Context of establishing the Connexional Central Services Budget for three years commencing with 2017/18

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Status of Paper	Final
Action Required	For initial discussion and input from the Council
Resolution	9/1. The Council receives the report.

Summary of Content

Subject and Aims	The paper provides the Council with the opportunity to contribute at an early stage into the preparation of the draft Connexional Central Services Budget.
Main Points	• Level of Methodist Church Fund (MCF) assessment • Continued release of reserves from main grant-making funds • Salary increase assumption for 1 September 2017 • Income from revenue generating centres • Costs relating to introduction of ministerial supervision • Possible changes for District Safeguarding Officer supervision
Background Context and Relevant Documents	Connexional Central Services Budget as agreed by the 2016 Conference (agenda item 27, p 233 Agenda 2016 vol 2)
Consultations	Based on decisions/discussion by the SRC and FSC

Summary of Impact

Financial	All parts of the Connexion will be affected by the MCF assessment decisions

Context of establishing the Connexional Central Services Budget for three years commencing with 2017/18

1. Background

The process of compiling the Connexional Central Services Budget (CCSB) for three years beginning with 2017/18 has already begun. At its meeting in November 2016, the Strategy and Resources Committee (SRC) agreed some of the key parameters to be used and discussed some of the main issues that are likely to be important in shaping the draft budget. Its thinking was informed by recommendations from the Finance Sub-committee (FSC) which had met the previous week. By the time that the Council meets in January, the Senior Leadership Group and other budget holders across the Team will have submitted proposed budgets, and the process of analysis and scrutiny will be underway ahead of the SRC's meeting in February. The SRC agreed that these budget assumptions and potential issues should be shared with the Council in order to gain its initial input at this stage.

The Council has previously agreed that the draft budget should not feature a deficit against the Methodist Church Fund (MCF) and the budget for three years commencing 2017/18 will be prepared on that basis. Both the FSC and SRC also reviewed the unaudited year-end management accounts and noted that, although the accuracy and detail of budgeting has improved in recent years, there is still an overall tendency to underspend each year. This is partly against staffing costs, where vacancies are not generally filled immediately, but also against some discretionary cost codes. Members of the SLG confirmed that detailed analysis was already underway and that particular attention will be paid to realistic budgeting of several cost codes identified from the year-end figures. Neither the FSC nor the SRC felt that it was appropriate to anticipate an underspend within staffing costs, but they asked for consideration to be given to allowing for it on an overall basis. The management accounts showed that the MCF reserves increased over the year by £883k, partly due to capitalisation of the work on Methodist Church House (MCH), so there is potentially the possibility to draw on those reserves in the face of inflationary pressure.

2. Process and timetable

- Initial parameters, including salary increase assumptions decided by SRC in November 2016.
- Income figures produced by the Finance Office and agreed by the Senior Leadership Group of the Connexional Team (SLG) then combined with SRC decisions.
- Budget holders within the Team work with SLG to produce first draft budget for mid-January 2017.
- Discussion of key issues in more detail by the Methodist Council in January 2017.
- Budgets presented to the Finance Sub-committee (FSC) and scrutinised in detail in February 2017.
- Budget as endorsed by the FSC discussed by the SRC in February 2017 – it will formally recommend the budget to the Council.
- In April 2017 the Council will debate and agree the budget to be presented to the Conference.
- In June 2017 the Conference will adopt year one only of the three year budget.

3. Income - Methodist Church Fund (MCF) Assessment

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 agreed that the total assessment will increase by 1% per annum for the three years commencing 2017-18. It did this on the basis that around 80% of the increase would be used to cover additional costs relating to providing ordained ministry in the island districts. This means that the total level of the MCF assessment will virtually be frozen for the three years commencing 1 September 2017.

The Finance Sub-committee particularly noted that predictions from economists regarding inflation over the next three years vary widely. However, most do expect it to increase to around 3% within two years, which will bring cost pressures into the budget given the frozen level of MCF assessment income. Apart from the agreed budget increases to salaries and stipends, the SLG'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

Over the last few years the Council has adopted 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). It has agreed in each case to release additional amounts from each of these in order to reduce balances down to the target levels within three/five years. The budgets for connexional grants from each will continue to reflect this. A significant WMF underspend in 2015/16 relating to Mission Partners is being analysed in order to ensure that the 2017/18 figures are accurate.

The unaudited net income to the CPF in 2015/16 was £7m against a budget of £5m, boosting the disbursements to the Pension Reserve Fund, District Advance Funds and the MCF. The SRC indicated that the money allocated to the Connexional Grants Committee (CGC) should continue to be calculated based on the agreed reserves level.

Of the £1.5m identified previously within the CPF, the formation of the new Property Development Committee will lead to the start of the use of the £1m designated for supporting the development of strategic property work. In addition, work is underway likely to result in proposals for the use of some of the £500k designated for One Mission. There are also pieces of work relating to vocations and leadership development which may themselves generate requirements for funds that may be more clearly identified as the budget preparation process progresses.

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 2017 should be 1.6%. This will be reflected in the draft budgets.

6. Salary increases

Increases in salary effective from 1 September 2017 will be for the first time determined under the new arrangements that are related to individual performance against agreed targets over the previous year, with no blanket increase.

The Pay and Remuneration Sub-committee is responsible for recommending to the SRC the level of average increase and hence the total pot of money available. The SRC adopted its recommendation that the total pot available for annual increases will be calculated as 2.5% of the total lay salary budget. This will add around £180k to the total in 2017/18. This amount was calculated as agreed based on the wide-ranging Hay survey of Third Sector salary trends, which will also determine increases to the salary ranges available for Council employees.

As a result of the recent pay and grading review, this figure of 2.5% replaces previous automatic increments that applied to each employee for the first five years in post, plus previous cost of living increases. All increases in 2017/18 will be based on the performance of each member of staff against their agreed objectives - there will be no automatic increases. The outcome of the pay and grading review also means that around 15% of staff will be on frozen salaries, meaning that they will receive no increase in 2017/18. The budget will reflect this, being calculated on the basis of the current individual post holders.

Barring any more accurate information, the salary budgets in years two and three will also be increased by 2.5% per annum.

7. Discipleship and Ministries Learning Network (DMLN) Budget

Since the creation of the DMLN, its budget has been maintained to the level originally stated in the Fruitful Field report to the Conference. At that time an assumption was made about the assets that would be available to generate income at a level of £927k per annum[1]. The sources of income identified in the report have not yet achieved the expected levels and despite progress at each of them, Methodist International Centre (MIC) Ltd and the Guy Chester Centre have not been able to take up that slack. However, latest estimates show a planned contribution of £950k in 2016/17 against a budget of £800k as MIC Ltd begins to make up the shortfall from 2015/16. Twelve months ago the 2017/18 forecast was based on an income from the two centres of £1.6m, assuming a significant contribution from the new Camden site. However, local authority planning consent has still not been obtained, so it seems unlikely that any income will be derived from there until 2018/19 at the earliest. The SRC noted that revised figures need to be prepared by MIC Ltd as part of the budget.

It was agreed in 2015 that the three year budget would include just over £1m spread over three years from the Fund for Training as top-up funding. The SRC stated that this should be seen as the last funding to be used in the case of any underspend. However, the escalation in the cost of redeveloping the property at 24 Somerset Road, Birmingham, an asset of that fund, means that its spare cash reserves had been exhausted by summer 2016. This means that £228k included within the 2016/17 budget will have to be funded from elsewhere (partly from MIC Ltd as indicated above) and that the amount of £286k originally planned for 2017/18 will

[1] In the case of the Guy Chester Centre, Methodist International Centre, the Southlands Methodist Trust, the Discipleship and Ministries Learning Fund and, potentially, the Trusts associated with Wesley House, Cambridge, these funds and assets will provide an income for the Network, and the Committee anticipates that the income generated will be sufficient to meet the annual costs attributed to the Network's funds and assets of £927k. The Committee further recommends that the Network develop a fund and asset management strategy which, as well as enabling revenue costs to be met from the Network's income, will enable the costs of moderate capital expenditure projects at the two centres to be met from the Network's funds. Para 268 Fruitful Field Report 2012 Agenda p756

not now be available. As part of the 2016 budget process it was agreed that the DMLN budget will be treated as a part of the whole henceforth and not necessarily held at the levels agreed by the 2012 Conference, reflecting the Church's current financial context. In other words, its budget will need to reduce to reflect the level of funding that is available within the context of a fixed MCF assessment.

The 2015 Conference directed that a review of training be undertaken, to report back in 2017. The three year DMLN budget will need to be prepared based on existing processes, patterns and levels of staffing; not least to avoid prejudicing or influencing the outcome of the review.

8. Moving forward from the pilot of supervision for ministers work

One of the Church's main responses to the Safeguarding Past Cases Review (PCR) was the launch of a pilot programme of supervision for ministers. This has been overseen by the PCR Implementation Group, which will be bringing recommendations to the 2017 Conference regarding its roll-out across the connexion. The pilot has been funded largely from the Epworth Fund, as an extension of the PCR budget, but there is no provision for this within the 2016/17 budget. The future cost across the connexion is unknown. However, an amount of £35k has been included for the supervision of 32 district chairs; ie £1,100 per Chair which will carry forward in the budget every year. At this time the precise additional costs of training superintendents to supervise is not known but the method being used in the pilot will require ongoing assessment and co-ordination so there could be costs ranging up to £300k pa. The SRC felt that there is not yet sufficient detail available in order to comment on budget proposals. It stressed, however, that detailed costings need to be reflected in the draft budget that will be proposed to it in February, that these costs need to be clear and transparent and that like all other matters they need to be proposed within the context of the 1% MCF assessment increase.

9. Changes to supervision of District Safeguarding Officers (DSOs)

The Conference has requested that two related pieces of work to be undertaken and brought back to the 2017 Conference. One involves the calculation via an agreed set of criteria of the appropriate number of hours per week that each district should provide in terms of DSO resource. The second regards the arrangement for professional supervision of each DSO within a framework that is coherent and consistent across the connexion.

The SRC was informed that options relating to DSO professional supervision arrangements will be brought to the Methodist Council in a separate paper in January 2017, so the proposals that will be taken to the Conference will be able to be incorporated into the Connexional Central Services and district budgets from that point. At least two of the options will involve additional staffing within the Connexional Team, with one option being to potentially make the DSOs Council employees in the future; either as members of the Team or not. These proposals have now been deferred, to be considered at the April meeting of the Council.

*****RESOLUTION**

9/1. The Council receives the report.