

BUDGET 2019

Introduction

Diocesan Synod is invited to consider and, on the recommendation of Bishop's Council, (i) approve the Diocesan Budget for 2019 and (ii) authorise the expenditure of a sum for the Unrestricted General Fund not exceeding £13M.

Budget 2019

The 2019 Budget for the Unrestricted General Fund that is recommended for approval is an operating deficit of £602K (see Appendix I). This compares to the 2018 Budget deficit approved last year of £575K.

It is proposed that the deficit will be funded, in part, by a transfer from the Diocesan Pastoral Account of up to £500K. These funds will be applied for the repair of parsonages and mission projects, thereby releasing funds held in the Unrestricted General Fund towards regular diocesan expenditure, including the payment of stipends as a result of insufficient levels of Parish Offers.

The overall cash balances are budgeted to increase from the forecast year-end balance of c£9.8M to £15.0M. This is principally due to disposals of glebe property planned next year.

The Diocese has had to deal with increasing costs of compliance, including safeguarding and data protection, as well as the transfer of costs from the national church, including clergy pension deficit payments. All this has been contained within the envelope of Diocesan expenditure and has not been fully passed onto parishes. During this period, the Diocesan Office has managed its resources effectively.

The Financial Strategy, adopted by Synod in March 2018, was to break-even by 2020. This was to be achieved principally through a combination of moderate increases in Parish Offers and moderate reductions in stipendiary clergy posts. The overall strategy is maintained but as the operating deficit position of the Diocese has not improved as much as we had wanted, it is likely to take another year, i.e. 2021, to achieve this and is contingent upon the successful implementation of the proposal for Indicative Offers (with Parish Offers rising over 3 years from £9.2M to in excess of £10.2M) and further reductions in stipendiary clergy provision of 5 p.a. being made for 2020-2023.

The budget has been arrived at after applying transfers from Trust for London to fund additional posts in connection with Called Together (see below) and the capitalising of certain property expenditure. These together reduce the budgeted deficit from some £1.1M to £802K. This has been further reduced by budgeting for a reduction of £100K in the Diocesan Office expenditure, to be achieved through savings made in each department, and £100K in property repairs and maintenance (whilst maintaining its commitment to £500K of catch-up work; of which the balance of £250K falls in 2019) and, subject to Bishop Council's approval, seeking Strategic Development Fund funding for two new posts. These reductions will not be without pain. Consideration

is being given to how further capital may be released to improve the overall condition of our parsonages.

Base Case and Key Assumptions

The detailed assumptions to the Budget include as follows:

- The stipendiary clergy posts are budgeted to reduce to 182.2 (2018F: 184.6; 2017A 184.5) and with vacancies budgeted at 9.3% (2018F: 9.0%; 2017A: 9.7%) giving an actual budget of 165.0 (2018F: 168.0; 2017A 166.6).
- A 6 stipendiary curates intake from June 2019, giving a total of 25.5 (2018F: 26.5; 2017A: 29.5).
- Parish Offers budgeted at £9.45M (2018F: £9.22M; 2018B £9.74M; 2017A: £9.34M).
- Maintaining current arrangements with Lay Staff Defined Pension Scheme (with an employer's contribution rate of 37.8%).
- A 2.0% increase in Diocesan Staff salaries from 1 April 2019;
- Property Repairs of £750K (2018F £750K; 2017A: £535K), now budgeted to reduce to £650K as a result of a £100K saving. A £500K programme is being implemented to address the backlog of urgent quinquennial repairs in addition to the budgeted expenditure.
- Of the sale of Development Land in Yalding for £5.1m gross in the early part of 2018, £3M has been invested in funds managed by our Investment Managers. Of the balance of cash raised, Bishop's Council has stated its intention to seek to apply c£500K over the next 3 years for Archdeaconry mission enablers. This will be funded through the Diocesan Pastoral Account.

The Level of Diocesan Expenditure

In November 2017, the Diocese launched Called Together, our new strategic framework. This strategy focuses on growth, and aims to support parishes to grow disciples, enrich communities, and resource mission and ministry at every level. To deliver some of this work to the desired level will require additional staff resource. This includes 2 additional part time posts in the Children and Young People team and an additional part time post in the Mission & Community Engagement team. This is to be funded through realignment of existing diocesan funding, Trust for London and Strategic Development Fund (SDF) funding from the Church Commissioners.

As referred to above, Bishop's Council has stated its intention to apply c£500K over the next 3 years for Archdeaconry mission enablers. This will be facilitated through release of funds from the Diocesan Pastoral Account to the Unrestricted General Fund.

A bid for SDF funding is being made to Church Commissioners to support growing churches, discipleship and children and young people. Bishops Council will receive a separate paper on this.

The expenditure of the Diocese was last reviewed in detail in 2016. All departments have produced a detailed budget as part of this exercise.

Detailed monthly management accounts scrutinizing expenditure and cash-flow (including capital movements) are produced and reviewed. During 2018, cash flow projections were enhanced by detailed capital plans. There are strong levels of budgetary control in place. There remains confidence that we have a tight rein over all expenditure and cash flow.

Much of the expenditure for the Diocesan Office is related to staff that we employ. We are budgeting the headcount of full-time equivalents of 33.4 (2018: 32.4). In relation to other dioceses, the central support function remains comparatively low.

Cash Flow and Fund Value Projections

For the first time, the Diocese has presented a Capital Budget comprising envisaged property disposals and additions and project expenditure. Inevitably, they are estimations both in terms of value and timing.

An overall cash flow monthly analysis, combining budgeted operating and capital movements has been prepared. This shows that overall cash balances are budgeted to increase from the forecast year-end balance of c£9.8M to £15.0M. This is principally due to disposals of glebe property planned next year.

We also show for the first time the budgeted movement in funds. The Unrestricted General Fund is due to be bolstered through the one-off asset transfer of the houses occupied by the Archdeacons and the Suffragan Bishop to the Stipends Capital Account and at the end of 2018 is forecast to be standing at £4.2M. The Unrestricted General Fund is expected to fall to £3.5M at the end of 2019, although if the projected deficit is part-funded through the Diocesan Pastoral Account, then the Unrestricted General Fund will only reduce to £4.0M.

Unrestricted General Reserves are held to finance working capital requirements (principally stipends, salaries and associated pension commitments and property costs) not matched by simultaneous receipt of income. The budgeted amount required under this policy is c£3.25m. The five-year financial plan places heightened emphasis on cash requirements and liquidity of assets and, as a consequence, the Bishop's Council will be keeping its Reserves Policy under review.

Bishop's Council has previously discussed the importance of carrying excess reserves in order to cover unforeseen eventualities and the possibility of any future operating deficits before the intended breakeven position is reached. The Council is aware of the need to maintain sufficient liquid assets for ongoing requirements.

Parish Pledged Offers

As noted last year, action was required to refine the operation of the current Pledged Offer system. We planned to increase Parish Offers in 2018 by 2.5% on the 2017 Budget which meant a 4% increase on the 2017 Actual. This was a bold ambition without having yet implemented a new system and given that Parish Offers had not increased in absolute terms over the last five years. In the event, Parish Offers are

forecast in 2018 to reduce by £170K to £9.22M (2017A: £9.39M). This is despite many parishes faithfully increasing their offers at the called for rate of 4%.

On 5 September 2018, a consultation 'One Mission, Many Places' was launched on a proposal for 'Indicative Offers' per parish. Diocesan Synod has approved a consultation process on the proposal to enhance the existing Parish Offer system by introducing Indicative Offers for each parish. Whilst retaining the voluntary nature of Parish Pledged Offers, the Indicative Offer will enable parishes to assess their Pledged Offers based on the overall funding requirement of the whole Diocese for mission and ministry. It is intended that the Indicative Offer will in time represent a fair and reasonable rate of contribution for parishes to support mission and ministry across the Diocese.

It is hoped that by introducing a system of Indicative Offers and by targeted follow up with key parishes by the Archdeacons and Area Deans, supported by the Finance Team, that the level of Parish Offers may be increased to a level that will bring the Diocese to at least a break-even position.

The most interesting fact to note from our modelling is that the application of this formula for the whole Diocese implies a total income from Parish Offers of £10.15M. At this level, the Diocese would almost exactly break-even based on the budget for 2019 that is currently being considered. Which in other words means if the system is universally adopted and operating smoothly, the Diocese would not be in deficit. It should also be noted that the 2017 Parish Returns indicate that there is £18.7M of unrestricted cash and £18.8M of unrestricted investment in our parishes' balance sheets. This is significant, because it also means that with current resources, there would appear sufficient funds in the parishes to meet current needs.

A major issue, however, is how we transition to a new formula (assuming it is indeed adopted). There are of course some parishes who will see the Indicative Offer being lower than they are currently paying, and others whose Indicative Offer will be greater. During the period of consultation and the initial period of implementation, the Diocese simply cannot bear the risk of parishes reducing their Parish Offers where their Indicative Offer is lower and those who have a higher Indicative Offer not increasing their Parish Offer. All parishes who have a lower Indicative Offer than their current Offer are being invited to continue with their generosity and to at least maintain their offers with inflation over a period of three years until the system has stabilised. Parishes who are required to increase their Parish Offers will be phased in over three years. This will give time for fairness to be established and is planned to avoid a major disruption to the Diocesan financial situation and enable break-even to be reached within three years.

In order to mitigate potential issues arising, each parish's Indicative Offer has been reviewed. Issues arising are being followed up with the Archdeacons and Area Deans and directly with Incumbents, as appropriate. All parishes have received a letter with their calculation. All Area Deans are meeting individually with their Archdeacon and the Finance Director. All issues arising through the consultation concerning the Indicative Offer calculations are being followed up directly with parishes.

We have quantified the potential risk and evaluated what we believe we can achieve for an overall level of Parish Offers in 2019, bearing in mind that any new system will be adopted after many parishes have made their offers for 2019. It is our belief that there is sufficient ground to be reasonably confident in achieving a budgeted increase in Parish Offers to £9.45M in 2019, which compares to the current forecast for 2018 of £9.22M.

Financial Strategy & Five-year Projections

As referred to above, the overall strategy of seeking to break-even through a combination of moderate increases in Parish Offers and clergy reductions is maintained, but it is likely to take another year than envisaged last year to achieve break-even, i.e. by 2021.

Financial Projections have been modelled and flexed based on a number of scenarios to ensure that a range of eventualities are assessed, and the appropriate management action required. These are set out in Appendices II and III. The ability to achieve break-even in 2021, as modelled in the Rolling Five-year Financial Projections, will depend on successful implementation of a phased introduction of Indicative Offers with Parish Offers in 2019 of £9.45M, in 2020 of £9.80M; and in 2021 of £10.25M. In view of historic levels of Parish Offers, this is a significant increase, but for the reasons stated above we believe that it is achievable if parishes get behind the Diocesan strategy and respond supportively to the Indicative Offer system. The plan also includes reductions in stipendiary clergy being made of 5 p.a.. Again, these are significant in relation to recent reductions, but are considered achievable. During this time the level of cumulative deficit that will need to be funded is £1.1M.

Whilst successful implementation of Indicative Offers could see the period to reach break-even being shortened from 2021, it should be recognised that if the implementation of Indicative Offers is unsuccessful, the Diocese will remain in an increasingly difficult deficit position. The scenario of 'status quo', with no increases in overall Parish Offers and no reductions in clergy members would lead to the deficit increasing to £2.2M in 2023 and a cumulative deficit in the next 5 years of c£8M. This would be unacceptable and it is vital that we all work together as a diocese to ensure we achieve financial stability going forward.

Conclusion

We are inviting Synod to approve this budget. This is on the basis that management action is being taken to address the structural causes of the deficit. We believe that a break-even position on the Unrestricted General Fund could be achievable in the next three years, but this is only if all the parishes get behind the need to address the overall level of contributions currently being made.

The Rev Richard Williams BSc FCA
Finance Director

The Diocese of Rochester

SUMMARY BUDGET 2019

APPENDIX I

Common Fund (Unrestricted)

£	References	2017 Act	2018 B	2018 FC	2019 B	Variance 2018 FC Vs 2019 Budget
Incoming Resources						
		9,388,221	9,737,500	9,217,913	9,448,361	230,448
		35,689	35,000	20,000	10,000	(10,000)
		174,863	180,000	191,500	200,840	9,340
		377,022	394,270	363,473	452,520	89,047
		721,405	584,297	699,241	565,839	(133,402)
		243,047	220,000	280,000	280,000	-
		10,940,247	11,151,067	10,772,127	10,957,560	185,433
Resources Expended						
		6,272,500	6,381,846	6,403,603	6,391,690	11,913
		1,066,034	1,011,761	966,918	938,129	28,790
		175,248	162,248	167,442	170,000	(2,558)
		683,702	1,111,047	1,098,734	1,116,635	(17,900)
		262,650	275,646	281,853	315,101	(33,248)
		352,571	372,125	381,278	386,299	(5,021)
		94,486	215,496	85,000	101,000	(16,000)
		146,188	89,747	84,487	84,736	(249)
		136,828	127,767	131,223	144,807	(13,584)
		64,361	82,605	83,156	111,010	(27,855)
		114,265	128,244	114,336	121,399	(7,063)
		130,019	179,226	180,456	218,592	(38,136)
		63,314	114,952	84,952	88,603	(3,651)
		304,423	294,465	293,714	308,502	(14,788)
		365,848	326,545	331,895	363,931	(32,036)
		147,257	154,493	175,929	155,116	20,812
		197,840	131,825	220,000	150,135	69,865
		288,948	100,000	138,493	230,000	(91,507)
		109,032	114,354	114,405	114,580	(175)
		84,687	99,923	100,574	102,544	(1,970)
		860,048	881,423	939,481	995,533	(56,052)
		141,945	0	165,878	165,878	-
		74,000	116,273	100,000	90,000	10,000
		12,136,194	12,472,011	12,643,807	12,864,220	(220,413)
		(1,195,947)	(1,320,944)	(1,871,680)	(1,906,660)	(34,980)
Pension Scheme Credit						
	Vicars	(580,550)	(520,916)	(520,916)	(522,173)	
	Curates	(102,450)	(79,433)	(79,433)	(79,505)	
	Lay	(116,503)	(145,601)	(165,878)	(165,878)	
	Surplus/(Deficit) before impact of cash movement	(396,446)	(574,995)	(1,105,453)	(1,139,103)	
Funding from Other Funds						
	Clergy Conference contribution - TfL				20,000	
	Contribution to training costs - TfL				5,000	
	Y&C Called Together additional headcount - TfL				25,000	
	MACE Called Together funding from TfL				25,000	
	B&B Admin from TfL				12,000	
	Capitalisation of Parsonage and other property repairs				250,000	
	Overall Surplus/(Deficit)				(802,103)	
	Less Reduction in Diocesan Office				100,000	
	Less Reduction in Property Maintenance Costs				100,000	
					(602,103)	

The Diocese of Rochester
Five Year Financial Projections - Ready Reckoner

APPENDIX II

Operating Surplus/(Deficit) (£)

KEY ASSUMPTIONS	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
Base Case Scenario: Budget 19': Parish Offers 2.5% growth on 2018 Forecast of £9.2m and 2.5% growth pa thereafter; Reduction of 2.5 Stipendiary Clergy post in 2019 and 3pa for next four years; £250K capitalisation of property repairs; Current arrangements with Lay Staff Defined Pension Scheme; 2.0% increase in Diocesan staff salaries	(575,186)	(739,151)	(535,071)	(513,349)	(449,975)
'Status Quo' Scenario: Parish Offers 0% growth on 2018 Forecast of £9.2m and 0% growth pa thereafter; No reduction in Stipendiary Clergy beyond 2019F	(806,786)	(1,408,132)	(1,548,071)	(1,888,102)	(2,197,996)
Reaching Break-even Scenario: As 'Budget 18' above but phased introduction of Indicative Offers as per model in 2019 (£9.45M), 2020 (£9.80M); and 2021 (10.25M) and 2.5% thereafter; Vicars -5pa in 2020-2023	(575,186)	(489,816)	(9,682)	95,060	245,178

**The Diocese of Rochester
Summary Five Year Financial Projections**

APPENDIX III

Unrestricted General Fund

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	2016 Actual	2017 Actual	2018 Forecast	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
Incoming Resources								
Parish Offer	9,374,473	9,388,221	9,217,913	9,448,361	9,684,570	9,926,684	10,174,851	10,429,222
Professional Fees	35,000	35,689	20,000	10,000	10,200	10,404	10,612	10,824
Grants & Donations Received	225,260	174,863	191,500	200,840	204,857	208,954	213,133	217,396
Investment Income	406,137	377,022	363,473	452,520	461,570	470,802	480,218	489,822
Property Income -Glebe	880,182	721,405	699,241	565,839	577,156	588,699	600,473	612,482
Property Income -Non-Glebe	192,607	243,047	280,000	280,000	285,600	291,312	297,138	303,081
Total Incoming Resources	11,113,659	10,940,247	10,772,127	10,957,560	11,223,953	11,496,855	11,776,425	12,062,828
Resources Expended								
Incumbents Stipend and Pension	6,416,890	6,272,500	6,403,603	6,391,690	6,427,491	6,333,992	6,414,165	6,478,253
Curates Stipend and Pension	1,110,944	1,066,034	966,918	938,129	956,233	958,835	986,952	988,007
Removals & Resettlements	153,685	175,248	167,442	170,000	174,250	178,606	183,071	187,648
Clergy Property	1,057,364	683,702	1,098,734	1,116,635	1,144,550	1,173,164	1,202,493	1,232,556
Support Clergy and Office	257,057	262,650	281,853	315,101	322,979	331,053	339,330	347,813
Formation and Ministry	352,301	352,571	381,278	386,299	395,957	405,856	416,002	426,402
Ordinands Training	146,300	94,486	85,000	101,000	103,525	106,113	108,766	111,485
Other Ministry Costs	48,104	146,188	84,487	84,736	86,854	89,026	91,251	93,532
MACE	159,074	136,828	131,223	144,807	148,427	152,138	155,941	159,840
Youth and Children	97,041	64,361	83,156	111,010	113,785	116,630	119,546	122,534
Strategy & Implementation	158,102	114,265	114,336	121,399	124,434	127,545	130,733	134,002
Safeguarding	130,140	130,019	180,456	218,592	224,057	229,659	235,400	241,285
Communications	104,452	63,314	84,952	88,603	90,818	93,088	95,415	97,801
Legal & Secreatariat	317,333	304,423	293,714	308,502	316,214	324,119	332,222	340,528
Finance & Stewardship	284,322	365,848	331,895	363,931	373,029	382,355	391,914	401,712
IT	88,560	147,257	175,929	155,116	158,994	162,969	167,043	171,219
Glebe property costs	168,527	197,840	220,000	150,135	153,888	157,736	161,679	165,721
Non-Glebe property costs	107,971	288,948	138,493	230,000	235,750	241,644	247,685	253,877
DAC	113,665	109,032	114,405	114,580	117,444	120,380	123,390	126,474
Other Office Costs	0	84,687	100,574	102,544	105,108	107,735	110,429	113,189
Contributions to National Church	821,852	860,048	939,481	995,533	1,045,310	1,097,575	1,152,454	1,210,077
Lay pension deficit funding	145,601	141,945	165,878	165,878	165,878	165,878	165,878	165,878
Interest on pension scheme deficits	176,158	74,000	100,000	90,000	90,000	90,000	90,000	90,000
Total Resources Expended	12,415,443	12,136,194	12,643,813	12,864,220	13,074,976	13,146,096	13,421,760	13,659,833
	(1,301,784)	(1,195,947)	(1,871,686)	(1,906,660)	(1,851,023)	(1,649,241)	(1,645,335)	(1,597,005)
Pension Scheme Credit								
Vicars	(581,224)	(580,550)	(520,916)	(522,173)	(524,631)	(517,021)	(523,546)	(528,763)
Curates	(101,776)	(102,450)	(79,433)	(79,505)	(80,766)	(80,986)	(83,361)	(83,450)
Lay	(145,601)	(116,503)	(165,878)	(165,878)	(165,878)	(165,878)	(165,878)	(165,878)
Operating Surplus/(Deficit)	(473,183)	(396,444)	(1,105,459)	(1,139,103)	(1,079,748)	(885,356)	(872,549)	(818,914)
Funding from Other Funds								
Clergy Conference contribution - TfL				20,000	20,500	21,013	21,538	22,076
Contribution to training costs - TfL				5,000	5,125	5,253	5,384	5,519
Y&C Called Together additional headcount - TfL				25,000	25,625	26,266	26,922	27,595
MACE Called Together funding from TfL				25,000	25,625	26,266	26,922	27,595
B&B Admin from TfL				12,000	12,300	12,608	12,923	13,246
Capitalisation of Parsonage and other property repairs				250,000	256,250	262,656	269,223	275,953
				(802,103)	(734,323)	(531,295)	(509,637)	(446,929)
Reduction in Diocesan Office Costs				100,000				
Reduction in Property Maintenance Costs				100,000				
Budget Proposed to Synod				(602,103)				
Interest gain/(loss) on cash expended				26,917	(4,828)	(3,776)	(3,712)	(3,046)
Overall Surplus/(Deficit)	(575,186)	(739,151)	(535,071)	(575,186)	(739,151)	(535,071)	(513,349)	(449,975)
Net Cash & S/t Investments Position								
Cash b/f				Est 9,810,777	15,221,043	14,250,617	13,491,660	12,745,526
Operating Surplus/(Deficit) (as above)				(602,103)	(734,323)	(531,295)	(509,637)	(446,929)
Pension Deficit Funding				(767,557)	(771,276)	(763,885)	(772,786)	(778,091)
Non-cash interest on pension liabilities				90,000	90,000	90,000	90,000	165,878
Net Projects Inflow/(outflow) (Schedule IV)				(853,542)	(250,000)	(250,000)	(250,000)	(250,000)
Property Disposals				11,598,550	950,000	950,000	950,000	950,000
Property Additions				(4,081,999)	(250,000)	(250,000)	(250,000)	(250,000)
Closing Cash				15,194,126	14,255,444	13,495,436	12,749,238	12,136,384
Interest gain/(loss) on cash expended				26,917	(4,828)	(3,776)	(3,712)	(3,046)
Cash C/f	15,221,043	14,250,617	13,491,660	15,221,043	14,250,617	13,491,660	12,745,526	12,133,338

1.0%