

25. Connexional Central Services Budget 2023/24

Contact name and details	Matt Tattersall – Director of Finance & Resources tattersallm@methodistchurch.org.uk
Action required	Decision
Resolutions	<p>25/1. The Conference receives the report.</p> <p>25/2. The Conference approves the revised Reserves Policy.</p> <p>25/3. The Conference approves the budget for 2023/24.</p> <p>25/4. The Conference approves the district allocations of the assessment to the Methodist Church Fund set out in the paper.</p>

Summary of content

Subject of aims	The paper provides the Conference with the opportunity to review and discuss the draft budget proposal.
Main points	<ul style="list-style-type: none"> • Transitional funding is required whilst the Connexional Team is transformed to match the requirements of the Church within the resources available. • There is no flexibility available in the budget to cover any new priorities that the Conference might wish to support. • A new reserve level is proposed.
Background context and relevant documents (with function)	MC/23/11 Financial Planning
Consultations	<p>The allocation of the MCF District Assessment was agreed at a meeting of the District Treasurers in December 2022.</p> <p>The draft budget was agreed by the Methodist Council in March 2023, on the recommendation of the Strategy and Resources Committee.</p>

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Summary of impact

Financial	All parts of the Connexion are affected by the use of Connexional Funds.
Wider connexional	Ongoing reduction in the District Assessment means there is less funding for the Connexional Team and therefore a reduction in the work that the team can undertake.
Risk	Budget assumptions contain inherent risk which is mitigated by taking a balanced approach to setting of both income and expenditure budgets. The overall level of reserve in the key funds protects the Church against unexpected financial shocks.

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Background

- 1 This budget proposal not only covers 2023/24, but projects forward over the subsequent four years. The context for the plan is the need to respond to the growing affordability challenge with the District Assessment and the need to 'right size' the Connexional Team in the light of the available resources. Another key component is the expected release of resources from the Connexional Priority Fund following the reduction in risks associated with the pension schemes.

Scenario Planning

- 2 Over the last two years, the Senior Management Group has developed a number of scenarios for the future of the Church and Connexional Team over the medium term. The 'most likely' scenario shows how the Church has entered a phase of profound transition but that the core purpose of the Connexional Team to support the Church will remain. Further work is being conducted to imagine the Church in ten years' time that will add to this planning.
- 3 In line with previous budgets, the longer-term objective is to ensure that the core work of the Connexional Team can be appropriately funded through the District Assessment. Additional strategies and initiatives would need to be funded from other sources such as the Mission in Britain Fund and the Connexional Priority

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Fund (CPF). However, it is noted that these funds are currently fully committed to existing strategies eg God For All, and there is no flexibility in this budget to meet further initiatives the Conference may seek to approve.

- 4 It is envisaged that many of the Church's properties will become surplus to requirements over the next decade. This will require investment in property, legal and financial expertise to ensure the Church acts as a good steward of these resources. Even if many of these properties are sold at below market value to further the purposes of the Church, it is likely the receipt of capital levies into the CPF will increase.
- 5 However, for the purposes of budget setting, the level of capital levies has been fixed at the current level. This means that any additional levies above the current level would be available to support further expenditure from the CPF.

Reserves Policy

- 6 Having experienced the impact of the recent economic and pandemic shocks to the finances of the church, it is appropriate to review the reserves policy. It is notable that at no point did the Methodist Church Fund actually fall below its reserve level of £7.5million.
- 7 Charity Commission guidance for large charities advocates an integrated approach to assessing reserves alongside strategic planning, budgeting and risk management.
- 8 A financial risk analysis has been undertaken against all the known risks as identified in the risk register and through an analysis of the MCF income and expenditure. This approach advocates the setting of a reserve level in the range of £5million to £6million. On the advice of the Finance Sub-committee and Strategy and Resources Committee the Methodist Council has reviewed this analysis and recommends this revised reserve level to the Conference.

District Assessment

- 9 It had previously been agreed by the Conference to reduce the District Assessment (DA) by 1% in 2021/22, 2% in 2022/23 and 3% in 2023/24. This was based on inflation running at 2% and therefore the overall real terms cost to the Connexional Budget over the three years being c12% or c£1.7m. These reductions were in response to the ongoing reduction in church membership and the perceived ability to pay.

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- 10** The 3% reduction in 2023/24 was to be funded from the changes to Oversight and Trusteeship and particularly the reduction in the number of Districts. As the Conference of 2022 did not support the proposals to reconfigure the district boundaries, these savings are no longer available.
- 11** In addition, the significant increase in inflation over the last twelve months makes it even harder to absorb the full value of the 2023/24 absolute cut in the DA. Nevertheless, the affordability of the DA for a Church whose membership is in numerical decline continues to present challenges right across the Connexion. Therefore, the proposed budget includes an assumption that inflation has to be passed through to the DA, but then in each year for the next 5 years, the DA will fall in real terms by three percentage points. The cumulative effect of this will be a cut in DA of 15% in real terms by the end of 2027/28.
- 12** With inflation of 9% in 2023/24 the proposed increase in the DA is set at 6%. Anticipated inflation in future years is around 3% and therefore the overall change to the DA from 2024/25 onwards is approximately 0%.
- 13** The District Assessment is apportioned among the Districts using stationing and staffing numbers (with presbyters/deacons as equivalent to 1.5 of a lay worker), with the annual change per District being restricted to a maximum increase of 3%

Table 1: 2023/24 MCF Assessment by District

	District	£		District	£
2	Wales Synod Cymru	530,326	21	Lancashire	446,091
5	Birmingham	554,750	22	Nottingham and Derby	660,596
6	Bolton & Rochdale	302,337	23	Northampton	768,016
7	Bristol	597,091	24	Plymouth and Exeter	510,192
9	Cumbria	215,578	25	Sheffield	475,025
10	Channel Islands	113,700	26	Southampton	634,665
11	Chester and Stoke	501,549	27	Yorkshire West	766,475
12	Cornwall and the Isles of Scilly	375,467	28	Wolverhampton & Shrewsbury	562,924
13	Darlington	342,419	29	Yorkshire North & East	608,741
14	East Anglia	554,973	31	Scotland	157,325
15	Isle of Man	66,547	32	Shetland	19,029
17	Lincolnshire	289,779	34	Beds, Essex & Herts	525,819
18	Liverpool	353,681	35	London	1,429,226
19	Manchester & Stockport	515,660	36	South East	744,269
20	Newcastle	563,358		TOTAL	14,185,605

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above or 4% below the average uplift. The provisional figures based on an overall increase of 6% were agreed by the District Treasurers in December 2022.

Pension Reserve Fund (PRF)

- 14** It is assumed that payments to the PRF will be suspended from 2023/24. This is in line with recommendations the Council is making to the Conference in relation to the pension schemes.

Financial Balance

- 15** It is necessary for the Methodist Church Fund (MCF) budget to achieve financial balance in the medium term. The use of reserves will support the budget position over the next 3 years, with recurrent financial balance achieved around 2026/27. Should the profitability of Methodist International Centre return to pre-pandemic business plan levels, financial balance may be restored more quickly.

Inflation

- 16** The 2022/23 budget includes an allowance for 2% pay inflation (4.4% stipend inflation) and no inflation on anything else. However, with actual inflation (CPI) at over 11% the pay scales will need to be addressed from September 2023. Ahead of further consideration of the pay issues by the pay and grading committee, it is assumed that pay budgets will need to increase by 8% to correct the shortfall in 2022/23 pay, and a further 4% to cover 2023/24 inflation.
- 17** It is assumed that the remainder of the budget will need to increase by 5% in 2023/24 (partly to correct the shortfall in budget in 2022/23) and 2% from 2024/25.

Other budget issues

- 18** In response to a Memorial the Conference requested a review of the funding for non-separated Chairs. Reflecting the increased connexional workload for non-separated Chairs, the Connexional Allowances Committee is recommending that the costs of the basic stipend are split 50%:50% between the Methodist Church Fund and the District. In addition, the MCF will continue to fund the 16% island allowance and the 10% Chair's uplift.

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Connexional Priority Fund

- 19** Due to the increase in property levies above plan, the CPF has an available balance of £1.5m unallocated (all other monies in the CPF being allocated to God For All, or other existing commitments). In addition, as highlighted above, it is likely that the current level of payments from the CPF to the PRF will cease from September 2023, freeing up a further £4.5m per annum minimum for perhaps the next decade.
- 20** In these circumstances it would be possible to reduce the property levy accordingly. However, as the wider Connexion already has c£300m in unspent funds, simply adding to this by reducing the property levy would not be effective stewardship nor a very strategic response.
- 21** Therefore, it is proposed that the additional funds in the CPF are used to fund the transition from the Church of today to whatever the transformed Church of 2032 looks like. The key priorities will be to:
- support the Church's ambition to achieve net zero carbon by 2030;
 - support the ongoing real terms reduction in the District Assessment;
 - offset the savings lost because of the decision on district reorganisation;
 - fund the additional resources needed for the Church to divest itself effectively of surplus buildings;
 - fund the costs associated with developing a transformation plan eg, project management; and,
 - fund the consequences of any such plan (eg, redundancies).
- 22** The consequence of this will be to adjust the use of the property levy as follows:

	Current	Proposed
Pension Reserve Fund	45%	-
District Advance Funds	27.5%	30%
Connexional Priority Fund including Transformation and Action for Hope	21.5%	70%
Methodist Church Fund	6%	-

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Mission in Britain (MIB) Fund

- 23 It is assumed that the MIB Fund will continue to fund God For All (GFA); Methodist Action on Poverty & Justice; Heritage; Justice Dignity and Solidarity, and contribute to the Church's commitment to zero carbon by 2030. In addition, an allocation has been made to the Mission budget of £100k to £150k to support the instigation of an anti-poverty movement, aiming to put the moral case to end UK poverty at the heart of the public debate.

World Mission Fund

- 24 It is assumed that the Global Relationships Committee will continue to spend down to reserve levels and that ongoing expenditure will be restricted to the level of ongoing income.

Epworth Fund

- 25 The Epworth Fund is used to meet the cost of One Programme Participants (OPPs). The number of OPPs is due to increase in line with the funding agreed for the GFA strategy.
- 26 It is also proposed to continue to use the fund to meet the costs of the connexional IT strategy including implementation costs plus ongoing revenue costs of £165k per annum.
- 27 The Conference has previously resolved to use any free reserve balance of the Fund for the benefit of the GFA strategy.

Summary of Parameters

- 28 The overall planning assumptions can be summarised as follows:

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	2023/24	2024/25	2025/26	2026/27	2027/28
Pay inflation	12%	4%	4%	4%	4%
Other inflation	5%	2%	2%	2%	2%
Increase/(Decrease) in MCF District Assessment	6%	0%	(0.1%)	(0.2%)	(0.3%)
Budget for transformation	£0.5m	£0.5m	£0.5m	-	-
Contribution from CPF	£2.5m	£2.5m	£2.5m	£2.5m	£2.5m
MCF Income	£19.4m	£18.9m	£18.9m	£18.9m	£18.9m
MCF Expenditure	£19.3m	£19.6m	£20.1m	£20.3m	£20.8m
MCF Deficit	(£0.1m)	£0.7m	£1.2m	£1.4m	£1.9m

NB The inflation figures for 2024/25 onwards are indicative and will be updated each year. This will then alter the District Assessment figure each year, though the overall impact will always be to achieve a three percentage point real terms reduction.

- 29 The rationale for producing a five-year plan is to give certainty as to how the forthcoming transition is to be funded. Many of the numbers in the plan could be changed, not least if property sales increase, and the transition period could be extended. However, at some point, the work of the Connexional Team must be radically reformed to serve the Church of tomorrow, rather than the Church of today. Therefore, one of the primary objectives of the transformation programme will be to determine what cuts to the Team will be implemented, and when, to address the c£4.3m deficit (23% of the current budget) that will emerge using the assumptions set out in this paper. However, in line with the usual approach, budgets by Activity have only been produced for the forthcoming three years.

Budget Proposal

- 30 The total budget can be seen in the table below:

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Table 2 Connexional Central Services Budget: overall income and expenditure

Activity	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
Income				
Central Income	22,034	25,016	25,103	25,096
Income Generating Centre	614	2,253	2,575	2,575
Global relations	2,710	2,020	1,741	1,687
Evangelism & Growth	1,475	1,085	1,099	1,089
Ministries	846	986	967	962
Central Functions	1,275	947	541	509
Property	560	513	510	528
Others - Pensions	872	261	248	248
Children & Youth	120	150	160	175
Methodist Council & Governance	142	143	144	144
Learning Network	5	3	3	3
Total	30,653	33,377	33,091	33,016
Expenditure				
Evangelism & Growth	7,832	12,397	12,627	12,592
Central Functions	6,736	7,608	7,060	6,920
Global relations	8,306	6,420	1,627	1,617
Ministries	5,126	5,648	5,812	5,990
Methodist Council & Governance	3,992	4,280	4,431	4,672
Others - Pensions	5,675	2,555	2,555	175
Learning Network	2,410	2,499	2,593	2,688
Children & Youth	1,717	1,521	1,733	1,778
Building communities	1,123	1,229	1,241	1,285
Property	743	850	871	903
Total	43,660	45,007	40,550	38,620
Net Deficit	(13,007)	(11,630)	(7,459)	(5,604)

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- 31** The increase in income in 2023/24 reflects the inflationary uplift to the Assessment, additional capital levies and improvement in the performance of the trading entities.
- 32** The increases in expenditure in 2023/24 is largely attributable to the impact of inflation, additional allocations funded by capital levies, partly offset by a slowing in World Mission spend as it nears its reserve level.
- 33** The deficit in each year largely reflects the decision of previous Conferences to reduce the reserve levels of the main Connexional Funds and also the expenditure from the Pension Reserve Fund into the pension schemes.
- 34** The Methodist Church Fund (MCF) budget can be seen in the table below:

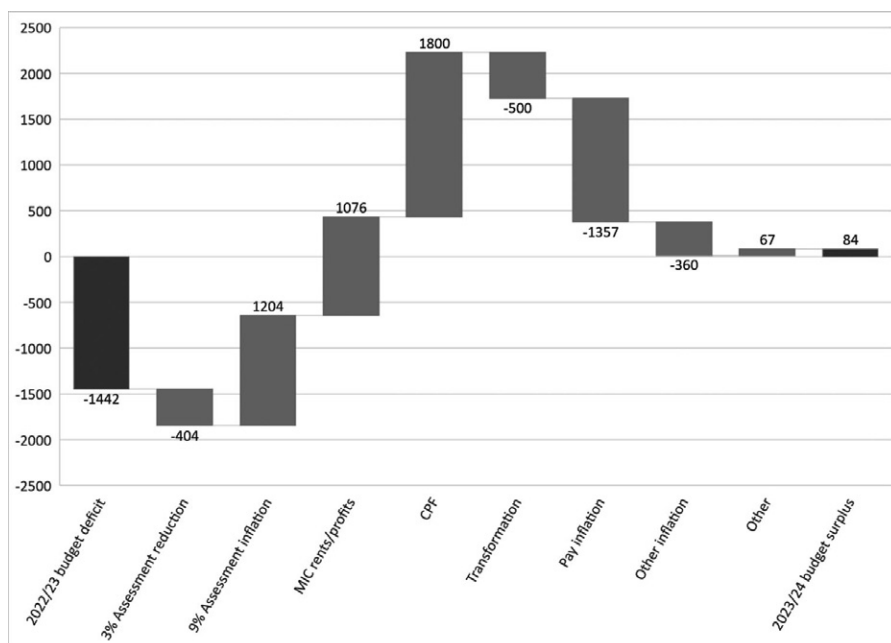
Table 3 Methodist Church Fund Budget: income and expenditure

Activity	2022-23 £'000	2023-24 £'000	2024-25 £'000	2025-26 £'000
Income				
Central Income	15,361	18,269	18,138	18,091
Central Functions	1,275	947	541	509
Property	165	168	167	184
Methodist Council & Governance	142	143	144	144
Children & Youth	120	150	160	175
Global relations	7	0	0	0
Evangelism & Growth	1	1	11	1
Ministries	0	2	2	2
Total	17,071	19,680	19,163	19,106
Expenditure				
Central Functions	5,814	6,408	6,191	6,220
Methodist Council & Governance	3,792	4,075	4,221	4,457
Learning Network	2,411	2,499	2,593	2,688
Ministries	2,221	1,810	1,884	1,992
Children & Youth	1,317	1,472	1,511	1,545
Evangelism & Growth	1,226	1,367	1,400	1,361
Building communities	866	961	963	1,000
Property	527	644	675	707
Global relations	339	360	376	392
Total	18,513	19,596	19,814	20,362
Net Deficit	(1,442)	84	(651)	(1,256)

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- 35** The small surplus in 2023/24 is largely consequent on the transitional support provided from the Connexional Priority Fund (CPF). As the District Assessment continues to fall in subsequent years, the deficit starts to increase. NB in 2028/29 when the transitional support has ended, the total annual deficit will exceed £4m indicating the need to implement a transformation plan over the next 5 years.
- 36** The main movements in the budgeted MCF from 2022/23 to 2023/24 can be seen in the waterfall chart below:

Chart 1: Change in the MCF Budgeted Deficit from 2022/23 to 2023/24



Funds

- 37** The budgeted fund balances can be found at appendix 2. It remains the aim to reduce balances in restricted funds where possible before allocating budgets against unrestricted funds.

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***RESOLUTIONS

- 25/1. The Conference receives the Report.
- 25/2. The Conference approves the revised Reserves Policy.
- 25/3. The Conference approves the budget for 2023/24.
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Appendix 1: Resource Activities

Activity	Areas covered
Building communities	Ecumenical, Interfaith, Joint Public Issues Team, Forces Board, Communications
Children, youth and families	Children, youth, families, education, 3Generate
Evangelism and Growth	Evangelism and Growth, Heritage, Action for Hope
Global relations	World Church, World Meth Council; Mission Partners
Learning Network	The work of the Learning Network regions across the Connexion
The Conference, Council & Governance	The Conference, Presidency, Secretary of Conference, Council, Faith & Order, District Chairs, Law & Polity, Legal, Safeguarding, Justice, Dignity and Solidarity
Ministries	Initial ministerial training, ministerial development, ministerial oversight, ministerial grants, Diaconal order
Central Functions	Finance; IT; Procurement; Human Resources; Facilities/ Front of House; Corporate; Connexional Secretary
Property	Property team, connexional manses, property projects, property grants

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Appendix 2: Fund Balances

Fund	Opening	2022/23	2023/24	2024/25	2025/26	Closing
	Balance	2022/23	2023/24	2024/25	2025/26	Balance
	£'000	£'000	£'000	£'000	£'000	£'000
MCF General	28,717	(1,442)	84	(651)	(1,255)	25,453
Auxiliary Special Purposes	590	(39)	(43)	(44)	(44)	421
Trinity Hall Trust	1,043	(2)	(13)	(14)	(14)	1,000
Lefroy Yorke Trust - Endowment Fund	940	(0)	45	67	67	1,119
Barratt Memorial	1,273	(1)	(1)	(1)	(1)	1,267
Rank - Endowment Fund	7,314	(1)	321	482	482	8,599
Marshall Scholarship - Endowment Fund	3	0	0	0	0	3
Necessitous Local Preachers - Endowment Fund	212	0	0	0	0	212
Strawson Gift - Endowment Fund	7	0	0	0	0	7
William Leech Charities - Endowment Fund	9,809	207	207	207	207	10,637
Aspinall Robinson Trust (MDO Holiday Fund)	728	2	9	8	8	756
MDO Surplus Funds	581	(6)	(9)	(8)	(8)	550
Archives Revenue Fund	18	0	(10)	0	0	8
WG Barratt - Income	0	29	(29)	0	0	0
Connexional Priority Fund	10,558	(1,099)	(2,251)	(2,494)	(2,519)	2,195
Epworth Fund	7,128	(1,669)	(1,187)	(1,062)	(947)	2,263
Pension Reserves Fund	50,076	(1,294)	(2,382)	(2,393)	(13)	43,995
Beckley Trust	3	(0)	(0)	(0)	(0)	3
Necessitous Local Preachers - Income	9	5	3	3	3	23
Borries Bequest - Endowment	29	0	0	0	0	29
Modern Christian Art- Development	28	(3)	(3)	(3)	(3)	16
Forces Chaplaincy Revenue	544	(54)	(125)	(56)	(58)	250
Methodist Heritage	8	0	(5)	0	0	4
Mission in Britain Fund	6,386	(1,235)	(1,177)	(1,152)	(1,104)	1,719
Mission in Business Industries and Commerce	446	7	4	4	4	466
Lay Mission Superannuation	411	14	21	20	20	486
Connexional Travel Fund	0	(4)	4	0	0	0
Sabbatical Fund	51	21	11	11	11	105
Fund for the Support of Presbyters & Deacons	9,294	(609)	(700)	(631)	(654)	6,699
Medical Benevolent Fund	2,385	(24)	(4)	18	18	2,394
Ministers Children's Relief Association	2	(9)	7	0	0	(0)
Listed Buildings	22	0	0	0	0	22
Fund for Property	1,247	142	114	124	126	1,753
Special Extension Fund	2,292	31	65	88	88	2,563
Fund for Training	2,373	129	120	116	115	2,853
Long Term Renewal Fund	427	6	9	9	9	459
Overseas Student Work	330	6	4	3	3	346
Centenary Hall Trust	27,719	(22)	109	137	137	28,081
World Mission Fund	15,452	(6,097)	(4,833)	(253)	(285)	3,985
Benevolent Fund	393	6	4	4	4	411
MIC Trust	21,592	0	(0)	0	0	21,592
Oxford Institute	109	0	0	0	0	109
Designated Training Fund	2	(2)	(0)	(0)	(0)	0
Langley House Trust	88	0	0	0	0	88
Total	210,651	(13,007)	(11,629)	(7,458)	(5,604)	172,952