

## Proposed Connexional Central Services Budget 2010-11

### Basic Information

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| <b>Contact Name and Details</b> | John Ellis, Secretary for Team Operations<br>ellisj@methodistchurch.org.uk   |
| <b>Status of Paper</b>          | Final  |
| <b>Action Required</b>          | Decision   |
| <b>Draft Resolution</b>         | <ol style="list-style-type: none"> <li>1 The Council recommends the proposed Connexional Central Services Budget for 2010-11 for approval at the Conference.</li> <li>2 The Council amends the recommendation of the Connexional Allowances Committee in order to propose an increase of only 2% in ministerial stipends for 2010-11.</li> <li>3 The Council proposes to the Conference that a payment from the reserves of the Connexional Priority Fund should be distributed to the Distract Advance Funds to offset the reduction in their CPF distribution in 2009-10 consequent upon Resolutions 31/5 and 31/6 of the 2009 Conference.</li> <li>4 The Council requests the Connexional Team to work with the Connexional Treasurers and others to develop, as a matter of urgency, a framework for medium term financial planning.</li> <li>5 The Council proposes to the Conference that in principle 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>6 The Council proposes to the Conference that the element of the District Assessments not covered by Resolution 5 above should increase in the three years from 2011-12 to 2013-14 in line with the rate of RPI inflation.</li> </ol> |

### Summary of Content

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| <b>Subject and Aims</b>  | This paper sets out and discusses the proposed Team budget for 2010-11 and some longer term issues arising from it.   |
| <b>Main Points</b>   | In a difficult financial climate, the budget reduces expenditure substantially from 2009-10 but proposes drawing down some additional resources to sustain Core work and avoid ending any of the three major five-year Conference projects. |
| <b>Background Context and Relevant Documents (with function)</b> | <b>Financial framework for the Team:</b> set out in <i>Reconfiguring the Connexional Team: Team Focus 2005-08</i> (Agenda, 2007).   |
| <b>Consultations</b>   | SRC Finance Sub-Committee and the full SRC. This budget comes as a recommendation from the SRC.   |

# Proposed Connexional Central Services Budget 2010-11

## Background

1. This paper sets out and discusses the proposed central budget for 2010-11 and aims to provide the Council with details of how the budget has been formed, both in terms of funding streams and the discernment of working priorities. It seeks to facilitate discussion of its key principles and to gain from the Council an indication of its support, or otherwise, for the recommendations made, so that the Council may recommend the budget for approval at Methodist Conference.

2. The budget has been shaped and scrutinised by the Strategy and Resources Committee (SRC) and its Finance Sub-committee, and further discussion has taken place at two meetings of the Connexional Leaders Forum (CLF).

3. This paper refers to the various previous Council, Conference and SRC decisions that have shaped the financial framework of budget making within the Connexional Team. These distinctions (particularly between core costs, priority discretionary expenditure and grant-making) are rehearsed briefly.

4. Coming to create the 2010-11 budget, a number of external factors have affected the financial landscape. Estimated income from each of the regular sources is down and this results in such income being estimated to total only £25m against an expenditure budget of £31.5m in 2009-10. This is a challenging starting point.

5. Long term trends also posed tough questions. As explained to the 2009 Conference, liquid free reserves left in the unrestricted or designated funds have been very much reduced from previous years. Progress has to be made towards a budget where expenditure can be covered by income. Falling membership in the Methodist Church and the accompanying decreased Assessments means expenditure must be examined and while a fundraising strategy will be discussed by the Council (see paper MC/10/50), financial responsibility dictates that these trends must be taken into account when attempting to predict the long-term financial options.

6. However, financial trends cannot be the Church's only concern. As identified by the Conference when it accepted the 2009 budget paper *Living a Financial Discipleship*, responsible financial discipleship must seek to serve the mission priorities of the wider Church and the needs of the local church, in the long term as well as over the next financial year. The SRC therefore explicitly set its budget discussion within a framework of emerging medium term objectives to ensure decisions taken this year assist, rather than hamper, future directions.

## Focus on Discipleship

7. With the active encouragement of the Council at its September and February meetings, the emphasis on equipping local congregations for their work on discipleship is central to the medium term perspective. The practical work of the Team will be focussed on activities that assist this. The eight 'intentional actions' already noted by the Council (MC/10/21 para 24) were used as criteria to help clarify which areas of discretionary spending were to be given the highest priority.

8. A second medium term theme the SRC felt was crucial to bear in mind in shaping this budget was the Fruitful Field work affecting the Learning Budget: see MC/10/49.

### **The 'Connexional Team' Budget?**

9. The shape of the Connexional budget is rehearsed briefly for information. As agreed by 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 functionings 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.

10. This categorisation underlines the fact that the central budget, despite its traditional title, incorporates costs well beyond the Connexional Team as normally defined. Those of adhering to the agreed standards of training for ministry, or the running of the Conference or of Districts with separated Chairs for example, are not under the Connexional Team's control and thus are subject to limited management review. The title 'Connexional central services budget' seems more accurate.

### **Core Team and Staff Costs**

11. The projected Core Costs for work which is within the Connexional Team reflects the increasingly efficient work practices that it was hoped would result from the changes to the Connexional Team management structure through the Team Focus process. While there is much more to be done, there has been rigorous review of all costs across the Team and 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 has been cut by 6% in real terms compared with the current year, without eliminating any services to the Connexion.

12. In line with a number of Churches and charities this year, SRC 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 on 1 September 2010. The costs of the latter amount to just under 2% of the pay bill. Having decided that this pay freeze was necessary in the current environment, the SRC felt that a similar constraint should be applied to ministers across the Connexion. Including those stationed in the Team. Whilst recognising that the arrangements for stipends were outside of their remit, the SRC nonetheless recommends to the Council that the proposals in the report of the Connexional Allowances be amended to cap the stipend increase at 2%.

### **Non Team Core Costs**

13. While efficiency savings have been made within the Team, it has not proved possible to make substantial reductions in the 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.

14. It is proposed that the shortfall be met by drawing down reserves from the Training Assessment Fund (TAF). Given that the largest item in Core Costs is the Learning Budget, this is 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 a larger number of students in 2010-11 than the number envisaged at the time of the 2007 settlement on the Learning Budget. Extra candidates link strongly to the Discipleship motif and explicitly to the aim of providing or connecting expertise and skills enabling the making and nurturing of Christian disciples and enabling local churches and circuits in their learning and development for discipleship. To reject these students or limit their support would be deeply damaging to the long term goal of equipping the local church.

15. There is a further reason for the Methodist Church to continue to fund the Learning Budget 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 MC/10/49). 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. Several specific expenditure items are therefore supported from the TAF in this budget, recognising that this only provides short term relief while a more sustainable pattern for the Learning Budget is developed.

#### **Priority Discretionary costs**

16. Into this category falls the costs that are considered, according to the Conference definition, 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, the Youth Participation Strategy (YPS), and the District Development Enablers (DDEs).

17. As well as these areas having the cost cutting efficiencies applied that apply to the core Team costs, there has been further work on how to carry out the wishes of Conference and to serve the wider Connexion while continuing to make the additional savings needed to achieve a responsible budget.

#### **Major Conference Approved Projects**

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

18. The VentureFX scheme continues along its agreed 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**

19. A significant reduction in the cost of this project is proposed: previously it totalled £4.6m. The baseline budget assumes a substantial reshaping of the YPS and its closer integration with the regular Children and Youth work of the 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 presented 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 own their own OPP), 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 a 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. None of this excludes the possibility of funding external to the Connexional budget from adding to the overall resource package to encourage more local growth. This new focus will result in overall savings of £480k in this and subsequent years.

20. 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 is therefore proposed 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.

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

21. 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.

### **Other Projects**

22. 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 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.

23. While these areas can be enabling the Church to reach out to specific groups and thus have high implications for discipleship, there are also a number of projects which for other reasons it is important to retain. The Education Commission is an overdue piece of work stemming from the Ground-clearing projects of Team Focus; Inter Faith Relations combines the ongoing Connexional Team resource with a Team Focus transition project; and the Energy Management Transition project is a transitional piece of work to get to a point where a connexional resource is fully funded from external sources. Therefore these projects, while their connection to discipleship and the equipping of the Church was indirect, were considered suitable for continued support.

### **Olympics 2012 Project**

24. 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 are committed to exploring other options for topping up this funding and are hopeful of a positive outcome.

## **BibleFresh**

25. This is a project supported by the 2009 Conference for the 2011 Year of the Bible. The BibleFresh book will be out 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.

## **Belonging Together**

26. The Belonging Together project is a partnership which brings together the Connexional Team, the Methodist Training Institutions and some Districts. Each partner has their role to play in helping the Church fulfil its vocation of worship and mission through its richly diverse membership, fully recognising the plural society within which it is placed. Belonging Together concentrates on achieving this across the national, ethnic and linguistic groups within the Church today. A total budget of around £0.5m over several years has been agreed.

## **Heritage**

27. SRC also gave particular attention to the budgetary requests from the Methodist Heritage Committee. The Heritage Officer with, and on behalf of, the Methodist Heritage Committee aims to build on the initial strategic work carried out in the second half of 2008-09 and through 2009-10 to provide urgent financial support to the main heritage sites and encourage them to collaborate (with each other and with regional support agencies such as funders and tourist boards), to promote 'Methodist Heritage' as a recognised entity in the Methodist Church and to launch it beyond the Church into the heritage and tourism sectors. This work will also develop the key sites and help them improve their own income streams and help them access external sources of additional funding, where possible.

28. Despite the essential major reductions in overall budget expenditure, the SRC were persuaded to maintain the Heritage budget broadly unchanged from 2009-10 at £237k, which would allow grants to be made to enable the most vulnerable major sites to employ a curator in 2010-11. Further discussion of the longer term funding issues is in MC/10/56.

## **Position of our Reserves**

29. 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.

30. Since the Conference, two factors have somewhat alleviated the situation. First the recovery in the Stock Market has reversed most of the valuation losses that were calculated in the Spring for the Conference numbers. 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 the budget here.

31. Secondly a major piece of work on the accounts of the WMF, which appear to have been neglected for some time, has revealed an over provision for future commitments. Writing these back into the Fund has added over £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.

### **Fund Charges and Supplement**

32. 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 SRC proposes no changes in the existing levels so the budget incorporates a 9% general charge and a 6% supplement on the WMF.

### **Overall Budget Features**

33. 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 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 Youth Participation Scheme (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.

### **DAF shortfall**

34. The 2009 Conference set up the Pension Reserve Fund but a technical problem with the drafting of the resolution meant that the District Advance Funds (DAFs) had collectively received £724k less than they had anticipated in 2009-10 as a result. The Council agreed that this shortfall should be reviewed as part of the 2010-11 budget process (see MC/09/75 and minute 09.3.10).

35. This has been done, including a consultation with the District Treasurers, and the SRC recommends that a one-off payment of the full £724k should be made to the DAFs in 2010-11 out of the reserves of the CPF.

### **Longer Term Planning**

36. Reflecting on the budget process, the SRC felt that the need for a capacity for longer term financial planning was all too evident. The Church has only had rudimentary processes hitherto. The reordering of the Finance Office includes provision for a dedicated resource in this area. The Council is invited to endorse the importance of this work.

37. Some of the more immediately urgent longer term questions are addressed below.

### Future work on Core Costs

38. While many non core Team costs are set and not under the authority of the Team, there are several pieces of work in train to bring the costs down and improve the budget process.

- Carbon reduction project looking at travel policies and video conferencing and training for committees
- Informing external committees of their budgets and how much they cost
- Work to discuss areas of unpredictable costs (such as legal advice)

39. There is scope for further discussion on the future relationship of the Team with the wider Connexion and the sustainability of this relationship financially as it currently stands.

### The Future for Core Income

40. 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.

41. Alongside the budget proposals for 2010-11 being brought to the next Conference, the Team and the SRC believe 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 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.

42. 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 |
|                 | —   |
|                 | 5.7 |

#### Core Costs: Connexional Team

|             | £m  |
|-------------|-----|
| Staff Costs | 5.1 |
| Other       | 2.8 |
|             | —   |
|             | 7.9 |

43. 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.

44. 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.

45. The proposal from the SRC is therefore that in a future funding formula, there should be two separate elements, one relevant to the wider Connexional core costs and the other to the 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.

46. For the Team element within overall Core Costs, the SRC proposes that we should recognise that the Church does not wish the real costs of central structures to grow, so restrict increases in the Assessment contribution to matching the rate of inflation, unless there were very exceptional items to be argued for separately. This exerts tight discipline on the Team as many costs, eg stipends, normally rise faster than inflation.

## **Resolutions**

- 1 The Council recommends the proposed Connexional Central Services Budget for 2010-11 for approval at the Conference.
- 2 The Council amends the recommendation of the Connexional Allowances Committee in order to propose an increase of only 2% in ministerial stipends for 2010-11.
- 3 The Council proposes to the Conference that a payment from the reserves of the Connexional Priority Fund should be distributed to the District Advance Funds to offset the reduction in their CPF distribution in 2009-10 consequent upon Resolutions 31/5 and 31/6 of the 2009 Conference.
- 4 The Council requests the Connexional Team to work with the Connexional Treasurers and others to develop, as a matter of urgency, a framework for medium term financial planning.
- 5 The Council proposes to the Conference that in principle 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.
- 6 The Council proposes to the Conference that the element of the District Assessments not covered by Resolution 5 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 shown in red)

|   | 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            |
| TAF (Extra students)                      | 0.6        |      | (from MCF) 0.7 |
| TAF (Other)                               | 0.3        |      | -              |
| <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        |      |                |
| MCF Reserves                              | 0.9        |      | (from TAF) 1.7 |
| CPF Reserves for DDEs                     | 0.8        |      | -              |
| <b>Grants</b>                             |            |      |                |
| (i) <u>World Church</u>                   | 4.4        |      | 5.2            |
| Funded by:                                |            |      |                |
| WMF Income                                | 3.4        |      | 3.4            |
| WMF Reserves                              | 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>                             | 28.4       | 28.4 | 31.5           |

**APPENDIX 2: Available Resources**

| £m   | Used in 2010-11 Budget |                       | Remaining Available Reserves ø |
|--|------------------------|-----------------------|--------------------------------|
|  | From New Income        | Draw down of Reserves |                                |
| <b>Restricted Funds</b>                      |                        |                       |                                |
| 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                            |
| <b>Designated Funds</b>                      |                        |                       |                                |
| Connexional Priority Fund                    | 3.5                    | 0.8                   | -                              |
| Training Assessment Fund                     | -                      | 0.9                   | 1.8                            |
| Epworth Fund                                 | 0.2                    | -                     | 5.5                            |
| <b>Unrestricted Funds</b>                    |                        |                       |                                |
| Methodist Church Fund                        |                        |                       |                                |
| From District Assessments                    | 11.8                   |                       |                                |
| From legacies etc.                           | 0.6                    |                       |                                |
| Balancing Item                               |                        | 0.9                   | 2.0                            |
| <b>Other Resources</b>                       | 2.9                    |                       |                                |
|  | <u>24.8</u>            | <u>3.6</u>            |                                |

ø 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.

