

**NEWCASTLE DIOCESAN SYNOD
NEWCASTLE DIOCESAN BOARD OF FINANCE**

2018 CONTINGENCY BUDGET PLANNING

Note by the Secretary

Members of the Diocesan Synod are invited to consider the proposals set out in this paper which are offered in good faith to mitigate some of the challenges that the Synod will face in 2018 and beyond in light of evidence that the overall Parish Share contribution for 2018 is forecast to be 93% of the amount requested.

The Diocesan Synod is invited to agree the measures set out in this paper to help compensate the loss of income and for these measures to be put in place with immediate effect.

1. INTRODUCTION

At a meeting of the Diocesan Synod held on 30th September 2017 the Synod agreed the budget for 2018. The agreed budget included:

- A Parish Share request of **£4,998,498** which was an uplift of **+2.4%** to the 2017 Parish Share request;
- Expenditure of **£7,636,062** allocated over five categories to support the vision for growing church bringing hope and including a £100K transfer to our strategic mission fund to help with future investments in mission and ministry;
- A request that Parochial Church Councils and District Church Councils make a 100% contribution to the Parish Share asked of them;
- A request that each deanery was to allocate the Share in full;
- The 2018 budget included a deficit of **£39K** which was within the agreed tolerance of +/- £50K for budget setting.

The budget recognised that the request about a 100% contribution to Parish Share would result in parishes being asked to increase their contributions and following the budget consultation the overall increase to the Parish Share request was limited to a below inflation increase.

2. WHY WAS IT NECESSARY TO ASK FOR A 100% CONTRIBUTION TO PARISH SHARE?

It was a big ask to seek parishes to contribute 100% of the Parish Share request and in hindsight it may have been over optimistic. So why was the request made? The 2017 budget was the first budget which began to introduce changes to the way in which the National Church helps to resource dioceses. This was a result of the Archbishops' programme called Renewal & Reform and over a ten year period our National Church funding will reduce from a starting point in 2016 of £1.4M to circa £800K per annum. In fact 2017 saw the first reduction in National Church funding and if we were to compensate for the loss of funding, if all things remained equal, we would need to add +1.0% to the Parish Share request before considering any other changes. Our budget for 2018 included a further reduction in income from the National Church.

As well as a reduction to the income from the National Church there are other reductions to income that the Diocese has benefited from in recent years. For example, our links with the Diocese of Winchester have, for some time, included a generous £70K per annum contribution but this cash gift is now reducing over a three year period and 2018 was the first budget to include a £35K drop in income from our link Diocese of Winchester.

In addition the Board of Finance is now responsible for the funding of additional posts. Two posts supporting the work to resource the selection of ordinands for training work were previously funded by the Bishop's Office but the work has always been a diocesan responsibility. Although we must recognise that the diocesan budget benefitted from the arrangement subsequent changes to the resourcing of bishops has meant the work of the Director and Associate Director of Ordinands is very much a diocesan responsibility and this work is now resourced through the diocesan budget.

There are, of course, some new posts but some are fully funded by third parties and therefore not all new posts result in a further call on the Parish Share. However, new posts including the deputy safeguarding adviser (part-time) and the communications officer (part time) are diocesan responsibilities and these were included in the 2018 budget.

In other areas, such as parochial fees, we have seen a decline in the amount of income that is received for occasional offices (weddings and funerals). Fees received in 2017 were £321K; in 2016 £370K; and in 2015 £415K.

As a result of all of the above there was a need to call on the generosity of parishes to make every effort to contribute the full amount of Parish Share allocated to them through their deanery.

3. WHY IS IT NECESSARY TO CONSIDER A CONTINGENCY BUDGET?

The need for a contingency budget has arisen because:

- The Budget for 2018 was based on a 100% collection of Parish Share. The actual collection rate in 2017 was 93% and our forecasts and information from the deaneries indicate that there will be a small hope of improvement in 2018; and
- Our reserves policy is for three month's operating costs (£1.8M) and the NDBF is finding it challenging to meet this policy and is not able to carry a £389K shortfall in Parish Share receipts.

These factors caused the Finance Group to ask for a contingency budget to be drawn together to be presented to the Bishop's Council. The stark reality of the situation is that achieving a 93% collection in Parish Share in 2018 would lead to a cash shortfall of some £389K. Having reviewed the position and agreed the need to take some action to limit the cash deficit the trustees have agreed, for this year, that a £100K deficit would be tolerable.

4. WHAT DOES PARISH SHARE FUND?

Parish Share funds:

- The 'monthly pay' (called a stipend) of clergy across the diocese who hold full or part-time paid roles. **It does not fund** the stipends of our Bishops, the Dean of the Cathedral

and two of the ‘residential canons’ at the Cathedral the costs of which are met by the National Church through the Church Commissioners.

- The staff employed by the Diocesan Board of Finance except where other partners cover the full, or part, cost of these posts. For example we receive full funding for the posts of:
 - Director of Discipleship and Ministry for Mission; Pastoral Care & Counselling and for our Spirituality Adviser post; and
 - For others, such as our Transformation & Strategy Programme Manager, Inspired North East Manager and Continuing Ministerial Development Officer (CMD) we receive part support.

These gifts of funding help us with our mission and outreach.

- The cost of maintenance and repairs for our housing stock which is made up of vicarages, houses for curates as well as housing for our suffragan bishop, our archdeacons and some supporting ministers.
- Contributions to the National Church, which are set by the General Synod, for the training of our future clergy, for central church administration and national schemes including CHARM which provides housing for retired clergy.
- Parish Share **does not fund** the staff employed by the Cathedral or by the Bishop at Bishop’s House. These costs are met by the National Church through the Church Commissioners.

We incur significant expenditure on a monthly basis which is why our reserves policy is so important. For example, the pay and pension contributions for our clergy and the staff engaged by the Board of Finance exceeds **£420,000 per month**. Therefore, to illustrate the need to hold cash reserves it may be helpful to note the monthly Parish Share receipts for the first quarter of 2018 were: Jan £216K; Feb £257K; and Mar £287K, all significantly less than the Board’s outgoing expenditure on stipends and pay.

5. REALIGNING THE 2018 BUDGET

In preparation for this meeting of the Diocesan Synod the Bishop’s Council has considered some amendments to the original budget which would help to lever in budget reductions of some £221K. This is less than the potential £389K shortfall but the amendments will help to introduce some financial stability and **ANNEX1** sets out to illustrate the impact of the proposals. The proposed reductions are split across the following categories:

	Budget 2018	Contingency Budget	change
Investing in today’s ministry	4,595,082	4,375,833	-4.8%
Building capacity for tomorrow’s church	1,552,766	1,606,954	+3.5%
Bringing hope through partnership	263,645	233,029	-11.6%
Legal & Governance supporting our mission	425,138	422,845	-0.5%
Supporting a growing church	699,431	683,623	-2.3%
Strategic Mission Fund	100,000	93,000	-7.0%

INVESTING IN TODAY’S MINISTRY: REDUCTIONS TOTAL £219.3K

- Reduction in the funding available for paid clergy posts. The original budget resourced 92.0FTE parish clergy and the amended budget reduces this to 87.0FTE.

The budget presented to the Synod assumed 92.0FTE clergy in post (permanent posts not training posts) out of a total establishment of 108.50FTE. Decreasing to 87.0FTE would give a vacancy rate of 19% in 2018. The number of FTE (full time equivalent) in post at 15 March was 86.0FTE.

- A 5.0% reduction to the housing budget (from £562K to £534K).
Impact would be in the delivery of ingoing works and the repair/maintenance of items which are classed as non-urgent.
- Clergy CMD Training budget reduced by £3.5K (to 90% of original budget)
In line with other activity costs the training budget is reduced to 90% of original budget.
- Activity expenses of all other Office Holders in this budget heading reduced by £2.8K (to 90% of original budget).

BUILDING CAPACITY FOR TOMORROW'S CHURCH: INCREASE TOTAL £54.2K

- Increase in training posts to account for greater than expected full-term four year curacies (from 16.0FTE to 18.0FTE).
In looking at a contingency budget that is seeking budget reductions it would be a sensible question to ask why this budget heading has increased and explanation is therefore useful. Essentially, training posts (curates) can extend to four years. Our budget assumptions have been based on previous experience and, in the main, most have transitioned to incumbent level posts at or around year three. At present we are expecting more to complete a full four year term.
- Curate CMD training reduced by £2.3K (to 90% of original budget).
- Activity expenses of all Office Holders in this budget heading reduced by £6.7K (to 90% of original budget).

BRINGING HOPE THROUGH PARTNERSHIP: REDUCTIONS TOTAL £30.6K

- Grant to Education Board reduced, in line with diocesan activity expenditure to 90% of original budget from £152K to £137K. This grant is, of course, not the full amount of the Education Board's budget and a 10% reduction in grant funding would result in a 5% budget reduction for the Education Board.
- £1.5K reduction to TASK GROUPS (90% of original budget).
- A vacancy with the PARTNERS (PICA) Officer post (with corresponding reduction in income from PICA).
- Activity expenses of Office Holders in this budget heading reduced by £345 (to 90% of original budget).
- The Trustees have identified a further £11K of savings within this budget heading.

ESSENTIAL LEGAL & GOVERNANCE: REDUCTIONS TOTAL £2.3K

- Reduction limited to activity expenses to 90% of original budget. There is no scope at this stage to realign legal work, Safeguarding or the staffing of the DAC/DMPC.
- The additional post included in the 2018 budget for Deputy Safeguarding Adviser was essential and a requirement of the Independent Audit of our safeguarding activities carried out in 2016. This post has been filled.

SUPPORTING A GROWING CHURCH: REDUCTIONS TOTAL £15.8K

- The Trustees have identified budget reductions of £14.5K for this budget heading.
- Activity expenses and training of Office Holders in this budget heading reduced by £1.5K (to 90% of original budget).

TRANSFER TO STRATEGIC MISSION FUND: REDUCTION TOTAL £7K

- This reduction is in line with the forecast shortfall in Parish Share. Original budget proposed a transfer of £100K to Strategic Mission Fund. Reductions in this area limit our potential to lever in funding and investment for new mission initiatives.

6. ISSUES

Issues for the Synod to consider which arise from the reductions set out above:

- Deliverability in the short term (eg: aspects of housing expenditure are demand led).
- Although the reductions are driven by forecasts and concerns raised about Share collection there is a potential negative reaction at parish level with a consequential risks to Parish Share collection.
- The measures set out in this paper help to reduce the cash deficit but the trustees will still need to identify a further £67K of savings if the budget is not to breach a £100K cash deficit.
- A potential disconnect between this and the *Growing Church Bringing Hope* strategy and vision.

7. RESERVES/CASHFLOW

The NDBF policy is to hold cash reserves at a sum equivalent to 3 months budgeted running costs. If expenditure runs in line with the proposed budget reductions there will be a shortfall in cash reserves. Our 2018 cashflow forecasting shows this shortfall peaks in August as a low interest £500K loan becomes repayable to CCLA. At that point actual reserves will be £1.04m against a requirement of £1.83m (43.4% shortfall). The position improves to a 20.1% shortfall by the year end. Reserves then are forecast to be at just under 2.5 months of budgeted running costs. Some key risks presented by the shortfall are summarised as follows:

Risk	Mitigation
Unable to pay bills at they become due for payment due to short term fluctuations in cash.	Maintain a minimum ceiling of cash reserves equivalent to 1 months running costs.
Insufficient cash to meet the Growing Church Bringing Hope strategy and vision.	Maximise external funding opportunities or opportunities to redirect existing resources. Keep strategy under review in the light of available resources.
Reduced financial strength to operate as a going concern into the future.	Cash must be maintained at a level sufficient to cover any projected operating deficits (eg: through shortfalls in Parish Share collection). Budget limits should be revised if necessary to maintain the required cash balance. Therefore ongoing budget contingency planning is important.

A mortgage facility of £385K had been expected to be drawn down in 2018 and this would have helped the cashflow but this was aborted due to complications raising the sum on the selected property. The Finance Group will be reviewing other options in relation to property and property transactions.

8. ACTIONS FOR THE MEDIUM TERM

In the medium term the Finance Group will develop the Treasury Management and Asset Management strategies with a view to increasing financial gains in order to:

- (i) **secure** additional resources for ongoing operations and investing in growth; and
- (ii) **address** pressures on cash reserves.

9. DEFICIT AND TOLERANCE

When the Finance Group considered the contingency planning on 8 March the Group would like to have seen a range of options for consideration ranging from less than a 93% collection to a greater collection. The measures set out in this paper would achieve reductions of £221K which will leave a potential £169K cash deficit. This is modelled on a 93% contribution to Parish Share in 2018.

The budget agreed at the 30 September Diocesan Synod included a deficit of £39K which was within the tolerance level +/-£50K previously agreed by the Board of Finance. The tolerance for 2018 has been increased to accommodate a £100K deficit for 2018. To achieve this the trustees will need to identify further reductions or additional income sources.

The Bishop's Council met on 20th March and supported the proposals set out in this paper.

10. ACTIONS FOR TODAY

Synod members are invited to note the current financial position and to consider the measures set out in this paper and **that the contingency budget proposals for 2018 be agreed.**

2018 BUDGET SCENARIOS SUMMARY

The approved budget scenario is a deficit of £39k

	£000s
Expenditure	7,636
Funded by:	
Parish Share Income	4,998
Other Income	2,598
Deficit	39

The effect of the shortfall in Parish Share INCREASES the deficit to £389k

	£000s
Expenditure	7,636
Funded by:	
Parish Share Income	4,649
Other Income	2,598
Deficit	389

The full year impact of the contingency budget REDUCES the deficit to £169k

	£000s
Expenditure	7,415
Funded by:	
Parish Share Income	4,649
Other Income	2,598
Deficit	169

