

## Context of establishing the Connexional Central Services Budget for three years commencing with 2016/17

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<b>Status of Paper</b>	Final
<b>Action Required</b>	Decisions as per the resolutions
<b>Draft Resolutions</b>	See end of paper.

### Summary of Content

<b>Subject and Aims</b>	The paper requires the Council to agree initial parameters to be used in the preparation of the draft Connexional Central Services Budget.
<b>Main Points</b>	<ul style="list-style-type: none"> <li>• Level of Methodist Church Fund (MCF) assessment</li> <li>• World Mission Fund (WMF) grant budget</li> <li>• Salary increase assumption for 1 September 2016</li> </ul>
<b>Background Context and Relevant Documents</b>	Connexional Central Services Budget as agreed by the 2015 Conference (agenda item 36A, p 301 Agenda 2015 vol 2); MC/15/79
<b>Consultations</b>	SRC and SRC Finance Sub-committee

### Summary of Impact

<b>Financial</b>	All parts of the Connexion will be affected by the MCF assessment decisions.
<b>Wider Connexional</b>	See financial

## Context of establishing the Connexional Central Services Budget for three years commencing with 2016/17

### Background

1. The process of compiling the Connexional Central Services Budget for three years beginning with 2016/17 has already begun. After the Council's initial discussion in October 2015, the Strategy and Resources Committee (SRC) and its Finance Sub-committee have both considered some key assumptions. At its meeting in November the SRC agreed particular parameters that will be used to compile the draft budget.
2. As stated in the paper to the Council's October meeting, the 2016 Conference will be asked to approve the methodology for calculating the Methodist Church Fund (MCF) assessment for the three years commencing 1 September 2017.

### Methodist Church Fund (MCF) Assessment

3. Every three years the Conference determines the method by which changes to the level of the total MCF assessment will be made. It establishes this a year in advance, so that budgets across the Connexion can be prepared in light of the actual assessment to be met. The 2016 Conference will therefore be asked to agree the method by which the assessment will change for the three years commencing 2017-18. The assessment for 2016-17 will increase by 2% as agreed by the 2013 Conference. The apportionment of this by District was agreed with District Treasurers at their annual practitioner forum in August 2015 – this is now being used to prepare circuit and church budgets.
4. In order to produce a three year budget commencing in 2015-16, the Council needed to decide what level of increase to use for calculation purposes only for year three. It decided to use 1%, stressing that this should not be taken in any way as an indication of what would be proposed to the 2016 Conference.
5. When the current formula was agreed the Council decided to provide the Conference with three different options and at its recent meeting in October it indicated that it also wishes to provide the Conference with options in 2016. It resolved that the SRC should provide initial suggestions for the Council to consider in January 2016.

### Historical context

6. The arrangements for the current triennium are the most straightforward for many years. The Conference agreed that the total assessment would increase by a flat rate of 2% per annum for three years. In the preceding three years the budget was divided into two parts. The assessment to cover costs that were deemed to be within the Team's control was increased by the Consumer Price Index (CPI) each year, whilst that portion to cover those areas deemed to be outside of the Team's control were automatically increased to cover the budget from the previous year. When the current methodology was adopted the CPI stood at 2.8% and the 2013 Conference report stated that this was expected to increase. A fixed annual increase of 2% was therefore seen as providing the discipline of a finite budget, whilst enabling pay costs in particular to keep pace with inflation. The actual experience has been rather different as the CPI has gradually reduced (and with it salary and stipend increases) so that it has been close to zero for the past six months. Arguably the result has been an increase in the real value of the assessment over the three years.

## Current situation

7. There are a number of interesting factors involved in setting the assessment. The Church's membership has continued to decline and its demographic profile points to that potentially accelerating, with almost 70% of members aged 66+ in the one-off 2011 detailed count. At the same time, the decline in the number of individual churches is slow, resulting in a large number of churches that are surviving and offering effective ministry, but increasingly struggling to fill officer posts and undertake their various trustee obligations. The combination of this context with a continual increase in statutory responsibilities arguably generates an increasing need for the Team to support the Church, making significant reductions in the cost base difficult. Furthermore, if this decline is to be arrested there is the need to invest now in boosting mission and evangelism across the Church.
8. The Connexion's financial position overall is healthy. Significant levels of reserves are held by many churches, circuits and districts, underpinned by the inherited property assets. In addition, recent and ongoing shortfalls in the numbers of ministers available relative to the number of stations means that there are circuits across the Connexion that budgeted to pay for a ministerial appointment that was not filled. Inevitably the availability of resources is not spread evenly, and this needs to be recognised in the proposals to the Conference. It is intended that the paper to the Council in April and then the Conference will address the opportunities for increasingly connexional approaches to the sharing of financial and other resources more fully.
9. A number of Memorials have been sent to the Conference in recent years by Circuits finding it difficult to pay the assessment and the Conference has adopted responses instructing the SRC and the Council to take account of these. The Church's objectives do not include building or maintaining a well resourced Connexional Team for the sake of it, or for the benefit of Team members. It is important that the Church trusts that spending from the assessment is properly scrutinised and controlled, and is used efficiently and effectively in helping the Church in undertaking God's mission.
10. The recommendation of the SRC is that the Methodist Council proposes the following options to the Conference. It is, however, for the Council to decide – it may adopt these options or propose others. The SRC considered options such as linking future changes to either RPI or CPI inflation or to changes in the membership of the Church, but opted for three alternative fixed changes as follows:-
  1. A flat 1.0% increase per annum for three years;
  2. A flat 0.5% increase per annum for three years;
  3. Freeze the assessment at the level which will be reached in 2016/17;
11. The current intention is that the draft budget will use the agreed 2% increase for year one, but will show zero increase for years two and three, simply because this makes any subsequent discussion or changes easier to calculate and more transparent.
12. Members of the Council will have the opportunity to discuss these proposals and to make other suggestions in discussion groups during the meeting.

## **World Mission Fund (WMF) Budget**

13. The 2015-16 budget for grants from the World Mission Fund (WMF) remained largely unchanged, pending consideration of the strategic use of that fund in supporting the Church's work with partners overseas. However, in the light of this review it was not felt appropriate by

either the SRC or Connexional Grants Committee (CGC) that a further round of three-year rolling grants be made in 2015/16. As a result, this budget has been smoothed over the three years of the budget commencing 2015/16, but retained at the same overall level. At its meeting in November 2015 the SRC considered proposals relating to the long term reserve level of the WMF.

14. Those recommendations are contained elsewhere within the Council papers, but if adopted the impact will be as follows, based on the audited 2015 year-end fund level. The net balance of the Fund will be reduced gradually over the next five to six years, with the intention of reaching a reserves level of £10m. The current proposal will see the 2015/16 budgeted expenditure of £5.78m fall to £4.75m by 2018/19 and £2.97m by 2020/21.

#### **Assumptions regarding stipend and salary increases**

15. At its meeting in October the Council approved new grading and salary structures. It agreed that these will be implemented from 1 September 2017, with the salary review for 2016 being determined by the existing method.
16. Taking the average of the Average Weekly Earnings Index (AWEI) and the CPI in the previous September, the Connexional Allowances Committee (CAC) will propose that the Council recommends an increase in the standard stipend from 1 September 2016 of 1.4%. As has been the practice in recent years, the SRC recommends that the same formula is used for the lay salary increase from 1 September 2016 and that this be used for all three years of the budget. It is recognised that the re-grading process will affect the actual salaries paid to individuals, but it is too early to predict the exact impact and it is felt that an overall budget increase of 1.4% remains a prudent assumption.

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

- 17/1. The Council receives the report.**
- 17/2. The Council agrees that the options for the calculation of the assessment as set out in paragraph 10 should be those presented to the Conference.**