

Financial Planning

MC/24/16

Date of meeting	29-30 January 2024
Contact name and details	Matt Tattersall – Executive Director of Finance and Resources tattersallm@methodistchurch.org.uk
Action required	Decision
Resolutions	16/1. The Council receives the report. 16/2. The Council approves the financial planning parameters. 16/3. The Council approves the proposed way forward for the funds listed in Appendix 1 and notes that, where required, formal resolutions to bring effect to the changes will be brought to a subsequent Council meeting.

Summary of content

Subject of aims	The paper provides the Council with the opportunity to review the assumptions for financial planning and budget setting.
Main points	The approach to financial planning needs to reflect a transition from the Church that we are to the Church we are to become. The Conference agreed significant changes in 2023 and these are reflected in the proposals.
Background context and relevant documents (with function)	Connexional Central Service Budget 2023/24 CCSB 2023
Consultations	Senior Management Group Finance Sub-committee SRC

Summary of impact

Financial	All parts of the Connexion are affected by the use of Connexional Funds.
Legal including impact on other jurisdictions	There may be a need for application to the Charity Commission where fund purposes cannot be found.
Wider connexional	A reduction in the District Assessment will necessitate a reduction in the work that the Team can undertake in the longer term.
Risk	Budget assumptions contain inherent risk which is mitigated by taking a balanced approach to setting of both income and expenditure budgets. The allocation of the budget should address the key risks identified in the risk register. The overall level of reserve in the key funds protects the Church against unexpected financial shocks.

Background

- 1 Each year at its meeting in November, the Strategy and Resources Committee (SRC) considers the key parameters and provides guidance to the Connexional Team for the setting of the subsequent year's Connexional Central Service Budget (CSSB).
- 2 Last year, the Conference agreed broad parameters that covered five years. It is in this context that this year's planning parameters are proposed. Central to this is an understanding that the District MCF Assessment should fall by 3% per annum in real terms over those five years. The SRC expects to devote significant time to the short and medium term budget at its meeting in February 2024. This report brings to the Council's attention a range of issues that will be factored in to this work along with the current budget parameters being used.

Scenario Planning

- 3 The Senior Management Group has continued to keep under review a number of scenarios for the future of the Church and Connexional Team over the medium term. This led to the SRC agreeing some strategic planning parameters at its September meeting to support the work required on Transformation and Change within the Team and the wider Church.

Medium term financial planning

- 4 It is already evident that the volume and value of property sales have increased. Total receipts increased from £45.4m in 2021/22 to £63.1m in 2022/23. It is anticipated this level will be sustained for a number of years generating significant resources for reinvestment at circuit level, and also providing significant levy income (£15m in 2022/23) into the Connexional Priority Fund.
- 5 Following the improvement in the funding position of the pension schemes, contributions from property levies in to the Pension Reserve Fund (PRF) have been suspended. Therefore, the full £15m of forecast levy income is available for spending, 30% allocated to the District Advance Funds, and 70% to connexional priorities.
- 6 The Conference has agreed the connexional priorities to be:
 - supporting the Church's ambition to achieve net zero carbon by 2030;
 - supporting the ongoing real terms reduction in the District Assessment;
 - offsetting the savings lost because of the decision on district reorganisation;
 - funding the additional resources needed for the Church to divest itself effectively of surplus buildings;
 - funding the costs associated with developing a transformation plan (eg project management);
 - funding the consequences of any such plan (eg redundancies)
- 7 Resources are already being committed to transformation including support to districts that are exploring merger. It is likely that some general provisions to fund transformation will be required in the budget to allow time to work through more detailed planning.
- 8 Whilst it can be covered under the heading of transformation, it is proposed that the connexional priorities are expanded explicitly to cover:
 - evangelism and growth (the follow on from the existing God For All strategy), and
 - developing a digitally enabled church (the scope of this requires further work, but the priority recognises that digital will become a more significant tool for delivering *Our Calling* in the years ahead).
- 9 Having agreed that a priority is to "offset the savings lost because of the decision on district reorganisation" means that savings that do now accrue from district reorganisation are not required to help balance the MCF budget until 2028/29. This means that these savings can be reinvested in district structures up until 2028/29 to support the transition to new ways of working.

Pensions

- 10 As previously reported, the situation with the pension schemes has been transformed over the last two years. For the purposes of this paper, it is assumed that the financial risk from both schemes is now largely mitigated, and that the voluntary donations to the PRF made in 2021/22 will be repaid with interest at some point in the future.

District Assessment

- 11 It is already agreed that the District Assessment will fall in real terms by 3%. CPI Inflation is currently 6.3% and therefore the net uplift will be 3.3%. The usual cap and collar mechanism has been applied to the Assessment calculation to determine the values by District (a maximum increase 3% above the average, and a maximum reduction of 4% below the average). These numbers were approved by the District Treasurers' Forum in November 2023.

Fund Balances

- 12 Work has continued over a number of years to ensure that all Connexional Funds are being used in the support of *Our Calling*. As the Connexional Team does not hold source documentation for some of these funds, meetings have been held with TMCP to review the purposes and supporting documentation they hold.
- 13 The table in Appendix 1 contains information from TMCP about each fund affected. It also contains proposals as to the next steps that are necessary to progress matters.
- 14 Work is on-going with TMCP to draft the necessary resolutions for future consideration by the Council. In some cases, this will be all that is required, but in most instances there may be subsequent resolutions required of the TMCP Board, subsequent applications being made to the Charity Commission, and in at least one case a resolution will need to go to the Conference.
- 15 The Council is asked to review the proposals and agree the principle of the next steps. Work will continue to draft appropriate resolutions to bring to a future Council meeting.

Reserve policy

- 16 Having reviewed and amended the reserves policy in 2022/23, no changes are proposed this year.

Financial Balance

- 17 The underlying 2023/24 MCF budget shows a deficit of c£2.5m. In last year's iteration of the financial plan, it was assumed that this deficit would continue to grow as the Assessment declined by 3% per annum. To mitigate the deficit, £2.5m per annum of financial support from the Connexional Priority Fund was built into the budget for a transitional period of five years. This provided time for the implementation of the transformation and change programme that would see a significant change to the scope and scale of the Connexional Team.
- 18 Whilst this broad assumption remains true, it is increasingly evident that the total resources available over the next five years are likely to be greater than projected last year. It is also evident that the scale of change required across the Church will require more support from the Connexional Team, not less. Whilst the overriding priority is for a reduction in the scale of the Team in the longer term, in the shorter term, this is likely to look more like a refocusing of the current resources, rather than a reduction.

Inflation

- 19 It is proposed that the general inflation to be used in the 2023/24 budget is based on the figures published in October 2023. The longer term rates for the five year plan will use the OBR estimates published alongside the Autumn Statement. Having brought pay rates back in line with current inflation as at September 2023, it is proposed to continue setting the pay budget using similar principles to the setting of the stipend uplift – 50% of the uplift based on changes in average earnings and 50% based on inflation. However, instead of using CPI inflation (as is the case for stipends), the CPIH measure will be used (as this includes housing costs). As the stipend uplift is calculated based on September CPI, the relevant figures are as follows:
- Pay inflation: $(50\% \times \text{Average earnings } 6.9\%) + (50\% \times \text{CPIH } 6.3\%) = 6.6\%$
 - Stipend inflation: $(50\% \times \text{Average earnings } 6.9\%) + (50\% \times \text{CPI } 6.7\%) = 6.8\%$
- 20 It is assumed that the remainder of the budget will need to increase by 5% in 2024/25 and 2% from 2025/26.

Mission in Britain (MiB) Fund

- 21 It is assumed that the MiB Fund will continue to fund mission activity post the God For All strategy to the extent that income will support the expenditure.

World Mission Fund

- 22** It is assumed that the Global Relationships Committee will continue to direct the spending down to reserve levels of the World Mission Fund and that ongoing expenditure will be restricted to the level of ongoing income. Donations from William Leech are assumed to continue at current levels, but this assumes significant changes in the structure of the William Leech organisation that require the support of the Methodist Council.

Epworth Fund

- 23** It is assumed that the Epworth fund continues to be directed towards investment in IT infrastructure.

Timetable

- 24** The timetable for budget setting follows last year's process and is:
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|--------------------|------------------------------------------------------------------------------------------------------------------------------------|
| 14 November 2023 | FSC consider budget parameters and approach |
| 29 November 2023 | SRC recommend budget parameters and approach |
| 3 January 2024 | Detailed budget setting commences |
| 29 January 2024 | Council approves budget parameters |
| February 2024 | FSC reviews activity budgets |
| 27 February 2024 | SRC recommend activity budget allocation |
| 28 February 2024 | Deadline for completing detailed budget setting |
| 28 Feb-13 Apr 2024 | FSC agrees electronically any amendments required to the budget allocations in light of the outcome of the detailed budget setting |
| 13 Apr 2024 | Council approves the activity budget allocations |

*****RESOLUTIONS**

- 16/1. The Council receives the report.**
- 16/2. The Council approves the financial planning parameters.**
- 16/3. The Council approves the proposed way forward for the funds listed in Appendix 1 and notes that formal resolutions to bring effect to the changes will be brought to a subsequent Council meeting.**

Appendix 1

Table of unused funds

Name	Amount	TMCP information	Proposed next steps
Beckly Trust	£3k	Is a permanent endowment originally given to the Wesleyan Temperance & Social Welfare Committee where income is to be applied for: £50 to the lecturer who should hand over the lecture transcript which should be less than 15,000 words Surplus towards the cost of publication and circulation of the lecture	Ask the Conference to amend the Trust purposes and also release the capital so this fund can be used for the costs of the Beckly lecture and then closed once the monies are used.
Overseas Student Work	£328k	There is no documentation explaining this fund.	It is believed this fund is for overseas students studying in Britain. Use the monies to support students/others placed in GBR. To be overseen by the Global Relationships Committee (GRC). Liaise with TMCP about the need or otherwise to clarify the purposes.
Special Extension Fund	£2.3m	Created in 1927 from donations to a Special Appeal to provide aid towards the erection of new chapels in new populated areas. It was intended to create grants that were separate and in addition from any grants made from the main Fund for Property.	Given that the monies derive from a specific appeal where purposes were declared, an application to the Charity Commission could be made to seek that the trust be released. Make the case that this is needed for net-zero purposes.
Sale of 26 St James Rd	£619k	The property was the successor to the founding home of the Order at Ilkley. In 2014 the Methodist Council resolved to sell the property and designate the sale proceeds for Methodist Diaconal Order (MDO).	The fund is currently used for MDO training, but the fund is not restricted for this purpose. Subject to discussion with the MDO, the monies could be transferred to the main MDO fund.
Mission in Business Industries & Commerce (MIBIC) -Luton Industrial College	£444k	The Investment Schedule suggests that this is an endowment.	It is proposed to use these funds for New Places for New People projects that are in a business/commerce context. Request release of the endowment (if it is indeed an endowment).
Luton industrial College Southdown Project (Tolpuddle)	£17k	No information.	Investigate with former MIBIC committee members what this might be. Failing that, seek to transfer it in to the MIBIC fund as above.

Benevolent Fund	£390k	Appears to be another Trustees for Methodist Church Funds (TMCF) trust but no supporting paper work on file. It could possibly be transferred to Trust 18252 (see under FSPD) but our database indicates that the managing trustees are the Fund for World Mission.	Bring under GRC oversight for the use of supporting Mission Partners.
Langley House Trust	£91k	This is not invested with TMCP and we have no prior knowledge of the trust. TMCP hold the properties (formerly TMCF(R) were the custodian trustee) as custodian trustee. We are therefore unsure why any funds associated with this trust would also not be held by TMCP as we replaced TMCF(R) as custodian?	It is believed this relates to the repair and maintenance of the Langley House properties. Use the monies to offset the losses when the properties were sold and credit the funds to the Fund for Property.
Marshall Scholarships	£3k	This is a Scottish trust and therefore governed by OSCR and not the Charity Commission Primary purpose to provide scholarships awarded by the General Committee of Theological Colleges, if this failed Secondary purpose for Home Mission & Evangelistic work of the Methodist Church in Scotland Possibly look to have transferred to the Relief & Extension Fund for Methodism in Scotland (T12123)	Transfer to the Scotland District.
Borrie bequest	£28k	Another Scottish bequest Although left to the then Home Mission Society the income is to be applied for missionary purposes in the Scotland District	Transfer to the Scotland District.