

DIOCESAN SYNOD

Title: **BUDGET 2017**

Sponsor: **CHAIR OF THE BOARD OF FINANCE**

Date: **26 APRIL 2016**

I. INTRODUCTION

1. This is the first Synod budget report in over a decade not to have been authored by Canon Don Cardy who retired from his role as Chair of the Budget Committee at the end of 2015. It is only right that this budget report opens by paying tribute to the extraordinary contribution Don has made to the life and work of this diocese and in particular the pivotal role he has played in diocesan finances for more than a decade.
2. This report introduces the proposed 2017 diocesan general fund budget. Normally the budget comes to the November Synod. This year we are bringing the budget to the June meeting in response to the specific suggestion by the Share Review Group, whose report was received and agreed at the March Synod. Our aim in seeking early agreement on the budget is to give benefices a clear view of 2017 Share as early as possible.
3. The downside of an earlier budget decision is that it does not permit the usual opportunity over the summer for parish and deanery officers to comment on the budget report. On balance we felt that this disadvantage was outweighed by the advantages in giving benefices early sight of 2017 Share. However, we do still plan to produce a report and invite responses on a number of matters, as described later in this paper.

2. HEADLINES

- Stipend increase of 1.5% from April 2017 following national recommendation
- Budget for 284.4 full time equivalent (FTE) parochial stipendiary ministers in post (a reduction of 4 on 2016)
- An assumed parochial vacancy rate of 7.5%
- Funding to support growing numbers of curates and ordinands in training, including budgeting for 52.5 FTE stipendiary and 60 SSM curates.
- National funding reduced by £98,000
- Gross share increase (before credits) capped at 2% at benefice level for 2017

The summarised budget is appended to this paper.

3. CONTEXT

4. The 2017 budget is framed by national policy changes under the 'Renewal and Reform' programme, in particular:
 - a. The 'Darlow' formula is replaced by new national funding arrangements focused on deprived communities, with transition funding over ten years.
 - b. The *Resourcing Ministerial Education* workstream and its implications for the funding arrangements for ministerial training in the future.
5. In addition, our Synod has voted to adopt a new share scheme and proposed 2017 as a transition year where shares will be set at benefice level. To support this, the 2016 budget has been restated into headings which fit with the new share scheme, so that changes between 2016 and 2017 are clearly identified.

4. MINISTRY COSTS AND STIPENDIARY NUMBERS

6. The budget continues to work on the principle that the budget follows ministry deployment; it does not determine it. As previously explained in budget papers we anticipate the number of stipendiary clergy to gradually reduce to the year 2025. This is purely a reflection of a national trend of retirements outstripping ordination rates. While ordinand numbers are increasing (see below) there will still be a net reduction in stipendiary clergy before numbers begin to increase again. On average we would expect from *Re-Imagining Ministry*, an average reduction in stipendiary clergy positions of 5.5 annually, but in practice ranging between 3 and 8 each year. The reduction in establishment posts for 2017 is 4.
7. However, we do now appear to be seeing signs of the increased rate of clergy retirements and vacancies in certain parts of the diocese have had to be advertised twice or more before an appointment can be made. Accordingly, we have increased the budgeted vacancy rate to 7.5%. This does not constitute a deliberate policy of holding vacancies open, it merely reflects the current realities.
8. One of the criticisms of the former share scheme was that it placed too much emphasis on stipendiary clergy and not enough on self-supporting and lay ministry. The new budget and share format (appended) addresses that. Table I below sets out the per person direct cost for different types of ministry. Note these costs reflect the current cost of ministry and do not include initial ministerial training. These are the figures that would be used in calculating the direct costs of ministry element ("A") for Share purposes.

Table 1: Direct Costs of Ministries 2017

	Stipendiary Incumbent	Self-Supporting	Reader / LLM	House for Duty	<i>2016 Stipendiary</i>
Stipend	25,730				25,340
Related Costs	373				361
National Insurance	2,058				2,002
Pension	9,334				9,231
Council Tax	2,078			2,078	2,023
Water rates	506			506	509
Insurance	383			383	385
Repairs/improvmt	4,990			4,990	4,953
Housing management	1,191			1,191	1,171
Net vacancy costs	698			698	781
DBS Checks	27	27	27	27	28
In service training	497	497	272	497	515
Total	47,865	524	299	10,370	47,299

Number	284.4	79	170	25	288.3
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NB where totals do not sum this is simply due to rounding

9. Followers of the budget papers will note that the ‘costs of a stipendiary incumbent’ figures do not completely tally with the similar tables presented in the past. This is partly because of improved classification of costs. An important factor however is that the budget now shows the true cost of clergy housing: for some years a large proportion of the improvement work has been funded from sales of surplus property, which is neither sustainable in the long term nor optimal stewardship. (The removal of the shortfall provision – described below – neutralises the impact of this change in terms of overall share). A small increase in housing maintenance budgets has been made to reflect continued positive inflation in this sector of the economy, though the maintenance budget remains below its 2009 level in real terms.
10. For 2017 we are providing for an increase in clergy stipends of 1.5% over 2016, which is in line with the national recommendation for the increase in the National Stipend Benchmark. The same increase applies to salaries.
11. Stipends for curates in training are based on the National Minimum Stipend which will be known later in the year but is not expected to vary significantly from the general increase.
12. The clergy pension scheme was revalued at the end of 2015. Based on the interim conclusions of this process we are assuming that the overall contribution rate will remain unchanged at 39.9% of National Minimum Stipend.
13. Overall the increase in stipends and other per capita costs are entirely offset by the reduction in budgeted posts arising from the small reduction in establishment posts and the increased vacancy rate, giving a small decrease in the total direct costs of ministry (‘A’) for 2017 compared to 2016.

5. FUTURE LAY AND ORDAINED MINISTRY

14. The largest area of growth in the budget relates to future ministry – lay and ordained. The number of stipendiary title curates has increased in each of the last five years and now stands at 16 per annum. The 2017 budget therefore provides for an average 52.5 FTE stipendiary and 60 self-supporting title curates in post over the year.
15. This diocese now produces the third highest number of ordinands (behind London and Oxford) and the numbers entering self-supporting and lay ministries are increasing.
16. In addition to budgeting for these costs we have allowed for an increase of 6.3% in our share of the Church of England's costs for future clergy (including pooled maintenance costs), based on the expected Archbishops' Council budget.
17. A key part of the vocations strategy is the nurture of young vocations to ordained ministry. A pilot project, Encounter, has been running in this diocese for two years with funding from the Mission Opportunity Fund. It is now proposed to bring this fully into the general budget from 2017.
18. Taking the above together, total future ordained and lay ministry and training costs ('B1') increase by 8.9%.

6. OTHER COSTS

19. In recognition of the huge challenge this diocese faces with population growth, the half time Mission in Regeneration Adviser role has been redesignated as a diocesan resource. The Barking Area Mission & Pastoral Committee agreed to increase the area team to 3.25 FTE to provide additional resources for Continuing Ministerial Development. (Area team costs allocate to benefices in the Area concerned, therefore the additional 0.25 FTE adds an average of £109 and maximum of £400 per benefice in the Barking Area to Share.) These two changes account for half of the overall increase in 'B2' (services to Mission & Ministry Units / parishes).
20. We are continuing the policy of holding many budget lines constant in cash terms, which provides an efficiency squeeze. In addition, specific efficiency savings in excess of £40k have been incorporated for 2017, including savings in diocesan office costs, use of alternative funding sources for certain expenditures, and improved financial performance at the Retreat House following refurbishment. The budget does allow however for increases in fees for Quinquennial Inspections of Churches, which have been static for some years, as well as legal support and other costs which are set by statutory instrument. Education support also increases to partly respond to the changing Government policy agenda.
21. The main increase in 'other expenditure' ('B3') is the diocese's contribution to the national church which has increased by 2.9%. This chiefly reflects the need to resource an expanded National Safeguarding Team. The national church contribution accounts for almost the entirety of the increase in this category; other increases having been offset by savings.

22. The 2017 budget therefore proposes gross expenditure of £21,546,746. Current and future ministry makes up 83.2% of total expenditure.

Table 2: Expenditure Summary

		2017	% Overall Spend	2016	% Change
A	Current Ministry Costs	13,964,282	64.8%	13,966,038	-0.01%
B	B1: Future Ministry & Curates	3,968,237	18.4%	3,643,113	8.92%
	B2: Services to Parishes	2,133,008	9.9%	2,071,139	2.99%
	B3: Other costs	1,481,219	6.9%	1,466,299	1.02%
C	Gross expenditure	21,546,746		21,146,589	1.89%

7. INCOME & THE MUTUAL SUPPORT FUND

23. This diocese has long been a large net recipient of national church funding. The Darlow formula has directed around £2.6m to this diocese to support the provision of ministry. The Darlow formula ends after 2016. The new national funding arrangement provides support for ministry in deprived communities. Over ten years the level of national funding more than halves, however the impact in 2017 is a reduction of just under £100,000.
24. Under the new share scheme, in addition to the income from the national church, the mutual support fund holds investment income from the Stipends Fund (which has increased to reflect recent glebe rent reviews), and net income from statutory fees (weddings/funerals – after allowing for fee credits to parishes) which we have assumed will deliver broadly similar income levels to 2016. The mutual support fund also includes savings from vacant posts, and this category has increased reflecting the higher vacancy rate.
25. Income into the Mutual Support Fund (before offers into the fund, which come into effect from 2018) totals £5,016,896 as below. This represents a net increase in the Mutual Support Fund of 1.98%, notwithstanding the reduction in national church support.

Table 3: Mutual Support Fund Income

£	2017	2016
National Church Support	2,540,000	2,637,887
Investment income	1,159,376	1,078,936
Fee income (net of credits to parishes)	480,000	480,000
Savings from vacant posts	837,520	722,426
Total	5,016,896	4,919,246

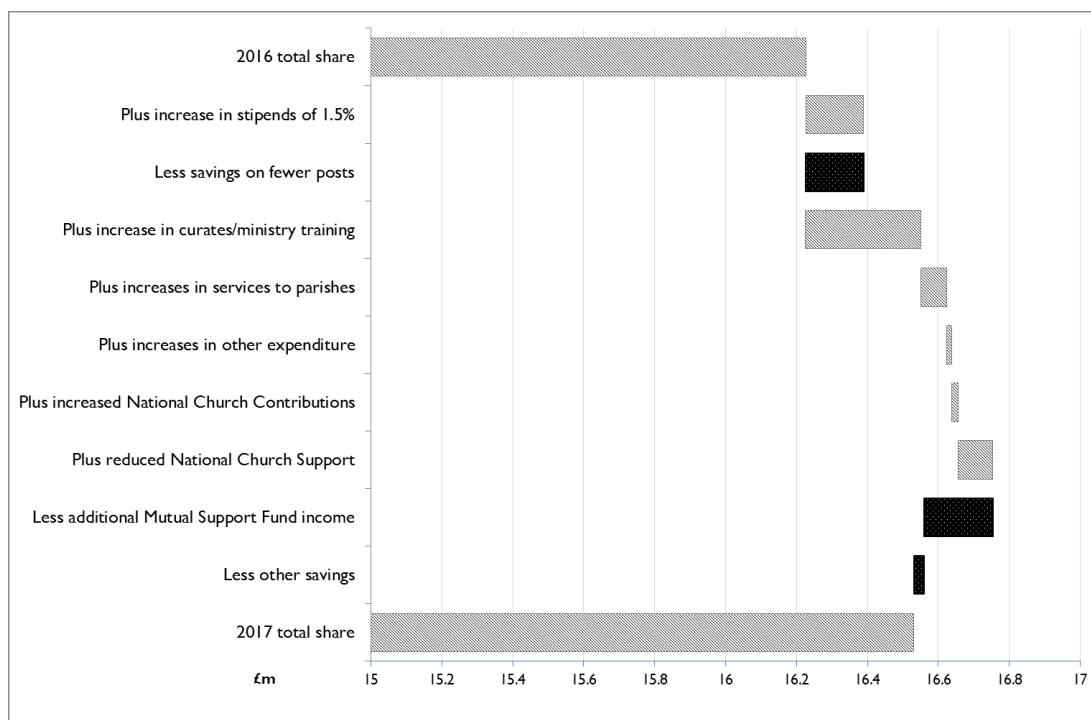
26. Due to the impact of the national funding changes on this diocese, the Church Commissioners have indicated that additional one off restructuring funding may be made available to this diocese. The Finance Committee has agreed that if this funding is forthcoming it should be particularly directed to support deaneries where ministry number reductions are planned but cannot be realised in the near term.

This will have the effect of mitigating share increases and may in some cases allow reductions in share earlier than they might otherwise have been achieved.

27. The main source of income remains the generosity of individuals and parishes through parish share. Recognising the consistent feedback through the budget consultations, we are continuing the approach of seeking to limit the overall share increase.
28. In recent years the budget has included a provision for shortfall on parish share, comprising £650,000 from the general fund and £250,000 from reserves in the 2016 budget. With the introduction of the new share scheme we are proposing to remove this budget provision, which effectively means parishes are not being asked to implicitly contribute to a contingency against share shortfall elsewhere. Any parish share shortfall in 2017 will therefore impact directly on diocesan reserves. The Trustees are satisfied that this is an acceptable risk in the near term. This is one of the matters on which we will be consulting (see below).
29. Total income for 2017 including the Share is budgeted at £21,546,746, representing a balanced budget.

8. SUMMARY & SHARE PROPOSAL

30. The chart below summarises the key movements in the budget.



31. With expenditure of £21,546,746 and a mutual support fund of £5,016,896, the Share assessment is £16,529,850 (up 1.86% on 2016). Over the period 2011-17 the average annual increase in the total share has been 1.3% which compares to average annual stipends increases of 1.64% and CPI Inflation of 2.03%.

32. One of the criticisms of the old share scheme was that changes in benefice shares could vary significantly from the change in the net share assessment due to the interplay of allocations to deaneries and then the deaneries' own formula. Diocesan Synod would agree an overall budget and cap on deanery share (typically around 3%) but with the deanery formula determining parish increases, the outcome at for parishes could vary considerably from the diocesan increase and deanery cap. This changes with the new scheme.
33. For this transition year, it is proposed that Synod is asked to agree a cap on the **maximum increase in share for each benefice of 2%**. The 2% cap, being slightly higher than the increase in net share assessment, allows the beginning of transition to the new share scheme. This means that some benefices will see increases of less than 2% as part of the transition.
34. To be clear, this is a 2% cap on the increase in gross share before any fee credits, prolonged vacancy credit or regular payment discount.
35. It is hoped that agreeing this figure early will provide immediate reassurance to benefices about the maximum level of share increase in 2017. It is planned that actual benefice shares (including fee credits) will be available by late September – earlier if possible. This gives PCCs a firmer basis for planning.

9. BUDGET REPORT AND MATTERS FOR CONSULTATION

36. The Share Review Group commended the need to give benefices earlier indications of Share and also proposed a three year rolling budget. Moving to a rolling budget process requires making assumptions about certain key variables, some of which are not fully in our control, such as stipend changes, and future pension contribution rates and recovery plans.
37. We propose to use this year's annual budget report and consultation process as an opportunity to canvass views on these assumptions, together with other matters such as the approach to shortfall provision in the future.
38. As noted above we feel that overall the advantages of giving benefices an early view on 2017 share outweighed the disadvantages of not having available feedback from the annual budget report before coming to Synod. However the annual budget report and consultation has always been valuable and should continue to be part of our planning process. We hope to issue a budget report later in the summer and invite views on these longer term matters to inform the framework for a rolling budget.

10. MOTION

That this Synod

- a) *approve the Diocesan Budget for 2017 and the total Share of £16,529,850; and*
- b) *approve the apportionment of the total Share to benefices in accordance with the transition provisions for the new Share Scheme, subject to a cap of 2.0% in increases in gross share (before credits) at benefice level compared with 2016.'*

CHELMSFORD DIOCESAN BOARD OF FINANCE - GENERAL FUND BUDGET 2017

Budget 2016						Budget 2017	% total	Increase
<u>A Direct Costs of Ministry</u>								
	Parochial Staff	ministers	Inc status	SSM	Lay	House for Duty		
288.3	No. of People (Stipendiary)	284.4	284.4					
	No. of People (Other)			79.0	170.0	25.0		
25,340	Stipend		25,730					
361	Related Costs		373					
2,002	National Insurance		2,058					
9,231	Pension		9,334					
2,023	Council Tax		2,078			2,078		
509	Water rates		506			506		
385	Insurance		383			383		
4,953	Clergy House repairs and improvements		4,990			4,990		
1,171	Housing management		1,191			1,191		
781	Vacancy Costs (net of rent)		698			698		
28	DBS Checks		27	27	27	27		
	In service training - LLM	0.5			272			
515	In service training - clergy	1.5	497	497		497		
						13,705,032		
47,299	Total for Stipendiaries		47,865					
	Total for House for Duty					10,370		
	Total for SSM & Lay			524	299			
13,966,038	Direct Costs of Ministry Total					13,964,282	64.8%	-0.01%
<u>B1 Future Ministry Training & Curates</u>								
2,110,215	Direct Costs of Stipendiary Title Posts	52.5				2,354,993		
538,000	Housing & Appointment Costs of Title Posts					528,000		
906,279	Pre-Ordination incl DDO, Encounter & St Me	2.5				986,449		
32,558	Direct Costs of SSM Title Posts					31,483		
56,061	Lay Training & Discipleship	0.5				67,312		
3,643,113	Future Ministry Training & Curates Total					3,968,237	18.4%	8.92%
<u>B2 Services to Mission & Ministry Units/Parishes</u>								
			Barking	Bradwell	Colchester			
		9.25	3.25	3.0	3.0			
463,510	Area Teams Staff & Expenses		167,106	157,616	155,600	480,322		
689,908	Archdeacons (plus Area Bishops' houses)	7.0				696,907		
66,000	Area Deans & Other Parish Support					73,500		
160,613	Parish Legal & Church Building Services					169,593		
108,299	Education (net cost)					115,090		
60,048	Children & Youth Work					60,874		
75,699	DAC					76,483		
59,978	Parish Finance					60,724		
182,474	Safeguarding Services to Parishes					191,743		
158,405	Diocesan & Bishop's Advisers	3.1				171,567		
46,205	Chaplaincy & Partnerships					36,205		
2,071,139	Services to Mission & Ministry Units Total					2,133,008	9.9%	2.99%
<u>B3 Other Expenditure</u>								
648,248	Diocesan Services	1.0				657,454		
200,488	Communications incl The Month					192,159		
49,900	Finance & Governance costs					55,900		
620,176	National Church					638,277		
50,000	Contingency					50,000		
(102,513)	Trading & Income from other sources					(112,571)		
1,466,299	Other Expenditure Total					1,481,219	6.9%	1.02%
359.9	Stipendiary Numbers Total	362.25						
21,146,589	Gross Share					21,546,746	100.0%	1.89%
<u>D Mutual Support Fund</u>								
(2,637,887)	National Church Support					(2,540,000)		
(1,078,936)	Diocesan Support from Investment income					(1,159,376)		
(1,100,000)	Income from Statutory Fees					(1,100,000)		
150,000	less Parochial Fees Paid					150,000		
470,000	less Fee Credits to Parishes					470,000		
(722,426)	Vacant posts					(837,520)		
(4,919,249)	Mutual Support Fund Total					(5,016,896)		1.98%
16,227,340	Share Apportionment net of MSF					16,529,850		1.86%