

## Basic Information

<b>Title</b>	<b>Connexional Central Services Budget</b>
<b>Contact Name and Details</b>	John Ellis, Secretary for Team Operations EllisJ@methodistchurch.org.uk
<b>Status of Paper</b>	Final
<b>Resolution/s</b>	<p>4/1 The Conference receives the report.</p> <p>4/2 The Conference adopts the Connexional Central Services Budget for 2010–11, noting particularly the implication that money drawn from Connexional funds within the terms of their respective designations will include:</p> <ul style="list-style-type: none"> <li>(i) contributions from the Training Assessment Fund for specified Connexional training purposes;</li> <li>(ii) contributions from the Connexional Priority Fund towards the costs of the District Development Enablers;</li> <li>(iii) contributions from the Epworth Fund towards the costs of a reduced Youth Participation Strategy.</li> </ul> <p>4/3 The Conference agrees that a payment from the reserves of the Connexional Priority Fund should be distributed to the District Advance Funds to offset in full the reduction in their CPF distribution in 2009–10 consequent upon Resolutions 31/5 and 31/6 of the 2009 Conference.</p> <p>4/4 The Conference agrees in principle that:</p> <ul style="list-style-type: none"> <li>(i) the Core Costs in the Connexional Central Services Budget which are outside the management control of the Connexional Team should be directly matched by funding from the District Assessment;</li> <li>(ii) the element of the District Assessments not covered by (i) above should increase in the three years from 2011–12 to 2013–14 in line with the rate of RPI inflation.</li> </ul>

## Summary of Content

<b>Subject and Aims</b>	The report brings the Council's recommendations for the 2010–11 central services budget and for some related actions.
<b>Main Points</b>	Reduced income and reserves mean the 2010–11 budget has been reduced by £4m in real terms from 2009–10.
	District Assessments are proposed to rise with inflation in 2011–14.
<b>Background Context &amp; Relevant Documents</b>	The 2007 Conference agreed a structure for the central budget which was used for the first time for 2009–10 and has formed the basis for this budget.
<b>Consultations</b>	Connexional Leaders Forum

## Background

- 1 The first part of this report describes the Council's proposed central services budget for 2010–11, including the Connexional Team's costs. No annual budget can sensibly be set in isolation from previous decisions and future plans and this fact has had a major impact on the shape of the proposals presented here. In addition the Church's finances sit within a wider economy that has deteriorated markedly since the three year income plan set by the 2008 Conference was agreed.
- 2 In preparing the 2010–11 budget it was clear that all major income sources were likely to produce less money in 2010–11 than in 2009–10. The 2009 Conference looked at the reserves available in the main Connexional funds and noted that it was likely there would be very limited free reserves available to support expenditure in 2010–11 above the level of available income. In broad terms, against an agreed expenditure in 2009–10 of £31.5m, it seemed likely that there would be scope for only spending £25m in 2010–11.
- 3 It therefore became clear at an early stage to the Strategy and Resources Committee (SRC) that it would not be possible to sustain all existing and planned work in 2010–11. Difficult choices about priorities would be essential. The SRC considered options itself and consulted with the Connexional Leaders Forum (CLF), which includes all District Chairs. Out of these consultations and others, recommendations were brought to the Council which were felt to best serve the highest priorities of the Church, taking full account of the many admirable but competing claims on scarce resources.
- 4 While the details are challenging, all these processes have sought to be part of a careful and prayerful discernment of what the Spirit is saying to the churches. There has been no formulaic imposition of across-the-board percentage cuts, but an attempt to ensure emerging priorities are receiving the necessary resources. Leaders of the Team and the wider Connexion believe the Church can still make a difference to the lives of individuals and society, and our resources are to be used to help build the Kingdom not to cushion institutional decline. As a result, amongst key longer term themes are the emphasis on equipping local churches for their work on discipleship (as discussed in the General Secretary's report to the Conference) and the planned work affecting the Learning Budget (as discussed in the Ministries Report).
- 5 The resulting budget being presented to the Conference has the support of the Methodist Council but does involve reshaping a number of previous decisions of the Conference in the light of changed financial circumstances and experience gained since those decisions were first made. Some of these changes release extra Connexional resources to permit essential work to continue; others reduce costs. The Conference is being asked to recognise those changes in adopting this budget.

## Scope of the Budget

- 6 The budget covers Connexional work where the finances are handled centrally, of which the costs of the Connexional Team itself are only one part. As agreed by the 2007 Conference, costs for the various aspects of the Connexional work administered by the Connexional Team have been divided into three categories:
  - (i) those which 'are essential to the core functions of the Methodist Church' and refer to the essential infrastructure costs of running the Connexion in its current form, named as 'Core Costs';
  - (ii) those which, while also supporting the mission priorities of the wider Church and particularly Conference approved projects, cannot be considered fundamental to the Church's being. These are defined as 'Priority Discretionary' costs;
  - (iii) those which support the grant-making process within the British Connexion and to partner Churches abroad.

## **The 2010–11 Budget**

### **(a) Core Team and Staff Costs**

- 7 In this budget the projected Core Costs attributable to the Connexional Team are reduced. This reflects more efficient work practices and rigorous review of all costs across the Team. As a result, for example, travel-related costs in 2010–11 are budgeted to be 31% less than in 2009–10 and office costs are reduced by 15%. The total cost of the Support Services Cluster, the largest of the staff groupings in the Team, has been cut by 6% in real terms compared with the current year, without eliminating any services to the Connexion.
- 8 In line with a number of Churches and charities this year, the budget proposes that salaries for the Connexional Team lay staff should be frozen, although those that are eligible for them would still receive contractual salary increments. Presbyters in the Team will receive whatever stipend increases are agreed by the Conference when it considers the report of the Connexional Allowances Committee.

### **(b) Non Team Core Costs**

- 9 While efficiency savings have been made within the Team, it has not proved possible to make substantial reductions in the overall Core Costs. By their nature, Core Costs are subject to little variation from year to year unless the Team is directed to make major policy changes by the Conference. As currently the Core Costs are funded by a declining District Assessment, this leaves a shortfall of almost £1m between Core Income and Costs.
- 10 Much the largest item in Core Costs is the Learning Budget, which is therefore a significant pressure point in the overall budget. However it is not recommended that the budget be reduced at this point, primarily because the increased cost is a result of higher costs for student support than was envisaged at the time of the 2007 settlement on the Learning Budget. This partly relates to a larger proportion of full-time students than expected: the full-time pattern of learning is more costly per capita than the alternatives. To reject these students or limit their support would be deeply damaging to the long term goal of equipping the local church for the making and nurturing of disciples.
- 11 There is a further reason for the Methodist Church to continue to fund the current Learning Budget for one more year without substantial changes. The learning infrastructure and the learning programmes were considered at length in 2005–7 and a further review on certain aspects, the Fruitful Field Project, is forthcoming (see the Ministries report to the Conference). It would be premature to pre-empt this work and that of the proposed new Ministries Committee, a body who will have oversight of the ministries and training work.
- 12 As a result of these considerations, it is proposed that the shortfall in Core Costs funding be met by drawing down part of the Training Assessment Fund (TAF). Several specific expenditure items are supported from the TAF in this budget, at a total new cost to the TAF of £920k. The 2009 Conference decided that the TAF should be designated for the training and education of the whole Church. Supporting material given to the Conference suggested that this should be done through the regional training forums. The proposal in this budget is within the formal designation of the Fund but this £920k would not be disbursed via the Forums. It needs to be recognised both that this is a change from the expectation of the previous Conference and that it only provides short term relief for the budget while a more sustainable pattern for the Learning Budget is developed. Using this TAF money will leave around £1.8m in the Fund at the end of 2010–11.

### **(c) Priority Discretionary Expenditure**

- 13 Into the Priority Discretionary category falls those costs that are considered not crucial to the

functioning of the Church yet includes costs that Conference itself has designated as important including the three major five-year projects currently running: the VentureFX project deploying pioneering ministers, the Youth Participation Strategy (YPS), and the District Development Enablers (DDEs). These three projects each have multi-million pound price tags and in the tighter financial circumstances of this year it has been essential to re-examine them. The conclusions incorporated into the budget are set out below.

#### **(d) Major Conference Approved Projects**

##### **(i) Venture FX**

14 The VentureFX scheme has generated wide enthusiasm around the Connexion and in this budget continues along its existing trajectory with its 2010–11 funding of £407k coming, as already agreed, from the Connexional Priority Fund (CPF). The positive feedback from consultation implies that this scheme is seen as crucial to the equipping of the local church. On a longer timescale, the scheme might redistribute the costs between the central budget and those districts with pioneer ministers, as the districts are already committed to paying 30% of the costs.

##### **(ii) Youth Participation Strategy**

15 A significant reduction in the cost of this five year project is proposed: previously it totalled £4.6m. The budget assumes a substantial reshaping of the YPS and its closer integration with the regular Children and Youth work of the Connexional Team. It is important that participation is not seen as a separate bolt-on option, as without the true participation of children and young people the Church will be hampered in its mission and ministry. A revised budget for the Strategy is proposed which retains at heart the principles of enabling and celebrating the genuine participation of young people within the life of our Church whilst recognising that we need to find other funding streams to make this an embedded reality. By strategically concentrating the posts filled by young people into fewer places (through a bidding process as well as giving Districts the opportunity to buy in and fund their own One Programme Participants (OPPs)), developing better use of technology to communicate, and by utilising the existing staff resources in a combined Children & Youth/YPS team to partner work in Scotland and Wales, a Strategy can be delivered that fulfils the vision and leaves room for growth. The total staff reduction equates to five full time posts and 22 half-time posts being removed from the Children & Youth and YPS areas. Work continues to attempt to secure funding from sources external to the Connexional budget. If successful, this would have the effect of adding to the overall resource package to encourage more local growth. This new focus will result in overall savings to the Central Services Budget of £480kpa in this and subsequent years.

16 It is recognised that with this substantial saving having been made, there is the need to offer as much security for the reduced structure in the remaining three years of the Strategy. It has therefore been agreed by the Connexional Grants Committee that the income from the Epworth Fund is ring-fenced for the remaining three years of the Strategy. This will cover approximately 50% of the ongoing annual costs. Greater priority will also be given to the promised work to seek external funding.

17 These proposals represent a scaling down of the project as previously approved by the 2008 Conference and a shift in the use of the Epworth Fund, within its existing broad designation of supporting innovative work, in order to focus on YPS support.

##### **(iii) District Development Enablers**

18 The feedback from District consultation was that the DDE scheme is crucial to the equipping of the local church, and invaluable to the districts. It is therefore proposed to maintain the programme at the existing agreed level and fund the 2010–11 costs (£751k) from the reserves of the CPF. This leaves open the option of reducing the costs of the programme in

future years or deciding to charge it against CPF income in future, thereby reducing the scope for other grants to Districts from the CPF. While discussions about the future shape have not led to any changes that could be negotiated in time to bring to this year's Conference, they are ongoing.

- 19 This proposal is within the designation of the CPF, as a Conference programme is clearly a Connexional priority, but the reduction in CPF reserves and therefore investment income will have some effect on the Fund's capacity to support projects proposed for support by district and circuits.

**(e) Other Projects**

- 20 The proposed approach to the major projects and the reduction in all income sources still results in a very tight squeeze on other discretionary expenditure. The most flexible parts of this expenditure are the fixed-term Projects overseen in the Team by the Projects, Research and Development Cluster (PR&D). As with reducing the core costs of the Team, many of the PR&D projects have striven to provide the wider Connexion with the best value for money over the coming year.
- 21 The Olympics 2012 project is one that remains in the budget. This is a project to enable local churches to engage with and respond to the challenges and opportunities presented by the Olympics in London and elsewhere. For this time-bound project which clearly cannot be postponed, the Methodist Church had committed itself to match offers from other denominations and second one person full-time for two years 2010–12 to the *More than Gold* coalition, which is co-ordinating Christian work around the 2012 Olympics. While the limited allocation provided of £50,000 in this budget will not enable the Church to fund the full time post and meet this commitment, the Connexional Team is exploring other options for topping up this funding and is hopeful of a positive outcome.
- 22 Another key project in 2010–11 is supporting *biblefresh*. This was supported by the 2009 Conference for the 2011 Year of the Bible. The *biblefresh* book will be published in May 2010 and is an ideal way for churches, small groups and individuals to be inspired and equipped to handle scripture better. Provision has been made in the 2010–11 budget for £30,000 for supporting this work around the Connexion.

**(f) Position of our Reserves**

- 23 It was explained to the 2009 Conference that by the end of 2009–10 it seemed probable that there would be no liquid free reserves left in the unrestricted or designated funds and reserves would be much reduced from previous years in restricted funds such as the World Mission Fund (WMF); hence the need to move quickly towards a budget where expenditure could be covered by income. A much tighter discipline would be required from the Conference in adding to costs.
- 24 Since the 2009 Conference, two factors have somewhat alleviated the situation. First the recovery in the Stock Market has reversed most of the previous valuation losses. In particular the unrestricted Methodist Church Fund (MCF), which acts as the general fund, is now likely to be able to sustain a reduction of up to £1m in 2010–11 without breaching the Conference's reserves policy and is offered as the balancing item in this budget.
- 25 Secondly a major piece of work on the accounts of the WMF has revealed an over provision for future commitments. Writing these back into the Fund has added approximately £5m to WMF free reserves as at August 2009. There is further work underway on other funds where accounting records have not hitherto been models of clarity.

### **(g) Fund Charges and Supplement**

26 In accordance with the 2007 Conference decision, a charge is made on the income of the major Methodist Funds to contribute towards directly related Team costs in supporting their work. The budget proposes no changes in the existing levels so the budget incorporates a 9% general charge and a 6% supplement on the WMF.

### **(h) Overall Budget Features**

27 Taking account of all these points, the proposed budget is as set out in summary form in Appendix 1, where a comparison with 2009–10 is also provided.

In financial terms it represents:

- A reduction relative to 2009–10 in total expenditure of £3m in nominal terms and £4m in real terms
- A draw down from the capital of the TAF and CPF designated funds (in addition to that agreed in previous years) of £1.7m
- A draw down from the capital of the WMF of £1.0m.

In staffing terms, the main implications are:

- A reduction of 17 existing staff posts in London (16.3 full-time equivalents) of which the majority will be achieved by not renewing fixed term contracts
- A total of 14 planned new staff positions under the YPS would be abolished instead of recruited
- One new permanent and one new one-year post would be added to the Discipleship and Ministries staff.
- The Council's decision regarding the staffing of the Resourcing Mission Office does not impact significantly on the budget until 2011–12.

### **Other Issues from 2009 Conference**

#### **(a) Shortfall in District Advance Funds**

28 The 2009 Conference established the Pension Reserve Fund but a technical problem with the drafting of the resolution meant that the District Advance Funds (DAFs) have collectively received £724k less than they had anticipated in 2009–10 as a result. The Council recommends that this anomaly should be addressed by a one-off payment of the full £724k to the DAFs in 2010–11 out of the reserves of the CPF.

#### **(b) Methodist Missionary Society Accounts**

29 Members of the Conference have traditionally been provided with some informal accounts for the Methodist Missionary Society (MMS), which are effectively the accounts of the WMF. In 2009 figures were not produced due to problems with the underlying accounting processes and the Conference was promised an independent investigation, overseen by the SRC, into the reasons behind this. This investigation was undertaken and a report provided to the SRC, together with a summary of actions taken since the period covered by the investigation. The SRC was satisfied that the necessary analysis and response had taken place.

### **Longer Term Planning**

30 The Council invites the Conference to consider some longer term issues which have been brought into sharp focus by this year's budget process.

31 The level of the District Assessment to back Core Costs is currently set by a formula agreed

for three years as part of the Team Focus debates. This changes the amount given by the Districts in aggregate in accordance with inflation, as measured by the Retail Prices Index, and the change in aggregate Church membership. Thus if in a particular year the RPI rises by 2% and membership falls by 3% the Assessment will decrease by 1%. The 2010–11 Assessment has been set by this formula as the last year of the three.

32 Alongside the budget proposals for 2010–11 being brought to the next Conference, the Council believes it would be helpful for the Conference to shape an agreement for how the Assessment is to be set for the succeeding three years. The Connexional Team welcomes a clear budget discipline and is more than willing to work within proper financial constraints. Indeed the Team is positively keen to be able to assure local churches that the money spent on core costs is always effective and efficient. However working with the present Assessment formula has raised two main difficulties.

33 First, the Core Costs in the Budget are only partly under the Team’s control. In broad summary, the £13.6m Core Costs in the 2010–11 budget can be broken down into wider Connexional costs, over which the Team’s management has minimal control, and Team costs as follows:

Core Costs: Wider Connexion

	£m
Training	3.5
Governance	1.2
District Chairs	1.0
	<hr/>
	5.7

Core Costs: Connexional Team

	£m
Staff Costs	5.1
Other	2.8
	<hr/>
	7.9

34 In practice it is normal for the wider Connexional costs to rise year on year, eg with stipend increases, at the same time as the formula providing the funding for overall Core Costs is reducing the available income to pay for these. Large increases in the “employer” contributions to lay and ministerial pension funds have recently added to the unavoidable cost increases across both parts of Core Costs. Consequently the costs within the control of the Team are being squeezed far more sharply than the formula implies.

35 The second difficulty with the existing formula is that the Districts simultaneously support the formula reducing resources for the core work of the Team and request a wider range of work to be undertaken.

36 The proposal from the Council is therefore that in a future funding formula for the Core Costs part of the budget there should be two separate elements, one relevant to the wider Connexional core costs and the other to the specific Team costs. For the element funding the wider work outside the control of the Team, it is suggested that whatever budget is set for this work should simply be added directly into the Assessment for the year. If, for example, the Conference decided to opt for a more expensive Conference venue, the Assessment would rise accordingly. The process for setting the income would no longer be separate from the process for setting expenditure. Income and expenditure would still be managed through the central budget and there would be no change in the connexional status of the work and posts funded as part of Core Costs.

37 For the Team element within overall Core Costs, the Council proposes that the Conference should recognise that the Church does not wish the real costs of central structures to grow. Therefore the proposal is to restrict increases in the Assessment contribution to match the rate of inflation, unless there were very exceptional items to be argued for separately. This ceiling on income would exert tight discipline on the Team as many costs (eg stipends and our obligations to meet statutory requirements) often rise faster than inflation.

### **\*\*\*Resolutions**

4/1. The Conference received the report.

4/2. The Conference adopted the Connexional Central Services Budget for 2010–11, noting particularly the implication that money drawn from Connexional funds within the terms of their respective designations will include:

- (i) contributions from the Training Assessment Fund for specified Connexional training purposes;
- (ii) contributions from the Connexional Priority Fund towards the costs of the District Development Enablers;
- (iii) contributions from the Epworth Fund toward the costs of a reduced Youth Participation Strategy.

The Conference noted the valuable work done by YPS and the overlap with pioneering ministries in their work with older young people and young adults.

The Conference directed, that without changing the proportion of the budget to be jointly applied to the work of YPS and pioneering ministries, the Methodist Council find ways by which those areas of work can be brought closer together.

4/3. The Conference agreed that a payment from the reserves of the Connexional Priority Fund should be distributed to the District Advance Funds to offset in full the reduction in their CPF distribution in 2009–10 consequent upon Resolutions 31/5 and 31/6 of the 2009 Conference.

4/4. The Conference agreed in principle that:

- (i) the Core Costs in the Connexional Central Services Budget which are outside the management control of the Connexional Team should be directly matched by funding from the District Assessment;
- (ii) the element of the District Assessments not covered by (i) above should increase in the three years from 2011–12 to 2013–14 in line with the rate of RPI inflation.

## APPENDIX 1: 2010–11 Budget Summary

£m (Capital drawings underlined)

	2010–11	2009–10
<b>Core Costs</b>	13.6	13.7
Funded by:		
Assessment	11.8	12.0
Charges/Supplement	0.8	1.1
<u>TAF (Student support)</u>	0.9	(from MCF) 0.7
<b>Priority Discretionary Expenditure</b>	5.8	6.5
Funded by:		
General income	2.1	2.8
Activity-related income	1.9	2.1
Epworth Fund for YPS	0.2	
<u>CPF Reserves for DDEs</u>	0.8	(from TAF) 1.7
MCF Reserves	0.9	
<b>Grants</b>		
(i) <u>World Church</u>	4.4	5.2
Funded by:		
WMF Income	3.4	3.4
<u>WMF Reserves</u>	1.0	1.7
(ii) <u>Britain</u>		
CPF payment to DAFs	0.9	
CPF to Pension Reserve Fund	1.5	
CGC Grants funded by CPF	0.9	
Other CGC Grants	1.3	
	<u>4.6</u>	6.1
Funded by income to:		
CPF	3.4	3.1
MiBF	0.6	1.2
Property Fund	0.6	0.6
		0.6
		(from CPF) 0.6
<b>Totals</b>	28.428.4	31.5

**APPENDIX 2: Available Resources (£m)**

Used in 2010–11 Budget			Remaining Available Reserves <sup>∅</sup>
	From New Income	Draw down of Reserves	
Restricted Funds			
World Mission Fund	4.0	1.0	4.0
Mission in Britain Fund	0.6	-	0.5
Property Fund	0.6	-	1.8
Fund for the Support of Presbyters & Deacons	0.6	-	3.0
Designated Funds			
Connexional Priority Fund	3.5	0.8	-
Training Assessment Fund	-	0.9	1.8
Epworth Fund	0.2	-	5.5
Unrestricted Funds			
Methodist Church Fund			
From District Assessments	11.8		
From legacies etc.	0.6		
Balancing Item		0.9	2.0
Other Resources	2.9		
	24.8	3.6	

<sup>∅</sup> This column provides estimates of the “free” reserves left in the relevant fund at 31 August 2011, excluding money required to meet minimum reserves policy requirements, fund commitments, etc. These numbers are very approximate.