

DIOCESAN SYNOD

Title: **BUDGET FOR 2016**

Author: **CHAIR OF THE BUDGET COMMITTEE**

Date: **14 NOVEMBER 2015**

1. The attached budget was agreed by the Budget Committee at its meeting on 10th September after further work by officers and after receiving a report on the responses to its 2016 Budget Report. The 2016 budget sets gross expenditure at £21,582,520, an increase of 1.1% on 2015. The shortfall forecast has been revised downwards to £900,000 in anticipation of some improvement with a funded budget provision of £650,000 to cover much of this. With such shortfall, gross income will be £21,332,520 and the resulting deficit of £250,000 is to be met from reserves. The Deanery Share will increase by 0.77% to £16,227,340 (gross) for apportionment to deaneries. This is the second smallest overall increase in the last five years and increases for individual deaneries will be capped for a further year at a maximum of 3%.

2. In June we reported that there were a number of issues of primary importance:

- the change (due in 2017) to the national system (Darlow formula) which determines our Archbishops' Council Selective Allocation Grant (currently £2.6m);
- stipendiary clergy numbers and recent vacancy rates;
- clergy stipends and the annual national consultation;
- inflation pressures affecting the cost of clergy housing maintenance;
- the income from renting out vacant clergy houses;
- the in-service training budget;
- the forecast parish share shortfall in 2016 and the budget provision for this; and
- the external financial situation and the advisable average increase in Deanery Share.

3. All these matters were considered by the committee and covered in the 2016 Budget Report. That report was the tenth in a series which began in 2007 and, given the anticipated changes to the national funding system from 2017 and to the way future diocesan budgets would be formulated, majored on a review of the budgetary trends of the last twenty five years and achievements during the last ten. About 1,200 copies of the report were circulated along with the separate consultation on the new share scheme. In order that the latter consultation could have priority, the committee did not seek specific responses to its own report this year. Nonetheless there were 36 general responses with many useful comments and observations. There appeared to be support for the underlying increase of 1.5% in Deanery Share forecast at the time; an indication that some parishes continue to feel financial pressure of which an increasing share is one; but an absence of the language of generous giving / mutual support with a few being very negative about the ability of those on fixed incomes to respond to increased share. A few responses also highlighted a misunderstanding about the nature and movement of indirect costs and this has been noted for the future. All respondents had an individual reply from our Chief Executive and we again appreciate the priority he has given to this.

4. The confirmed Archbishops' Council selective allocation grant for 2016 is £2.64m. From 2017 the information received so far indicates that in the first three years of the new scheme the impact will be relatively low but from then on the expected reductions in grant income can be managed provided there are no significant additional costs. For these reasons the Budget Committee has not anticipated these future changes in the 2016 budget, but has made some observations about the 2017 and 2018 budgets.

5. With stipend costs making up 60% of gross expenditure each year, crucial to the budget setting process are the decision on the clergy stipend increase in the coming year and the estimate of the total number of stipendiary ministers likely to be in post and for which budgetary provision is needed. The increase in clergy stipend in April 2016 will be the nationally recommended 1.5%. Whilst the *Re-Imagining Ministry* plan, with its implied average reduction in stipendiary clergy positions of 5.5 annually, but in practice ranging between 3 and 8 each year, continues to be our reference, the expectation that the reduction would be at the low end of this range in the early years of the plan appears now to be in question. Since 2013, when the vacancy rate was unusually low, there has been some difficulty in making clergy appointments and the vacancy rate has risen to more than 10% in all Episcopal Areas. When it reported in June, the committee anticipated a reduction in the average number of stipendiary clergy in post in 2016 of 4 posts. After a further review of the clergy vacancy pattern during 2015 and the likely starting position in 2016, the committee has revised this to 8 posts and it is largely for this reason that the underlying increase in Deanery Share is now only 0.77%. The contribution to clergy pensions (in percentage terms) remains unchanged at 39.9% of the 2015 National Minimum Stipend (NMS).

6. Following a period when there had been little change in housing maintenance costs, the 2014 general fund outturn identified that inflation had returned. The 2016 budget now includes £1,050k for housing repairs and a further £750k for the Clergy House Improvements Programme (CHIP) with £100k of this charged to the General Fund and the balance of £650k coming from capital drawdown (house sales or investment). The increased income from renting out vacant clergy houses had already been taken into account in the 2015 budget and so no further increase is proposed for 2016. Rental income remains a significant source of income equivalent to 3% of Deanery Share.

7. In recent years the committee has attempted to keep many budgeted amounts frozen in cash terms and thus has operated a steady efficiency squeeze. However, sometimes adjustments are necessary and this has been done. For example, to the budgets for staff and office expenses and for in-service training where there is now a recognition that not all training opportunities are taken up. This general approach has enabled indirect costs to be kept well under control. A comparison which excludes capital spending on clergy house improvements indicates that parochial direct costs including all Title posts as identified in the DSS format budget were 67.6% of gross expenditure in 2006 and will be 69.1% in 2016. Clearly indirect costs are a smaller proportion of total expenditure now than they were in 2006 despite a 10% reduction in parochial stipendiary numbers.

8. Gross expenditure in 2016 will be £21,582,520, an increase of 1.1% on 2015. Gross income will be £21,332,520, an increase of 1.3% on 2015. The resulting deficit of £250,000 will be met from reserves. With the support from the National Church now at £2,637,890 and with new income streams still in their infancy, the Deanery Share remains our major source of income. The Deanery Share will increase by 0.77% to £16,227,340.

9. The detailed General Fund budget attached has the changes introduced last year. House for Duty posts have their direct costs shown; the selective support for parishes from the National Church and the selective support for parishes funded from our own investment income are now shown separately; and the titles of some indirect costs within Ordination, Training & Central Services now better describe the activities or services involved. This will help improve our understanding of the nature of all our costs; for example, our indirect costs include a significant proportion of the costs of ordination training and of curates, and this is an area where we can expect to see significant growth.

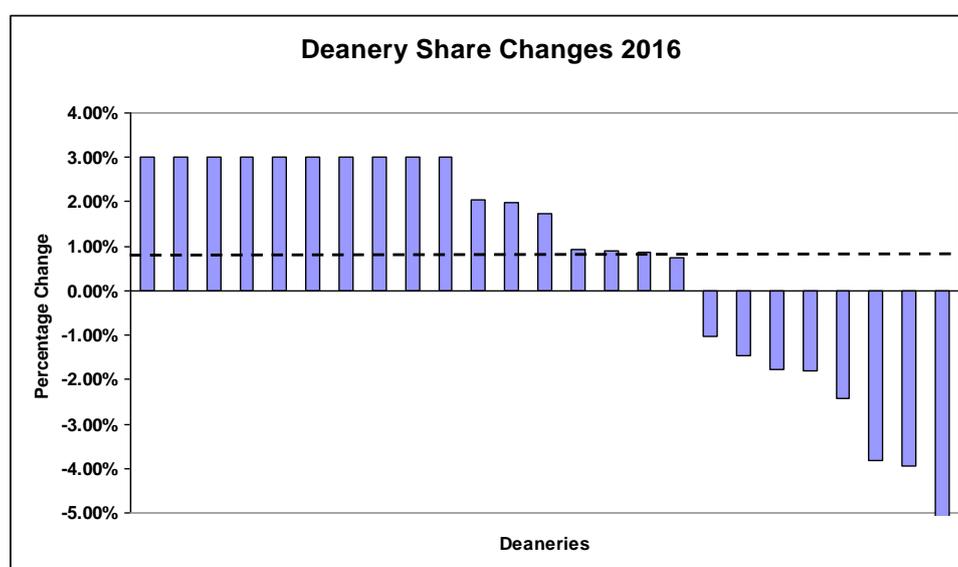
10. In limiting the overall increase in Deanery Share to 0.77%, the Budget Committee believes that it has responded to the on-going concerns of parishes. However, it must be stressed that this has been possible only by setting a deficit budget and such an approach cannot be maintained indefinitely. We trust that deaneries will respond to the opportunity provided by this smaller increase in Deanery Share than was initially expected. Whilst the underlying increase will be 0.77%

we recognise that most deaneries will have increases different from this. Our recommendation is that the approach used since 2013 be continued and that increases for individual deaneries for 2016 be limited to 3.0% by reducing the DSS ceiling from its normal 3.0% level to 2.23%. The pattern of increases across the deaneries for next year is appended. Ten deaneries have the maximum 3% increase compared with twelve in 2015, but of these only three are capped by more than 1.5% of their basic share. Share increases for individual parishes are determined by their deaneries and we continue to urge moderation here too.

11. The committee has discussed briefly the practicalities of producing indicative budgets for 2017 and 2018. The new share scheme will require dialogue in deciding the distribution of mutual support funds each year whereas the present scheme (DSS) has relied on a formulaic methodology. This suggests that an indicative share budget will need to be produced much earlier than at present to give time for such dialogue to take place. An approach similar to that used by the utilities companies may well be appropriate. An estimate would be made of the share required in (say) two year's time with the distribution to MMUs being based on that estimate. A year later that estimate would be reviewed for accuracy and compensating adjustments made to the next year's share estimate. Whilst budgets in recent years have largely been predictable once stipendiary clergy numbers and stipends are decided, the committee noted the lack of detailed information about the new national funding regime due to commence in 2017. This made it particularly difficult to give 2017 estimates at this stage. In addition the committee noted that amongst the many situations it had had to deal with in the last ten years, those arising from actuarial reviews of both the clergy and church workers pension schemes were the most demanding and this ought to be taken into account when drawing up early budget estimates.

12. This will be my last report on behalf of the Budget Committee as I step down as Chairman at the end of this year. It has been a great privilege to serve the Diocese in this way and in thanking officers and committee members for their support over the past ten years may I also, on their behalf, thank both Finance Committee and Diocesan Synod for so graciously supporting the budgets we have proposed.

Addendum



CHELMSFORD DIOCESAN BOARD OF FINANCE - GENERAL FUND BUDGET 2016

Budget 2015					Note (1)	House for Duty	Budget 2016	% change	Notes
Paying the vicar - Parish Ministry Fund									
326.0	Parochial Staff	ministers	Inc status	Resource	Title	22.0			
	Cost and No. of People	317.4	253.4	16.5	47.5				
				(average)					
	Stipend		25,340	25,309	23,510				(2)
	Related Costs		402	402	402				
	National Insurance		2,002	2,539	1,740				
	Pension		9,231	9,100	9,231				(3)
	Council Tax		2,099	1,672	1,696	2,099			
	Water rates		528	421	427	528			
	Insurance		340	271	275	340			
	Parsonage repairs and improvements (gross)		4,682	3,732	3,785	4,682			
	less contribution from capital sales		(1,856)	(1,479)	(1,500)	(1,856)			
	Housing management (80% of total))		944	752	763	944			
	Loan charges, rents, housing credits		1,448	1,154	1,170	1,448			
	In service training		438	438	438	438			
<u>13,400,111</u>			<u>45,597</u>	<u>44,311</u>	<u>41,937</u>		13,281,495	-0.9%	(1)
		increase over 2015	1.9%						
201,263	House for Duty Provision			Barking	Bradwell	Colchester	<u>8,623</u>	189,700	-5.7%
		12.0	4.0	4.0	4.0				
555,862	Area Teams Staff & Expenses		190,466	193,923	193,969		578,359	4.0%	
419,838	Vacancy & Relocations						461,369	9.9%	
Selective Grant Fund									
(2,591,346)	National Church support						(2,637,887)	1.8%	
(1,205,065)	Diocesan Support from Investment income						(1,108,941)	-8.0%	
<u>10,780,663</u>	Parish Ministry Fund (net of national grants & stipends fund etc income)						<u>10,764,095</u>	-0.2%	
Ordination, Training & Central Services Fund									
841,005	Pre-Ordination	2.0					889,748	5.8%	
977,183	Title posts (apportionment of half costs)						996,009	1.9%	(1)
89,371	Lay training	1.0					80,681	-9.7%	
631,199	Archdeacons (plus Area Bishops' houses)	7.0					641,710	1.7%	
311,063	Mission & Ministry Support (incl Pleshey)	4.1					340,686	9.5%	
127,275	Education: schools and childrens' work						139,500	9.6%	
104,129	Mission (incl Canon Theologian)	1.0					102,696	-1.4%	
994,207	Diocesan Services and administration						1,018,240	2.4%	
150,795	Safeguarding Services to parishes						180,632	19.8%	
137,421	Trading & financing costs						140,518	2.3%	
188,500	Parish Legal Services						190,225	0.9%	
603,841	National Church						620,176	2.7%	
50,000	Contingency						50,000	0.0%	
(1,050,000)	Income from Statutory Fees						(1,100,000)	4.8%	
135,000	less Parochial Fees Paid						150,000	11.1%	
480,000	less Fee Credits to parishes						470,000	-2.1%	
(98,576)	Income from other sources						(97,576)	-1.0%	
<u>4,672,415</u>	Ordination Training & Central Services Fund (net)						<u>4,813,244</u>	3.0%	
	Stipendiary Numbers Total	<u>344.5</u>							
<u>15,453,077</u>	Deanery Share Receipts (including all Credits)						<u>15,577,340</u>		
650,000	General Fund Provision for Share Shortfall						650,000		(4)
	(Note: also £250,000 from reserves)								
<u>16,103,077</u>	Deanery Share Apportionment	<u>344.5</u>					<u>16,227,340</u>	0.77%	

- Notes:
- The DSS Budget apportions half the cost of title posts to the Parish Ministry Fund and the remaining half to the Ordination, Training and Central Services Fund.
 - The stipend for incumbents increased by 2% in April 2015 and will increase by 1.5% in April 2016 resulting in an average basic stipend for the period Jan to Dec 2016 of £25,340 This includes the compensation for the extra NI payable for the Second State Pension.
 - The non-contributory pension contribution of £9,231 for incumbents represents a contribution rate of 39.9% of the national minimum stipend. The average amount for resource posts is reduced by lay posts.
 - Parish Share Shortfall provision of £650,000 is at the limit set by budget consultation to be met from the General Fund. Although this continues to be a long-term shortfall aim, it is unlikely to be achieved in the short-term and if expenditure remains as budgeted will require a draw-down from reserves (as below).
(The budget excludes supernumerary clergy and ministers who are separately funded)

Further Notes:

Shortfall Funding

Forecast Parish Share Shortfall 2016	900,000
General Fund Budget Provision (as above)	(650,000)
Deficit funded from Reserves	(250,000)

Chelmsford Diocese General Fund Gross Budget for 2016

Expenditure	£
Parish Ministry	
Parish Clergy	13,275,187
Area Teams	578,479
Vacancies & Relocations	791,369
Training Clergy of the Future	<u>2,890,266</u>
	17,535,301
Support for Parishes and Schools	
Lay Training	112,936
Senior Clergy	641,710
Mission & Ministry Support	723,322
Education & Children	317,500
Diocesan Mission	<u>123,816</u>
	1,919,283
Administration & Legal	1,202,244
National Church	620,176
Other	305,518
Total Expenditure	<u><u>21,582,523</u></u>

Income	£
National Church	
Selective Allocation	2,637,887
	<u>2,637,887</u>
Investments	
Investments	1,068,500
Trust Income	145,000
Glebe Income	<u>345,100</u>
	1,558,600
General Income	1,413,696
Parochial Fees etc	1,115,000
Parish Share Receipts (Net)	14,607,340
Total Income	<u><u>21,332,523</u></u>

Excess of expenditure over income to be met from reserves = £250,000

