

Draft Connexional Central Services Budget for three years commencing with 2022/23

MC/22/46

Date of meeting	2-4 April 2022
Contact name and details	Matt Tattersall - Director of Finance and Resources tattersallm@methodistchurch.org.uk
Resolutions	46/1. The Council receives the report. 46/2. The Council adopts the draft budget for 2022/23. 46/3. The Council recommends to the Conference the district allocations of the assessment to the Methodist Church Fund set out in the paper.

Summary of content

Subject of aims	The paper provides the Council with the opportunity to review and discuss the draft budget proposal.
Main points	<ul style="list-style-type: none"> The SRC has undertaken further reflection on the key strategic budget assumptions. The MCF budget is now forecast to achieve breakeven in 2025/26. It is proposed to use the surplus from the sale of MCH to: i) ensure the MCF reserve does not fall below its reserve level as the budget recovers from the pandemic over the next three years, and ii) to contribute to the Church's efforts at carbon reduction. The savings flagged to the 2021 Conference for delivery between 2022 to 2025 are confirmed as being required. There is no flexibility available in the budget to cover any new priorities that the Conference might wish to support.
Background context and relevant documents (with function)	<p>Connexional Central Service Budget 2021/22 Conference 2021 Agenda Volume 1 (methodist.org.uk) Revised Connexional Central Services Budget for the three years commencing 2021/22 Methodist Conference 2021 Daily Record (page 60) MC/22/12 Context of establishing the Connexional Central Services Budget</p>
Consultations	The budget was reviewed by the FSC on 10 February 2022 and SRC on 23 February 2022 and is recommended for approval.

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	<p>Budget assumptions contain inherent risk which is mitigated by taking a balanced approach to setting of both income and expenditure budgets.</p> <p>The overall level of reserve in the key funds protects the Church against unexpected financial shocks.</p>

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Background

- 1 This is the third year in which the budget has been set based on allocations at 'activity' level (see Appendix 1 for a description of the 'Activities'). Once approved by the Methodist Council these allocations will be used to set departmental level detailed budgets.
- 2 Since the 2021/22 budget was presented to the 2021 Conference there have been some key changes to the underlying assumptions that impact the MCF budget in 2022/23 onwards:
 - the 2020/21 outturn was significantly better than plan due to higher than anticipated investment returns, higher than planned levies and ongoing reductions in expenditure due to the pandemic;
 - gift aided profits from the Wesley hotel will be lower than planned for 2021/22 and the subsequent two years, and
 - pay inflation is now assumed to average 2% per annum (lay staff) and 4.24% per annum (ministers) rather than 1% over the next three years alongside the additional costs of National Insurance increases.
- 3 This means that the indicative savings previously outlined are now confirmed as being required (see paragraph 22 below). However, they will not be sufficient to restore the Methodist Church Fund (MCF) to a balanced budget over the next three year period. It is anticipated that only when The Wesley hotel returns to delivering against its business plans in 2025/26 will this allow the MCF budget to move in to surplus.
- 4 Following approval of the budget parameters paper (MC/22/12) the SRC has taken the opportunity to reflect further on the strategic budget assumptions. The outcome of this work is found in paragraphs 5 to 22.

District Assessment

- 5 The draft budgets for 2022/23 and 2023/24 presented to the Conference of 2021 included a reduction in the District Assessment of 2% and 3% respectively. This remains the basis of our financial plans with the District Assessment then remaining fixed. However, the assumption for 2024/25 and onwards will remain under review and should the Conference require the Team to undertake more work, then the Assessment would need to start to increase once again.
- 6 The District Assessment is apportioned among the Districts using stationing and staffing numbers (with presbyters/deacons as equivalent to 1.5 times that of a lay worker), with the annual change per District being restricted to a maximum increase of 5% and a maximum decrease of 2%. The provisional figures based on an overall decrease of 2% were agreed at the District Treasurers Forum in October 2021.

Table 1: 2022/23 MCF Assessment by District

	District	£		District	£
1	Cymru	60,041	20	Newcastle	543,806
2	Wales	458,925	21	Lancashire	436,535
5	Birmingham	508,945	22	Nottingham and Derby	646,445
6	Bolton and Rochdale	279,633	23	Northampton	704,602
7	Bristol	584,300	24	Plymouth and Exeter	468,066
9	Cumbria	210,960	25	Sheffield	435,802
10	Channel Islands	108,434	26	Southampton	583,223
11	Chester and Stoke	460,137	27	Yorkshire West	738,546
12	Cornwall	367,424	28	Wolv. and Shrewsbury	536,353
13	Darlington	334,184	29	Yorkshire North & East	558,478
14	East Anglia	509,149	31	Scotland	144,335
15	Isle of Man	61,052	32	Shetland	18,621
17	Lincolnshire	274,634	34	Bedfordshire, Essex & Herts	497,387
18	Liverpool	336,651	35	London	1,311,216
19	Manch. and Stockport	501,119	36	South East	703,642
				TOTAL	13,382,645

Financial Balance

- 7 It is necessary to ensure that the budget returns to financial balance over a reasonable period and that the Methodist Church Fund reserve is restored to its reserve level over a reasonable period.
- 8 It is currently assumed that financial balance is achieved in 2025/26. It is also assumed that proceeds from the sale of Methodist Church House (MCH) will prevent the MCF reserve falling below its agreed target level.

Property Levies

- 9 The budget has been set on the basis that the property levies continue at a similar level to the last two years (c£8m per annum). This will benefit the Pension Reserve Fund (PRF), the District Advance Funds (DAFs), the Connexional Priority Fund (CPF) and to a lesser extent the MCF.
- 10 However, it is possible that property sales may increase in the coming few years and could lead to a windfall for the funds mentioned above. It may be necessary in the coming years to consider how such a non-recurrent benefit should be used to support the budget.

Project funding

- 11 The MCF should exist to ensure funding of core Connexional Team costs and that projects, initiatives and strategies will need to be funded from other sources such as Mission in Britain (MiB) and the Connexional Priority Fund (CPF).
- 12 It is anticipated that MiB and CPF will be able to meet the majority of costs associated with the God For All (GFA) and Justice Dignity & Solidarity (JDS) strategies. As it is proposed that those funds will also need to meet the consequences of the net-zero carbon aspiration, it is highly unlikely that any further initiatives can be afforded. This means there is no flexibility in the budget to meet any further initiatives that the Conference may seek to approve. Any new work approved would have to come at the expense of stopping existing work.
- 13 It will also need to be understood that the scale and pace of these strategies may need to flex as the more variable funding flows in to CPF and MiB impact affordability.

Action for Hope

- 14 Whilst no specific budget has been set for the impact of achieving the net zero carbon target, it is expected this will be funded from MiB and/or CPF. It will be necessary to continue to assume a minimum of in-person meetings.
- 15 The budget makes no allowance for changes in investment income that may result from changes in

approach to investing in light of Action for Hope.

Connexional Team structure

- 16** Given the need to temporarily relocate the Team this summer and to plan for the fit out and opening of new MCH in c18-24 months, there is no capacity to undertake further restructuring of the Connexional Team at this time beyond those changes already agreed or proposed. However, all areas of the Team will need to continue to look for ongoing savings and staff number reductions where the opportunity arises. Instead, the next period should be used to consult widely across the Connexion about what services the Team provide that are valued by the Church to assist in prioritising before any further major cuts are proposed.
- 17** The indicative savings target of £100k for 2022/23 has already been achieved through staffing reductions in excess of £200k.

Methodist Church House

- 18** It is assumed that the sale of 25 Marylebone Road. will generate a surplus. This is after the repayment of the loan between the Centenary Hall Trust and the World Mission Fund, the costs for the interim office, and the purchase and refurbishment of the new Methodist Church House. Subject to complying with the requirements of the Centenary Hall Trust, this surplus will be used for two purposes. Firstly, it is proposed that it be used to help maintain the MCF reserve at its target level as Connexional Funds continue to be impacted by the pandemic. Secondly, it will be used to recognise the role of MCH as the former Mission House, with funds put towards achieving the Church's net-zero carbon aspiration – this being the single biggest impact the Methodist Church in Great Britain can have on its partners around the world.
- 19** Whilst it is likely that both the interim office arrangements and 25 Tavistock Place will cost less to operate than 25 Marylebone Road, it is too soon to estimate or include these reductions in this draft budget.
- 20** Plans for establishing upgraded IT infrastructure off site ahead of the interim office move (thus avoiding the need to relocate physical servers) are being developed. The costs are likely to be significant but are currently not known and therefore unbudgeted. They will be funded from the proceeds of sale from 25 Marylebone Road.

Pension Reserve Fund voluntary appeal

- 21** As covered elsewhere in the agenda, in response to the voluntary appeal a £0.5m contribution from the MCF to the PRF is anticipated in 2021/22.

Existing Savings Targets

- 22** The budget paper to the 2021 Conference indicated a level of saving that would be required. These savings have been retained in the budget proposal, albeit the savings in 2023/24 and 2024/25 require further work. They are:

2022/23	£0.10m	General budget setting savings (delivered as per paragraph 17)
2023/24	£0.25m	Changes in delivery of Education and Training (Learning Network and Cliff College)
2024/25	£0.45m	Changes consequent of Oversight & Trusteeship, principally a reduction in the number of districts, the size of the Conference and number of committees.

Budget Proposal

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

Table 2 Connexional Central Services Budget: overall income and expenditure

Activity	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Income				
Central Income	16,522	16,447	16,334	16,558
Children & Youth	104	157	157	157
Evangelism & Growth	8,616	10,053	10,401	10,223
Global relations	3,453	2,930	2,613	2,312
Learning Network	1	5	4	4
Conference, Council & Governance	148	145	143	143
Ministries	1,523	1,261	1,503	1,659
Property	332	292	292	291
Income Generating Centre	448	614	1,554	1,864
Others - Pensions	3,683	4,472	4,450	4,429
Total	34,831	36,375	37,450	37,639
Expenditure				
Building communities	1,476	1,468	1,517	1,527
Children & Youth	2,001	2,247	2,369	2,370
Evangelism & Growth	11,951	12,606	13,229	13,207
Global relations	4,984	7,744	5,373	5,339
Learning Network	3,541	3,690	3,417	3,442
Conference, Council & Governance	5,422	5,552	5,581	5,530
Ministries	6,356	6,738	7,541	7,871
Property	995	914	889	888
Others - Pensions	1,143	5,715	5,713	5,711
Total	37,870	46,674	45,630	45,885
Net Deficit	(3,039)	(10,299)	(8,180)	(8,246)

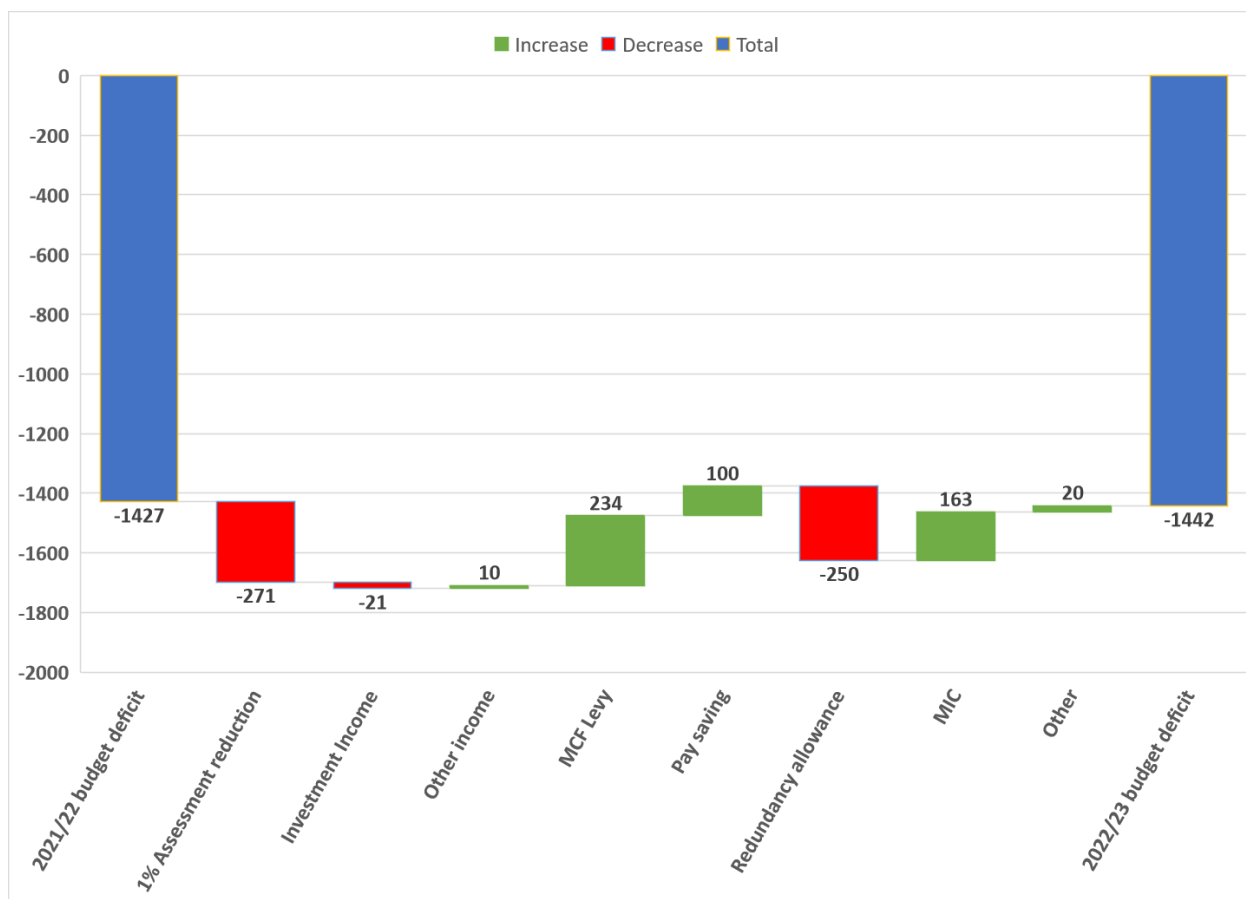
- 24 Despite reductions in the District Assessment, income increases due to additional levy income and gift aid profits from Methodist International Centre Ltd. (the Wesley Hotel).
- 25 Expenditure falls are largely attributable to slowing in expenditure from the World Mission Fund as it gets closer to its target reserve level.
- 26 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 increased expenditure from the Pension Reserve Fund into the pension schemes.
- 27 The Methodist Church Fund (MCF) budget can be seen in the table below:

Table 3 Methodist Church Fund Budget: income and expenditure

Activity	2021-22 £'000	2022-23 £'000	2023-24 £'000	2024-25 £'000
Income				
Central Income	16,179	16,131	15,986	16,211
Children & Youth	104	157	157	157
Evangelism & Growth	8	0	0	0
Global relations	7	7	7	7
Learning Network	1	0	0	0
Conference, Council & Governance	148	145	143	143
Property	212	172	172	171
Total	16,661	16,612	16,464	16,689
Expenditure				
Building communities	1,165	1,168	1,212	1,216
Children & Youth	1,687	1,772	1,742	1,730
Evangelism & Growth	2,330	1,782	1,665	1,675
Global relations	541	524	532	537
Learning Network	3,541	3,689	3,417	3,442
Conference, Council & Governance	5,220	5,349	5,378	5,327
Ministries	2,781	3,013	2,226	2,239
Property	822	756	761	761
Total	18,088	18,054	16,933	16,928
Net Deficit	(1,427)	(1,442)	(469)	(239)

- 28 The deficit in 2022/23 is largely consequent of the lack of gift aid profits from the Methodist International Centre Ltd. (the Wesley Hotel). The improvement in position in 2023/24 reflects additional gift aid profits. The savings in 2023/24 and 2024/25 (see paragraph 22) help to offset the additional costs and fall in assessment income.
- 29 The main movements in the budgeted deficit from 2021/22 to 2022/23 can be seen in the waterfall chart below:

Chart 1: Change in the MCF Budgeted Deficit from 2021/22 to 2022/23



Funds

- 30** The budgeted fund balances along with a forecast of the 2021/22 outturn can be found at appendix 2. It remains the aim to reduce balances in restricted funds where possible before allocating budgets against unrestricted funds. The main funds are described below.

Connexional Priority Fund (CPF)

- 31** The CPF continues to fund the PRF (45% of property levy); DAFs (21.5% of property levy); MCF (6% of property levy); retaining 21.5% for other connexional priorities. These currently include ministerial training and the GFA strategy. It is proposed that the CPF be used to support the Church's ambition to achieve net zero carbon by 2030.

Mission In Britain Fund (MiB)

- 32** The MiB Fund is largely being used to fund the GFA strategy. In addition, it provides a budget to support Methodist Action on Poverty and Justice and also supports the heritage sites. It is proposed that an annual budget is set for JDS strategy costs (£125k in 2022/23; £161k in 2023/24). It is proposed that the MiB fund is also used to support the Church's ambition to achieve net zero carbon by 2030.

World Mission Fund (WMF)

- 33** The WMF reserve continues to be reduced in line with a five year strategy agreed and overseen by the Global Relationships Committee.

Epworth Fund

- 34** 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.

- 35** The Conference of 2019 resolved (21/4) to use the fund to meet the costs of the Vocations strategy.

- 36** The Fund is also being used to meet the costs of the Connexional IT strategy and an allocation of £100k per annum has been included across the three-year budget period. This is in addition to the

investment required in IT relating to the office move (see paragraph 20).

- 37 The Conference has previously resolved to use any free reserve balance of the Fund for the benefit of the GFA strategy.

***RESOLUTIONS

46/1. The Council receives the report.

46/2. The Council adopts the draft budget for 2022/23.

46/3. The Council recommends to the Conference the district allocations of the assessment to the Methodist Church Fund set out in the paper.

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 and Order, District Chairs, Law and Polity, Legal, Safeguarding, Justice, Dignity and Solidarity
Ministries	Initial ministerial training, ministerial development, ministerial oversight, ministerial grants, Diaconal order
Property	Property team, connexional manses, property projects, property grants

NB Support costs (eg Finance and HR) are allocated to each activity as an overhead.

Appendix 2: Fund Balances

Fund	Opening	2021-22	2022-23	2023-24	2024-25	Closing
	balance	Forecast	Budget	Budget	Budget	balance
	£'000	£'000	£'000	£'000	£'000	£'000
MCF General	26,456	1,073	(1,442)	(469)	(239)	25,378
Defined Pension Liability	(1,330)	0	0	0	0	(1,330)
Auxiliary Special Purposes	689	(37)	(39)	(39)	(39)	536
Trinity Hall Trust	1,116	1	(2)	(2)	(3)	1,111
Lefroy Yorke Trust - Endowment Fund	903	0	(3)	(3)	(3)	895
Barratt Memorial	1,318	0	(5)	(5)	(4)	1,304
Opportunities for the Disabled - Endowment Fund	1	0	(0)	(0)	(0)	1
Rank - Endowment Fund	7,165	0	(12)	(12)	(12)	7,128
Marshall Scholarship - Endowment Fund	1	0	(0)	(0)	(0)	1
Necessitous Local Preachers - Endowment Fund	221	0	(0)	(0)	(0)	220
Strawson Gift - Endowment Fund	7	0	0	0	0	7
William Leech Charities -EF	13,189	220	207	207	220	14,042
Aspinall Robinson Trust (MDO Holiday Fund)	787	(36)	11	10	10	783
MDO Surplus Funds	581	6	3	2	2	594
Archives Revenue Fund	18	0	0	0	0	18
WG Barratt - Income	42	38	29	28	28	165
Connexional Priority Fund	11,328	(1,287)	(647)	(1,397)	(1,379)	6,618
Epworth Fund	7,731	(836)	(914)	(1,067)	(1,081)	3,833
Pension Reserves Fund	45,921	2,540	(1,244)	(1,263)	(1,282)	44,672
Beckley Trust	3	0	(0)	(0)	(0)	3
Necessitous Local Preachers - Income	10	0	5	4	4	24
Southdown Project Fund (Tolpuddle)	16	0	0	0	0	16
Borries Bequest - Endowment	31	0	(0)	(0)	0	31
Modern Christian Art- Development	18	(3)	(3)	(3)	(3)	5
Forces Chaplaincy Revenue	621	(68)	(73)	(76)	(80)	324
Methodist Heritage	8	(0)	(0)	(0)	(0)	8
Mission in Britain Fund	6,523	(1,018)	(1,239)	(1,276)	(1,276)	1,714
Mission in Business Industries and Commerce	464	8	7	7	6	492
Lay Mission Superannuation	364	17	14	14	14	423
Connexional Travel Fund	(0)	4	(0)	(0)	(0)	4
Sabbatical Fund	82	(3)	(5)	(9)	(9)	57
Fund for the Support of Presbyters & Deacons(FSPD)	10,804	(420)	(691)	(686)	(697)	8,309
Medical Benevolent Fund	2,580	(9)	(25)	(26)	(27)	2,492
Ministers Children's Relief Association	14	(3)	(5)	(5)	(0)	0
Listed Buildings	12	0	0	0	0	12
Fund for Property	1,232	185	(48)	(17)	(16)	1,335
Special Extension Fund	2,415	47	31	30	29	2,552
Fund for Training	6,995	147	119	122	123	7,506
Long Term Renewal Fund	355	100	105	105	105	769
Overseas Student Work	344	7	6	5	5	367
Centenary Hall Trust	25,475	5	15	47	47	25,589
World Mission Fund	17,860	(1,331)	(4,554)	(2,520)	(2,797)	6,658
Benevolent Fund	409	7	6	6	6	435
MIC Trust	23,962	7	0	0	0	23,969
Benevolent Fund - Deaconesses	0	0	1	0	0	1
Oxford Institute	109	103	103	103	103	519
Designated Training Fund	5	(4)	(6)	5	0	(0)
Langley House Trust	88	0	0	0	0	88
TOTAL	216,944	(539)	(10,299)	(8,180)	(8,246)	189,679