

Context for establishing the Connexional Central Services Budget for three years commencing with 2018/19

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Status of Paper	Final
Action Required	For initial discussion and input as specified by the Council
Resolutions	8/1. The Council receives the report. 8/2. The Council directs the Strategy and Resources Committee to formulate the draft Connexional Central Services Budget based on the principles as set out in the report.

Summary of Content

Subject and Aims	The paper provides the Council with the opportunity to comment on some of the initial themes at this early stage in the preparation of the draft Connexional Central Services Budget.
Main Points	<ul style="list-style-type: none"> • Methodist Church Fund (MCF) reserves levels • Use of funds against reserves levels, particularly the Connexional Priority Fund (CPF) • Salary increases • Shaping the Team to support <i>Our Calling</i> • Supervision training for ministers • Professional District Safeguarding Officer supervision • Methodist Church House • Pension scheme valuations • Methodist Academies and Schools Trust • Funding the ONE Programme
Background Context and Relevant Documents	Report 23 to the 2017 Conference established the 2017/18 budget
Consultations	The Finance Sub-Committee The Strategy and Resources Committee

Summary of Impact

Financial	All parts of the Connexion are affected by the use of connexional funds.
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Context for establishing the Connexional Central Services Budget for three years commencing with 2018/19

1. Background

The process of compiling the Connexional Central Services Budget for three years beginning with 2018/19 has already begun. At its meeting in November the Strategy and Resources Committee (SRC) considered some of the key parameters to be used and provided guidance to members of the Senior Leadership Group of the Connexional Team (SLG) in preparing the initial drafts.

The Council has previously agreed that the draft budget should not feature a deficit against the Methodist Church Fund (MCF). After several years of surpluses the Finance Sub-committee and SRC indicated that it would consider a draft budget which included plan to utilise some of the resultant excess reserves if they were directed towards specific pieces of work. However, it still expects the Team's core functions to be performed within a balanced MCF budget.

Last year 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 under spend each year. This is partly against staffing costs, where vacancies are not generally filled immediately, but also against some discretionary cost codes. As a result budget holders prepared the 2017/18 budget without utilising several categories that had previously been used as generic 'catch all' codes, such as 'miscellaneous costs' and 'other advocacy costs'. This practice will continue in the 2018/19 budget. The SRC also suggested that an allowance would be made within the draft budget in anticipation of underspending against staffing costs.

2. Process and timetable

- Initial parameters, including salary increase assumptions determined by the SRC in November 2017.
- Income figures produced by the Finance Office and agreed by the Connexional Secretary and Head of Support Services then combined with SRC decisions.
- Budget holders within the Team work with SLG to produce first draft budget for mid-January 2018.
- Discussion of key issues in more detail by the Methodist Council in January 2018.
- Budgets presented to the Finance Sub-committee (FSC) and scrutinised in detail in February 2018.
- Budget as endorsed by the FSC discussed by the SRC in February 2018 – it will formally recommend the budget to the Council.
- In April 2018 the Council will debate and agree the budget to be presented to the Conference.
- In July 2018, the Conference will adopt year one only of the three year budget.

3. Income - Methodist Church Fund (MCF) Assessment

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 was effectively frozen in year one, with small increases in years two and three.

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% which will bring cost pressures into the budget given the modest level of increase in 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. Essentially the historical underspend against salary costs is treated as providing sufficient buffer against inflationary costs on other items.

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. In order to provide greater clarity, the fund balance information this year will show the value of properties held within each fund separately, 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 is given periodically whether each property should be retained, disposed of, or used in other ways in order to fulfil the objectives of the fund. The SRC has already recognised this by agreeing that the future use of Asbury House in Birmingham, an asset of the WMF, be evaluated over the coming year.

It is likely that grant-making budgets from both the MiBF and FfP will begin to reduce significantly from 2018/19 as the fund balances approach the agreed reserves levels of both. Although less progress has been made on utilising the excess reserves of the WMF, the Global Relationships Strategic Oversight Sub-committee and World Church Relationships staff are working to design a number of innovative approaches to building and maintaining overseas relationships. An amount of £400k per annum was included in the 2017/18 budget which is expected to continue and possibly increase.

5. Use of Connexional Priority Fund (CPF)

The unaudited net income to the CPF in 2017/18 was £8.7m against a budget of £5m, boosting the disbursements to the Pension Reserve Fund, District Advance Funds and the MCF. Despite increased grant-making the balance of the fund thus increased by £880k to stand at £11.1m against a reserves policy level of £5m. Of this £6.1m held in excess of the reserves policy, around £1.94m has been designated as follows. £500k for Thy Kingdom Come (previously allocated under a 'One Mission' heading), £500k for the ONE Intern programme and £940k remains of the £1m designated for the Property Development Committee (PDC). The ONE Intern programme is expected to continue, so the draft budget will reflect this as an ongoing cost against the CPF.

The SRC has determined that £150k of the PDC money be used to fund obtaining planning permission for the conversion of the Methodist property at Oxford Place, Leeds, into a hotel with those largely costs incurred during the 2017/18 year. In addition, part-time consultancy work and commissioning various professional studies to assist local trustees on specific sites is likely to cost £150k during 2017/18, leaving overall around £640k designated to the PDC at the year-end.

At its October meeting, the Methodist Council adopted resolutions relating to the establishment of a connexional property strategy. Part of this will include ways in which local trustees will be supported on an ongoing basis. At its meeting in September the SRC also highlighted the need for specific plans for this to be included within the budget. Given that CPF income is derived from a levy on local property sales, recycling it to provide professional advice on the future use and development of property seems an appropriate use of the fund. Although detailed work has not yet been undertaken, an initial estimate would be an annual budget from the CPF of up to £500k. The exact detail will depend on the property strategy that is adopted and also the results of the working party looking at the provision of advice to local trustees.

The costs of Venture fx and the Methodist Church's contribution to the Fresh Expressions organisation are both currently met from the CPF. As the current projects reach their conclusions the amount allocated to Venture fx will decline steeply in year three of the draft budget, whilst funding of the ecumenical Fresh Expressions Ltd is part of ongoing discussions.

6. 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 2018 should be 2.55%. This will be reflected in the draft budgets.

7. Salary increases

Increases in salary effective from 1 September 2017 will have been 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 cost of living increase.

The Pay and Remuneration Sub-committee has considered input based on the 2017 Hays survey and conversation with the Connexional Secretary. Accordingly the SRC accepted its recommendation that the total lay salary pot be based on an average increase of 2.9% from 1 September 2018.

Work is currently underway regarding the individual salary increases generated by the new performance related processes. This has highlighted a number of limitations to the process, including its impact on the pensionable salary of some staff. A more detailed paper on this subject has come to the SRC in addition to this budget paper and further work is now being done on this.

8. Ensuring that the Team is best equipped to support the Church in fulfilling its calling

Discussions at both the Connexional Leaders' Forum and Methodist Council have identified the desire for the Church to refocus much more explicitly on the objectives outlined in *Our Calling*. Elsewhere on its agenda the SRC will be asked to endorse some re-shaping within the Team designed to maximise the support that it provides to the Church towards this aim. This work will also reflect the relevant recommendations of the Training Review. Although the resultant structure will be incorporated within the existing budget framework, the Senior Leadership Group proposes that additional resources be dedicated over the three years of the budget to supporting the delivery of this strategic shift in emphasis.

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

The Conference of 2017 adopted an Interim Supervision Policy and an implementation plan supported by a budget of £130k per annum for two years, plus a half-time post to coordinate the training of superintendents. £150k of this cost has been covered by a one-off donation from the Allchurches Trust Ltd Methodist Grant Giving Committee. The actual cost and process are being evaluated, and the current indication is that the overall cost will be £330k over two years, rather than the agreed £260k. It is anticipated that this additional cost will be met from the Fund for Training. In addition, 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.

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

The 2017 Conference received a report (Paper 34) relating to the professional supervision of DSOs. It resolved that the Council would proceed with producing detailed and costed proposals for this which will be incorporated into the draft Safeguarding budget. This work is reported elsewhere to the Council.

11. Methodist Church House (MCH)

The SRC is aware that work is underway to evaluate the future work needed to bring MCH up to required standards. At this stage no allowance is made in the budget for the resultant work, although it is recognised that 'doing nothing' is not an option.

12. Pension valuations

The statutory triennial valuations of both connexional defined benefit pension schemes are being undertaken as at 1 September 2017. The Methodist Council will need to address the impact of the outcome on the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) as the principal employer. In addition it will need to make recommendations to the Conference relating to the outcome of the valuation of the Methodist Ministers' Pension Scheme (MMPS). Proposals from the Finance Sub-committee for contributions to either scheme from the Pension Reserve Fund (PRF) will be included within the draft budgets presented to the SRC in February 2018.

13. Methodist Academies and Schools Trust (MAST)

The SRC received a request at its November meeting for additional financial support for MAST. This is specifically to enable it to fulfil its obligations to Methodist State Funded Schools as per SO 342. The intention is that this should be provided from a combination of the Methodist Independent Schools Trust, Westminster Oxford Trust and the Southlands Methodist Trust. Discussion are ongoing with each set of trustees.

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

The Conference of 2013 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. An evaluation of the ONE Programme is planned for 2018/19, which the SRC welcomed. It was agreed that the three years of the draft budget includes provision for this to be continued, recognising that the funding may be extended further, and potentially from an alternative fund, subject to the outcome of the evaluation.

*****RESOLUTIONS**

- 8/1. The Council receives the report.**
- 8/2. The Council directs the Strategy and Resources Committee to formulate the draft Connexional Central Services Budget based on the principles as set out in the report.**