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WORCESTER DIOCESAN SYNOD

WORCESTER DIOCESAN BOARD OF FINANCE LTD

Total Return – TO NOTE

Executive Summary

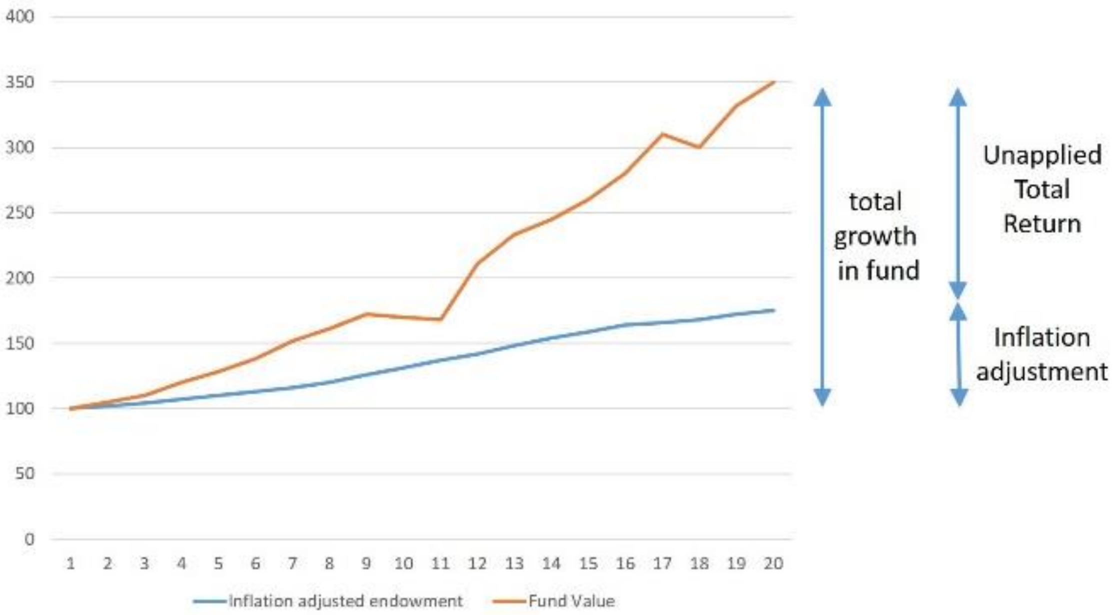
This paper informs the Synod of the Bishop's Council decision to operate the Stipends Capital Fund on a Total Return basis, and the creation of a Healthier Churches Fund. A presentation will be given by the Diocesan Secretary explaining this and opening up discussion.

1. Total Return – what is it?

Charities with "Endowments" – often legacies - used to be able to only spend the natural income from them, and were not allowed to touch the capital. So if an intial investment in the stock market grew over time, the charity could spend the income it got from dividends, but was not allowed to access any of the growth. This could mean that trustees would seek investments with high dividends, rather than necessarily select the best overall investment.

Over the long term, there has been growth in the total value of endowments, whether invested in property or the stockmarket. This growth has considerably exceeded inflation.

This is illustrated in the graph below. In year 1, the charity receives an endowment of 100 and invests this in the stock market. Over time, the blue line shows how the value of the original investment is affected by inflation – gradually rising by about 2% a year. However, its actual value, shown by the orange line, increases more than this as the values of the underlying investments rise – it sometimes drops a bit, but over time has grown ahead of its value adjusted by inflation. The gap between the blue and orange lines is known as the Unapplied Total Return.



A few years ago, Parliament introduced a new "Total Return" option for trustees of charitable endowments. This requires that the value of the fund is maintained in real terms (ie the inflation adjusted value) – but trustees now have greater flexibility as to how much they can take from the gap between the blue and orange lines. Trustees must ensure that the fund remains fair to successive generations by keeping the value of the fund above the blue line – that the underlying value of the endowment maintains its real world value, but it is possible to take additional income to benefit the charitable purposes, which after all is what charities are there for.

2. What does this mean for us?

Nearly 90% of our reserves as a DBF form the Stipends Capital Fund or the Parsonages Capital Fund, and are **treated as** endowments. As they are only treated as endowments, and this being the Church of England, it's governed by Ecclesiastical Law and so it has taken us a few more years to get the flexibility that other charities have had for a while. However, DBFs can now manage the Stipends Capital Fund on a Total Return basis.

This is something that a number of other dioceses have done, and in May Bishop's Council agreed to adopt a Total Return approach on our Stipends Capital Fund.

As the fund has grown ahead of inflation, we have the opportunity to access more money than just the natural income, but we need to do so according to a policy that balances a range of factors. In particular, we want to ensure that the fund is still able to accommodate any stock market falls, and plan to be back in the same position (adjusted for inflation) at the end of six years – again able to consider how we might take additional income from the fund for the next stage of the journey. Bishop's Council approved a policy for how we would manage the fund in July.

3. Additional Funding – how do we spend it?

After looking closely at the figures, Bishop's Council has now confirmed that we should take an additional £3.1 million over the next five years (from 2021 to 2026). The hard question is "How do we best spend it?" How do we balance the possible different priorities? There are two main areas, and we'd love to be able to do a huge amount in both:

- Sustaining our ministry by enabling us to keep more clergy in post for longer – enabling parishes to navigate to a sustainable pattern of ministry really well and ensuring that our most income deprived communities are able to afford stipendiary clergy.
- Enabling parishes to engage in mission and ministry within their local contexts.

Some people might ask why we are not using this money to fund more clergy or reduce Ministry Share? Whilst this could be a choice, it doesn't help our long term health and sustainability unless there is some change in the underlying health and sustainability of our churches. Otherwise the trend that we've seen over past decades will simply continue. A twin track approach of tackling both priorities gives us more choice as a diocese and opens up different options, and it certainly doesn't preclude more ordained ministers.

But importantly, it gives parishes the chance to identify what their local needs are, to think what they can sustain, and what opportunities they have to engage with their local context.

4. Sustaining Ministry

We know that many parishes are worried about Ministry Share. When Synod approved the new Share scheme, we explained that we will create a Ministry Support Fund to help with the transition. This will be made up as follows:

- Around £750k a year from the National Church for use in our lowest income parishes, and two thirds of that (£500k a year) will be used to maintain levels of stipendiary clergy in our 36 lowest income parishes. As an aside, although only 16% of our population are in the lowest 20% income areas, the parishes that contain these areas have nearly 60% or three fifths of the population of the diocese. This is not new money – but it will be more clearly used in the new Ministry Support Fund for its intended purpose.
- We then need additional support for parishes who aren't able to meet the cost of the ministry they receive – £64,500 for an average income parish with a full-time stipendiary minister (adjusted up or down where member incomes are higher or lower). This part of the fund will gather around £2 million of contributions. £0.5m will come from money gained from applying total return, £0.5 million from our normal unrestricted reserves, and £1m from the generosity of parishes whose Ministry Share has gone down and can afford to contribute more to support others.
- In total, £4.6 million to support the provision of stipendiary parish clergy – provided through the Ministry Support Fund that will have the effect of lowering Ministry Share in the benefices that need it over the next few years.

4. Healthier Churches Fund

Alongside that, Bishop's Council is establishing the Healthier Churches Fund, which will support parishes in reaching out into their communities and engaging with new people.

£2.5 million will come from the money gained from applying Total Return[1], and there is a further £250k a year from the other third of the Lowest Income Communities money.

The application process will be as simple as we can make it – 2 pages of A4 for most projects - we want it to be accessible to all churches wherever they are; and we will want parishes to think through carefully what impact they think their proposal will have. We need to be really good stewards of the money – it sounds like a lot but it will go quickly.

Most grants will be less than £10k – enough to help parishes get started with a new congregation, or a new community work or outreach programme. Some will be larger, and we will welcome applications from deaneries or larger groupings of parishes as well as individual churches and benefices. There might be a couple of much larger projects, although these will clearly need to benefit a large number of parishes. What seems critical is ensuring that we get maximum value from the fund in terms of its impact.

We will also offer help to parishes to think through what they might do with a programme of Mission Accompaniers that Synod will consider in the next item of business.

Synod Action

Synod are asked to take note.

John Preston, Diocesan Secretary,
15th October 2021

[1] less whatever we need to pay to the Cathedral Chapter to cover what's called dilapidations in relation to passing back the Old Palace building.