

## Context of establishing the Connexional Central Services Budget for three years commencing with 2020/21

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<b>Status of Paper</b>	Final
<b>Action Required</b>	For discussion and approval
<b>Resolutions</b>	<p>8/1. The Council receives the report.</p> <p>8/2. The Council notes that the current budget assumption is a 2.5% average salary increase from 1 September 2020. The actual salary uplift will be proposed by the Pay and Remuneration Sub-committee and reflected in the final budget.</p> <p>8/3. The Council directs that the draft budget for the three years commencing 1 September 2020 be compiled based on the parameters outlined within the paper including proper use of reserves where necessary.</p> <p>8/4. The Council approves the revised approach to the setting of budget allocations as detailed in the paper.</p> <p>8/5. The Council approves the proposal to provide funding for the pilot project with Place for Hope, noting that resources will be reallocated during 2019/20 and that it will be budgeted for in the years 2020/21 and 2021/22.</p>

### Summary of Content

<b>Subject and Aims</b>	The paper provides the Council with the opportunity to propose some initial parameters and also to contribute at an early stage into the basis of the preparation of the draft Connexional Central Services Budget.
<b>Main Points</b>	<ul style="list-style-type: none"> <li>• A fundamental change in how budgets are set and resources allocated</li> <li>• Inflationary increases</li> <li>• Reserve levels</li> <li>• Use of funds against reserve levels</li> <li>• Impact of Connexional Property and Finance Strategies</li> </ul>
<b>Background Context and Relevant Documents</b>	The Connexional Central Services Budget 2019/2020 as agreed by the 2019 Conference (agenda item 21 p 237 Agenda 2019 volume 2)
<b>Consultations</b>	Strategy and Resources Committee (SRC) Finance Sub-committee of the SRC

### Summary of Impact

<b>Financial</b>	All parts of the Connexion are affected by the use of connexional funds.
<b>Wider Connexional</b>	See financial

## Context of establishing the Connexional Central Services Budget for three years commencing with 2020/21

### 1. Background

- 1.1 At its meeting in November, the Strategy and Resources Committee (SRC) considered the key parameters and provided guidance to the Connexional Team for the 2020/21 budget.
- 1.2 Despite the time currently spent on budget setting, in reality most of the budget is predetermined based on the pay establishment that has been agreed and the programmes of work to which the Church is committed. In setting the budget, money is allocated to 'cost centres' largely based on the management hierarchy, without clear enough explanation as to the cost of each piece of work. The Church is not always good at identifying work that can be stopped in order to reallocate resources in line with *Our Calling* and options are not presented to the SRC and the Methodist Council (MC) about where monies should be allocated.
- 1.3 This paper sets out an alternative approach to setting the budget for 2020/21 along with proposing some of the key parameters to be used in the process.

### 2. Process and timetable for the budget year

- 2.1 In order to improve how resources are allocated and address the challenges identified above, the Team plans to adopt a different approach to budget setting this year. In summary the proposal is to:
- i. Determine a list of the activities that the Connexional Team undertakes which can be used to 'tell our story'. There may be 20-30 such activities and might be areas such as: Safeguarding; Children, Youth and Families; training to be a minister; ongoing training; the Conference; Grants; etc.
  - ii. Allocate the existing budget to these activities so that the costs can be seen.
  - iii. Group these activities under the eight high level Council objectives (that is two per area of *Our Calling*).
  - iv. Draw conclusions about how the budget is currently allocated and make recommendations for the future.
  - v. Once the new allocations are agreed in principle, undertake detailed budget setting to match the allocations to the detailed budget.
  - vi. Review reporting against the revised budget allocations for the future.

The timetable for the budget year is as follows:

SRC to agree revised budget setting process and key parameters	27 November 2019
Senior Management Meeting (SMM) to agree list of activities to be costed	December 2019
Meetings between Finance and SMM members and others to cost the activities	December 2019
Finance Team to produce draft income estimates for agreement with Connexional Secretary	December 2019
SMM to review output from the process	8 January 2020
SMM to agree proposed changes in allocations	22 January 2020

Finance Sub-Committee (FSC) & SRC approval of revised budget allocations	February 2020
Council approval of revised budget allocations and delegation of authority for the sign-off of detailed budgets	March 2020
Detailed budget setting undertaken	April 2020
The Conference adopts year one of the three-year budget allocations	July 2020

- 2.2 The Finance Team does not have a costing system to support this new approach and will need to consider in the longer term if such a system is required. For this year, it will endeavour to use the systems already available.
- 2.3 There will be many questions about how to allocate costs where one person/expenditure item is supporting multiple activities. The Finance Team will use best efforts to allocate as much cost as possible directly to different activities using percentage splits. However, where a staff post is a genuine 'overhead' (for example, all members of the SMM), their costs will be allocated as a percentage uplift to all activities that fall under their responsibility. We will also look to allocate support costs (eg HR and Finance) in the most appropriate way.
- 2.4 This approach will be kept under review and refined as required. It will be for members of the SMM to determine how much they need to engage their teams in this work and at what point. The Finance team will meet with whomever they need to in order to undertake the work.

### **3. Budget parameters introduction**

- 3.1 Notwithstanding the change to how the budget is expressed, the Council needs to agree some underlying parameters. In setting the budget for the three years commencing 2020/21, the starting point is the 2019/20 budget presented to the 2019 Conference.
- 3.2 The 2019 Conference took note that it had approved work through a number of Notices of Motion which implied that the budgeted deficit on the Methodist Church Fund (MCF) may be greater than the figure of £241k for 2019/20 which was presented to the Conference (page 237-248 of the Conference Agenda); thus creating a larger drawdown of reserve to enable the agreed work to happen. Whilst this is not a fundamental change in the desire of the Council and the SRC to offer a balanced budget, it again signals that funding the agreed work should take precedence over presenting a balanced budget.
- 3.3 It is not appropriate to anticipate an underspend on staff costs within the 2020/21 budget (although this part of the budget has habitually been underspent), as it is important to indicate that the intention is to deliver on all aspects of the objectives that the Conference or Council have set.

### **4. Income**

- 4.1 As agreed by the 2019 Conference the MCF assessment will increase by 1% per annum until 2022/23.
- 4.2 Where future income levels are uncertain, reasonable estimates will be made based on the best available trend information and agreed with the Connexional Secretary.

### **5. Stipend increases**

The CCSB covers the stipend, National Insurance and pension costs of a significant number of ministers. Using the formula agreed by the Conference, the Connexional Allowances

Committee (CAC) has calculated that the level of increase in the standard stipend from 1 September 2020 should be 2.7%. This will be reflected in the draft budgets.

## 6. Salary increases

The Pay and Remuneration Sub-committee will consider input based on the 2019 Hays survey and conversation with the Connexional Secretary to propose an uplift for salaries. In the meantime, the budget will assume that the total lay salary budget will be based on an average increase of 2.5% from 1 September 2020.

## 7. Other Cost Increases

The budget will be prepared on the basis that, apart from the agreed budget increases to salaries and stipends, the intention is not to budget speculatively for inflation within discretionary expenditure, given the difficulty of predicting it and the length of time between preparing the budget and its implementation. Nevertheless, the impact of this approach is to require budget holders to mitigate inflation through offsetting savings.

## 8. Connexional grants budget

- 8.1 Target reserves levels for the World Mission Fund (WMF), Epworth Fund, Mission in Britain Fund (MiBF), the Connexional Priority Fund (CPF) and the Fund for Property (FfP) are in place as below.

<b>FUND</b>	<b>Total fund balance at 31/8/19</b>	<b>Balance excluding property</b>	<b>Reserve policy</b>
World Mission Fund	£27m	£19m	£10m
Connexional Priority Fund	£9m	£9m	£5m
Mission in Britain	£4m	£2m	£1m
Epworth Fund	£7m	£7m	£5m
Fund for Property	£1m	£1m	£1m

- 8.2 The budgets for connexional grants from each will continue to reflect the desired drawdown over the next few years. The fund balance information shows the value excluding properties held within the fund, since these are held over and above the agreed reserves levels.
- 8.3 The SRC approved a proposal for tightening up of existing policy in relation to reserve levels and expenditure plans. The impact of this on budget setting is yet to be determined. It also approved a change to the reserve level of the World Mission Fund that will now go to the Global Relationships Committee for agreement prior to approval by the Council.

## 9. Use of Connexional Priority Fund (CPF)

- 9.1 45% of the income to the CPF remains allocated to the Pension Reserve Fund and any change to this will only follow the conclusion of the next triennial evaluation and would require a resolution of the Conference.
- 9.2 An allocation to ministerial training of c£1m has been made in previous years but can be reduced in light of current expenditure forecasts.
- 9.3 £600k has been designated for use by the Property Development Committee over the next two years (£250k in 2020/21 and £350k in 2021/22).

- 9.4 Other costs covered by the CPF are: the remaining costs of Venture FX (£70k per year for two years); our contribution to Thy Kingdom Come (£175k); the costs of the Methodist Intern programme.
- 9.5 The balance of the CPF above reserve level will be allocated to reaffirming *Our Calling* and work in the area of Evangelism and Growth in accordance with resolution 21/3 of the 2019 Conference.

## **10. Mission in Britain Fund**

After allowing for known commitments, it is proposed to allocate the balance above the reserve level to contribute to reaffirming *Our Calling* and work in the area of Evangelism and Growth.

## **11. The Epworth Fund**

- 11.1 The Conference of 2013 resolved (resolution 24/6) to fund the cost (£100k plus annual inflation) of the One Programme Participants from the Epworth Fund for a period of five years, commencing 2013/14. Subsequent budgets have included these costs for a further 5 years to 2022/23.
- 11.2 The 2019 Conference resolved (resolution 21/4) to use the fund to meet the costs of the Vocations Strategy.
- 11.3 A further proposal is being made to use the remaining free reserve balance on the fund to contribute to the Evangelism and Growth Strategy.

## **12. Connexional Property Strategy and Connexional Finance Strategy**

- 12.1 The financial modelling in relation to the rebuild of Methodist Church House is being done outside of the budget setting process and will be reported to the FSC and SRC in due course. The high level assumption remains that the project will be self-financing in the long term – nevertheless, much work will be required to manage the cash flows and agree the funding model.
- 12.2 The financial modelling of the other developments under the control of the Property Development Committee also remains outside the budget setting process at this time.
- 12.3 The longer-term ambition remains to reduce the assessment through the generation of greater revenues from our existing resources, not least by being more ‘entrepreneurial’. This ambition is not yet reflected in the budget allocation process.

## **13. Pension Contributions**

The budgets have been updated to reflect the revised pension contribution levels for lay employees. It is assumed that the running costs for the closed lay pension scheme (PASLEMC) will be rolled up in to the next triennial valuation and be funded from investment returns. However, the current funding position of PASLEMC implies that this will simply increase the deficit to be funded from the Pension Reserve Fund.

#### **14. Other issues**

It is proposed to reallocate some resource in 2019/20 to meet year one costs of a three year pilot project (total cost £240k) with Place for Hope. This charity has grown out of the Church of Scotland and is now a leading player in offering conflict resolution in faith communities. They submitted a grant application to the Connexional Grants Committee (CGC) for consideration of a funded pilot within Methodism to refine their ways of working in our context. Although this project could go forward to the CGC it is felt that this work is a critical element of the review of our Complaints and Discipline processes and to not progress it at this time would be a mistake. The Senior Management Meeting is therefore keen that the funding for this work be found outside of the CGC processes.

#### **\*\*\*RESOLUTIONS**

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