working group comprised of the officers of the finance committee and representatives of the programme committee met in May to guide staff on the programme priorities which were then taken into account in developing the budget.

One officer of the finance committee noted that the report from the joint meeting had not been distributed to members of the programme committee as expected.

The draft budget for 2009 was presented showing total income of CHF 38.7 million, total expenditure of CHF 39.8 million and an addition to unrestricted funds of CHF 240,000 compared with the framework target of CHF 300,000.

The draft budget incorporates a number of increases to costs compared with the framework, including:

- Inclusion of a cost of living increase of 2% for all staff (CHF 280,000);
- Inclusion of a remedial contribution to the pension fund of 1% (CHF 140,000);
- Reinstatement of the budget for the Faith & Order Plenary Commission (CHF 100,000);

- The addition of two interns thus budgeting for five (CHF 98,000).

The budget for membership contributions was reduced by CHF 250,000 compared to the framework, as EUR and USD are not expected to regain the levels of 2007 in 2009.

These cost increases and the effect of the reduced value in CHF of the membership contributions are offset by a number of cost reductions, including:

- The elimination of certain vacant staff positions in the framework budget by the reattribution of responsibilities to existing staff in the programmes resulted in both a reduction of 4-5 FTEs and in addition has covered salary adjustments for step increases and staff reclassifications (net reduction of CHF 400,000);
- Various reductions in project costs (CHF 185,000).

After adjustment for all of the above the budget reflected a shortfall compared with the target for unrestricted funds of CHF 408,000 which has then been covered by use of fund balances at the disposition of the Staff Leadership Group.

- general endowment funds with a value of CHF 320,000 at December 2007 are available for release at the discretion of the Staff Leadership Group and the draft budget proposes the use of CHF 150,000 in 2009;
- the Casa Locarno fund with a balance of CHF 190,000 will be applied to fund programme work in Eastern Europe;
- the Jubilee fund is called upon for CHF 68,000.

The draft budget includes the creation of a reserve for the IEPC of CHF 272,000 and an addition to the Assembly Fund of CHF 150,000 which is expected to stand at CHF 1.8 million at the end of 2009. Concern was expressed as to whether this level of funding for the Assembly was sufficient.

The finance sub-committee noted the trend of increase in infrastructure costs which are forecast to increase by 7.1% to CHF 4.8 million in 2008 and are then budgeted to increase by 11.9% to CHF 5.4 million in 2009. It was observed that the ratio between infrastructure costs and total programme income is growing, which is disadvantageous when presenting projects for fund-raising.

It was explained that while the budget is now submitted for approval, it may be the case that certain funding partners will modify their programme contribution allocations. Since it is preferable that WCC later report to the partners in relation to their funding commitment, it may be necessary to make minor amendments to the draft budget before its final approval.

The finance sub-committee **recommends** that the executive committee:

(a) approve the draft budget, while aware that it may be subject to minor amendment which will not impact the increase to unrestricted funds of CHF 240,000;

(b) delegate to the officers the authority to approve the final budget at their meeting in December; and

(c) explore the possibility of extending the allocation of unrestricted income to the assembly fund.

6. Framework 2010 and 2011

A framework budget for 2010 was presented showing total income of CHF 40.38 million, total expenditure of CHF 41.12 million and an addition to unrestricted funds of CHF 700,000.

The programme costs include disbursement of the 2010 Edinburgh conference reserve of CHF 1.44 million. Programme costs to be covered by current year income are therefore CHF 39.68 million compared to CHF 39.86 million in the draft budget 2009. The 2010 costs benefit by CHF 680,000 compared to 2009 as a central committee meeting will not be held.

The framework budget includes an increase of CHF 700,000 in unrestricted funds in accordance with the treasury plan for capital expenditure reviewed by finance committee in August 2006. Membership income and other income are projected to grow by CHF 340,000 while programme contributions will be required to grow by CHF 1.35 million.

The tentative budget for the IEPC, to be held in May 2011, with 2,000 participants for a 10 day meeting, is CHF 2.6 million. Fund-raising for this event is required in addition to fund raising for the 10th Assembly, the development of the Ecumenical Institute, and to balance the framework budget for 2010.

The finance sub-committee held general reservations as to whether the fund-raising for IEPC, Assembly and on-going programme work would be achievable at the same time as the proposed fund-raising for the conference facility development at the Ecumenical Institute.

The finance sub-committee **recommends** that executive committee require a draft budget 2010 be developed for presentation to executive committee in February 2009 maintaining the addition to unrestricted funds of CHF 700,000.

7. Follow-up on recommendations from executive committee and central committee in February 2008 on Human Resources' related matters

A brief report was received on the status of the work accomplished in the appraisal process, and it was confirmed that the general secretary had required that programme directors and FSA managers ensure that staff take vacation in compliance with the Staff Rules and Regulations, with the objective of reducing the value of the required accounting provision in 2009.

The staff statistics report was presented, indicating a decrease in full-time equivalent staffing to 185.37 in the 2009 budget, compared to 190.52 in June 2008.

The moderator of the finance sub-committee confirmed that he had reviewed the statement of staff loans at 30 June 2008 following the observations of the finance committee in February 2008 concerning the importance of compliance with Staff Rules and Regulations in the matter of the required reimbursement over a period of six months. He reported that there remained a number of exceptions, in particular concerning loans taken to cover school and university fees which were regularly repaid over longer periods. Although they are strictly speaking exceptions to policy, loans with such repayment conditions have become common practice, and are not considered as exceptions by WCC.

The finance sub-committee **recommends** that executive committee require that:

(a) staff step increases and salary increases as a result of reclassifications be granted only when an appraisal supporting the measure has been completed; and

(b) policy and practice concerning staff loans and reimbursements be brought into concordance in order to avoid any kind of exceptions in the future and the proposed resolution of the issue be reported upon in the next finance sub-committee.

8. Progress report on the renovation of the ecumenical centre

The sub-committee heard a brief report on the ecumenical centre renovation for fire security which is now well advanced. With all the major contracts attributed the total budget of CHF 6.7 million has been respected.

9. Renovation of the main hall at the ecumenical centre and capital expenditure planning 2009

The renovation of the main hall, previously budgeted for 2010-11, is now proposed to be completed before the central committee meeting 2009 in order to conduct the works at the same time as the intervention planned for fire security exits.

An architectural plan has been developed with a budget of CHF 1.0 million which will include the following features:

- introduction of natural light through sections in the south western wall
- replacement of the floor covering to improve acoustics and insulation
- electrical installations
- replacement of the ceiling to provide improved insulation
- improving access to the main hall and the interpretation booths

The finance sub-committee reviewed the capital expenditure plan for 2009 incorporating the main hall renovation. The total planned capital expenditure for the year is CHF 3.245 million including CHF 1.9 million related to the renovation of the ecumenical centre.

The finance sub-committee also reviewed the financing plan for capital expenditure. The projects will be funded in part from General reserves, which will be reduced to a budgeted CHF 8.1 million in 2009, and in part from loans.

A loan limit of CHF 2 million has been approved, but not yet drawn down, for the ecumenical centre renovation. In order to include the main hall renovation and maintain a target of over CHF 8 million for the General reserves, it is requested that the loan limit be increased to CHF 2.25 million.

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

(a) approve the capital expenditure limit of CHF 3.245 million for 2009, including the renovation of the main hall; and

(b) approve the increase of the loan limit for financing capital expenditure to CHF 2.25 million.

10. Development of conference facilities at Bossey

The finance sub-committee reviewed the architectural plans and financial overview for the transformation of the existing barn at Petit Bossey into a conference centre offering a meeting room and accommodation. The estimated total project cost is CHF 7.78 million.

The finance sub-committee also reviewed a business plan for the annual operation of the facilities, showing a break-even result in the event that the entire project cost is funded by borrowing at 4%.

The business plan is based on the assumption that a 50% occupancy rate will be achieved for all rooms and the meeting room, and that within that 50%, a market rate will be charged for 50% of clients, while the remainder will benefit from a favourable rate for church groups.

An estimated surplus of CHF 40,000 would be generated if CHF 1 million were raised to finance the project.

The capital expenditure financing plan had been updated to test the impact on General reserves of this project, on the assumption that CHF 400,000 in loan repayments would be made annually, funded by the cash flow generated from depreciation charges. On the assumption that the project would either be completely funded by borrowing, or partially funded by fund-raising, the General reserves would remain at a level of CHF 9 million.

The finance sub-committee **recommends** that executive committee approve the project, allowing the tender processes and work permit application to begin, while requiring that fund-raising materials and fund-raising plan be presented in February 2009, with a target of at least CHF 1 million for the project.

11. Income development

A report on income development was presented covering membership income, programme contributions and an update on WCC income strategy 2008-2010.

The report highlighted the need for support from member churches to turn the income strategy into plans, in particular to concerning fund-raising efforts from non-traditional sources.

Concerns were expressed about the future levels of membership income as some member churches are already reporting severe pressure on their resources in the current economic climate.

Efforts to maintain and build relationships with specialized ministries have been pursued by programme visits to certain of these funding partners.

A foundation fund-raising officer whose position is funded for two years by ICCO has joined WCC in July 2008. Executive committee members who have personal contact with foundations are requested to assist by facilitating introductions to those foundations which may consider funding WCC projects.

The finance sub-committee received the report and **recommends** that executive committee require that an action plan, including measurable milestones and target dates, be presented at the February 2009 finance sub-committee meeting for review.

12. Internal control system project

A brief report was shared on the internal control system project. Since the project had been launched in February 2008, a preliminary self-assessment had been conducted, and a detailed project plan developed. Following an analysis of the balance sheet and income and expenditure account following a model proposed by the auditors, KPMG, key processes had been identified. A risk and control matrix format was designed, and is to be completed for each of the key processes.

A review meeting was held with the KPMG manager in August, confirming that the initial project steps met the legal requirements. However, KPMG have recommended that the project completion date be brought forward to November in order that the project documentation and conclusions can be reviewed during the interim audit.

13. Investment review

The finance sub-committee reviewed the report on investment results to August 2008. The bond portfolio of CHF 9.3 million reported a return of 0.39%, while the balanced portfolio of CHF 5.9 million backing the endowment fund reported a loss of -5.72%.

The investment advisory group was formed and met in June and September, when an investment review was conducted with the portfolio managers from both banks concerned.

Following the review meeting, the investment advisory group recommend that the level of interest rate risk inherent in the bond portfolio be reduced in order to ensure preservation of capital. It is recommended that the CHF fixed income mandate, composed of 50% bonds and 50% three month money-market instruments be revised, and funds invested entirely in one to three month money-market instruments.

The finance sub-committee concurred with this proposal.

14. Executive committee income task forces

After discussion, it was agreed that the membership income task group and the fund-raising advisory group be merged.