

Context of establishing the Connexional Central Services Budget for three years commencing with 2019/20

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Resolution	7/1. The Council directs that the draft budget for the three years commencing 1 September 2019 be compiled based on the parameters outlined within the paper including proper use of reserves where necessary.

Summary of Content

Subject and Aims	The paper provides the Council with the opportunity to agree some initial parameters and also to contribute at an early stage into the basis of the preparation of the draft Connexional Central Services Budget.
Background Context and Relevant Documents	Connexional Central Services Budget 2018/2019 as agreed by the 2018 Conference (agenda item 24, p 308 Agenda 2018 volume 2)
Consultations	The Strategy and Resources Committee

Summary of Impact

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

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1. Background

- 1.1 The basis of the Connexional Central Services Budget (CCSB) for the three years commencing 2019/20 is the prior year budget (for the three years commencing 2018/19, presented to the 2018 Conference). At its meeting in November, the Strategy and Resources Committee (SRC) considered the key parameters and provided guidance to the Connexional Team for the 2019/20 budget.
- 1.2 The 2018 Conference noted that it had approved work through a number of Notices of Motion which implied that the budget overspend on the Methodist Church Fund (MCF) may need to be greater than the figure of £61k which was presented. There will therefore be a larger drawdown on reserves to enable this agreed work to be undertaken. Whilst this does not represent a fundamental change in the desire of the Council and the SRC to offer a balanced budget, it is a signal that funding the agreed work should take precedence over presenting a balanced budget. At the end of the 2017/18 financial year the free general reserves balance of the MCF was £8m against an agreed reserve of £7.5m. The Finance Sub-Committee of the SRC (FSC) also concurred that carrying out the work was more important than balancing the budget for the year.
- 1.3 Neither the FSC nor the SRC felt that it was appropriate to anticipate an underspend on staff costs within the 2018/19 budget (although the budget has habitually been underspent), but they did ask for consideration to be given to allowing for savings on the overall budget.
- 1.4 At the time of writing, it is not possible to forecast accurately the change in costs to the Council if, following consultation, it decides to close the lay employees' pension scheme (the 'PASLEMC' scheme) and move to a new Defined Contribution Scheme. This is not expected to offer any significant flexibility within the overall 2019/20 budget, but there may be a reallocation of costs between expense categories.
- 1.5 62% of the CCSB is spent on people. That means any changes to the overall spend affects them and our ability to deliver on the work for the Conference.

2. Process and timetable for the budget year

- November 2018 - Preliminary planning discussion between the Finance Sub Committee and the Senior Management Team (SMT) of the Connexional Team.
- November 2018 – The SRC sets initial budget parameters, including assumptions for salary increases (based on the Grading and Remuneration subcommittee recommendation).
- December 2018 – Income forecasts produced by the Finance Team agreed with the Connexional Secretary.
- Mid-January 2019 - Budget holders in the Connexional Team work with the SMT to produce the first draft budget.
- January 2019 - The Methodist Council discusses the detail of key issues.
- February 2019 - Budget review by the Finance Subcommittee (FSC) for recommendation to the SRC as appropriate.
- February 2019 – The SRC reviews the budget for recommendation to the Council as appropriate.
- April 2019 – The Council considers the budget to be presented to the Conference.
- July 2019 - The 2019 Conference adopts year one of the three year budget.

3. Income - Methodist Church Fund (MCF) Assessment

- 3.1 As agreed by the 2016 Conference the MCF assessment will increase by 1% per annum until 2019/20 representing in a decline in income in real terms.
- 3.2 The FSC continues to work on the basis that apart from the agreed budget increases to salaries and stipends, the SMT's 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.

4. Connexional grants budget

- 4.1 The Council continues to have the previously agreed 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) in place.

FUND	Total fund balance	Balance excluding property	Reserve policy
World Mission Fund	£28m	£20m	£10m
Connexional Priority Fund	£11m	£11m	£5m
Mission in Britain	£5m	£3m	£1m
Epworth Fund	£7m	£7m	£5m
Fund for Property	£2m	£2m	£1m

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. This indicates that the operation of these reserves levels needs to follow an increasingly sophisticated model. Whilst properties held within particular funds are illiquid in the short term, it is appropriate that consideration be given periodically to whether each property should be retained, disposed of, or used it in other ways in order to fulfil the objectives of the fund.

5. Use of Connexional Priority Fund (CPF)

- 5.1 £1m of the reserves in excess of policy are designated as follows: £250k for Thy Kingdom Come and £800k as the balance of the £1m designated for the Property Development Committee (PDC).
- 5.2 Approximately £280k of the £500k originally budgeted for the Intern Programme remains at 1 September 2018.
- 5.3 At its October 2018 meeting, the Methodist Council adopted a connexional property strategy. Part of this includes ways in which local trustees will be supported on an ongoing basis.
- 5.4 The costs of Venture fx of £280K will continue to be met from the CPF through to 2020.
- 5.5 The £1million that was set aside for use to support work relating to the Reaffirmation of *Our Calling* is in the process of being allocated to a number of district projects as agreed by the SRC in September 2018.

6. Stipends

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 2019 should be 2.8%. This will be reflected in the draft budgets.

The CCSB also covers the cost of other ministerial benefits that can be difficult to budget. These include the costs for ministers on long-term sick leave or on a recuperative year (currently eight ministers at a cost of c. £250k p.a.). Also, from 2018/19 the CCSB is to cover the equivalent of state benefits (child benefit and tax credit) for ministers from other Churches and Conferences, unable to claim from the state (one minister with 4 children will cost c. £6K p.a.).

7. Salary increases

The SRC received a recommendation from the Grading and Remuneration Subcommittee based on the 2018 Hays survey and conversation with the Connexional Secretary. In the light of that, the SRC recommends that the total lay salary pot be based on an average increase of 2.5% from 1 September 2019.

8. Methodist Church House

At this stage no allowance is made in the budget for the decision of the Council and Conference for the demolition and rebuild of MCH. Financial modelling on this project is being done outside of the normal budgeting process and separate reports will be made in due course.

9. Pension valuations

The Council has proposals in relation to the future of the PASLEMC scheme elsewhere in its papers.

10. Funding the One Programme Participants (OPPs) from the Epworth Fund

The 2013 Conference resolved (24/6) to fund the cost of the OPPs from the Epworth Fund for a period of five years, commencing 2013/14. It agreed that the budget would be £100k per annum at 2013 costs, to be increased annually in line with wage inflation. It is intended that the draft budget includes provision for this to be continued for another five years commencing in 2018/19.

*****RESOLUTION**

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