Financial Position, Projections and 2023 Budget

Diocesan Synod

18 June 2022

What this will cover

- Reminder of the Diocesan financial position
- Reminder of the financial plan for 2022-26
- Update on 2022 performance to date
- Revised investment approach
- Budgeting for 2023
- Questions

Financial position

DIOCESE OF ST ALBANS
Living God's Love

- Diocesan finances rely on generous support from parishes through the payment of Parish Share – this will continue in the future

- In return parishes receive clergy appointments and additional support provided centrally for parishes services and initiatives

Financial position

- Generally balanced budgets until 2019
- Negative impact of pandemic in 2020 and 2021
  - £500k deficit in 2020, £413k deficit in 2021
- Parish share recovery reduced from 94-95% in 2016-2020 to:
  - 90% in 2020, 91% in 2020
- Impact lessened by reduced expenditure and increased investment income

Financial projections for 2022-26

DIOCESE OF ST ALBANS
Living God's Love

- Deficits at levels of 2020 and 2021 are unsustainable
- If no significant action taken:
  - Potential for reserves to be exhausted in 5-10 years
  - Major challenge to balance income and expenditure
  - Against background of increased inflation

Financial projections for 2022-26

- Financial modelling enables various scenarios to be considered
- Initial projections gave cumulative deficits of £3.0 – 6.2 million
- Following consultations, an action plan has been developed under the title: *Rising to the Challenge, Mission, Ministry and Money*

Action plan 2022-26

DIOCESE OF ST ALBANS
Living God's Love

- Action plan presented to Synod in March 2022
- It aims to return to annual financial surpluses by 2025 at a total cost of £530k, but with a negative position of £1.5 million at the end of 2024
- The plan was recognised as being deliverable but fragile - requiring strong implementation in each of the areas identified for action

Action plan 2022-26

DIOCESE OF ST ALBANS
Living God's Love

- Diocesan Office economies
- Parish Share recovery
- Curate numbers
- Stipendiary clergy numbers
- Maximising return on housing
- Maximise return on assets

Diocesan Office economies

DIOCESE OF ST ALBANS
Living God's Love

Target £225k savings per annum from 2023, achieved by:

- New terms and conditions for staff, reducing pension costs
- Economies through retirements etc
- Targeted reduction in staffing in line with diocesan priorities - made more difficult through increased staffing in some areas
- Contribution from rental income from sub-letting

Parish Share recovery

- Target 92% of request in 2022, rising to 94% of request in 2026
- After 5 months that on target to achieve 92% recovery in 2022, but inflation has not yet had significant impact in most parishes
- Significant (late) payment of 2021 increasing recovery to 91.7%
- Developing resources to explain finance, parish ministry costs and the need for increased parish share recovery

Stipendiary curate numbers

- Up to 14 new stipendiary curates each year in recent years with part-funding for additional curates from national church
- Target to reduce to 10 new stipendiary curates each year from 2023
- Deployment Group have reviewed pipeline and confirmed stipendiary curate numbers are on target
- By 2025 stipendiary curate numbers will have been reduced by 12

Stipendiary clergy numbers

DIOCESE OF ST ALBANS
Living God's Love

- In recent years small reductions in clergy numbers where there has been an overwhelming case for pastoral reorganisation
- Recognition that some benefices/parishes have limited prospect of contributing the costs of a stipendiary clergy appointment
- Therefore expectation that further small reductions in stipendiary clergy numbers will be likely

Stipendiary clergy numbers

- Reductions to be achieved through retirements where possible – always following discussion in deaneries and formal consultation
- Reductions to be achieved in a measured way and without urgency or immediacy
- Clergy numbers to be maintained as high as possible - success with other measures could reduce the need for pastoral reorganisation

Maximising return on housing

DIOCESE OF ST ALBANS
Living God's Love

- Maximise income from commercial letting of diocesan property not immediately required for stipendiary clergy, including curates
- Housing stock to be maintained to maximise operational flexibility and asset values for future generations
- Greater expenditure planned on repair, maintenance and improvement to maintain the value of housing stock

Maximising return on assets

- Historically trustees of permanent endowment funds have ordinarily been allowed to spend only the income from investments: interest, dividends, rents etc
- Since 2016 trustees have been able to adopt a total return approach to investment - this gives a return including both income from investments and a distribution from the capital value of investments

Maximising return on assets

DIOCESE OF ST ALBANS
Living God's Love

- The DBF have adopted a total return approach based on:
  - a distribution policy of 3.5% of total asset value
  - calculated on the average of capital values at the end of the preceding five years
  - with a baseline of end 2017 capital value
- Particularly appropriate given substantial increase in the value of Glebe assets since 2019

Maximising return on assets

- Total return on investment will generate a substantially higher return than our traditional investment approach
- In 2022 additional income to our common fund will be £642k
- Similar (and increasing) additional income is expected in subsequent years

Overview of the action plan 2022-26

DIOCESE OF ST ALBANS
Living God's Love

- There is no complacency, but there are good indications of the potential to deliver the financial transformation set out in the action plan

Impact of external factors

DIOCESE OF ST ALBANS
Living God's Love

<u>Positive</u>

- Reduction in contribution to clergy pension scheme from January 2023, worth c.£250k per annum

<u>Negative</u>

- Impact of inflation putting pressure on central costs, parish expenditure and likely to impact on parish share contributions

Additional funds available in 2022

- Action plan was developed on the previous investment policy – application of the total return investment distribution produces £642k additional income for the common fund
- Some will need to be used to support common fund deficit in 2022
- Leaving some available to be designated for to support growth, net zero carbon, buildings and other projects

Investing in growth not decline

DIOCESE OF ST ALBANS
Living God's Love

- The action plan for 2022-26 was about managing decline
- We need to ways to support and encourage growth in our parishes and to make ourselves fit for the future through net zero carbon and buildings and other projects

Decision making for 2022

DIOCESE OF ST ALBANS
Living God's Love

- The DBF will be asked to decide on use of additional 2022 income between supporting the common fund deficit and investing in supporting project initiatives
- Bishop's Council will be asked to decide on strategic priorities and allocation of funds between project initiatives

Budgeting for 2023

- New ‘bottom-up’ approach to budgeting
- Transparency on all income and expenditure
- Budget Scrutiny Committee advising on policy, assumptions and targets
- Recommendation to be approved by DBF
- Budget to be approved by Synod

Budget assumptions - expenditure

- Clergy stipends to increase by 4% from April (based on national church recommendation)
- Clergy pension contributions to reduce to 28% from January
- DBF staff salaries to increase by 4% from July
- Diocesan office economies of £225k
- Increased expenditure on repair, maintenance and improvement of housing stock

Budget questions for discussion - 1

- Should we plan a balanced budget or a deficit of c.£250k
- Financial projection forecast deficit in 2023 of £449k
- Deficit would be funded from reserves

Budget questions for discussion - 2

- Should Parish Share request be:
  - held at £14 million (as 2022)
  - increased to £14.28 million (up 2.0%)
  - something else
- Parish share since 2019 has been significantly behind inflation
- Reductions in membership increase parish share expectation per member

Budget questions for discussion – 3

DIOCESE OF ST ALBANS
Living God's Love

- For additional investment income from total return, what balance should there be between:
  - subsidising current expenditure to keep parish share increase request low
  - investing in parish projects to support initiatives in growth, net zero carbon and buildings projects

Budget assumptions - income

- Parish Share request around same level as 2022 (£14 million)
- Parish Share recovery of 92.5%
- Total return investment return applied across common fund and allocation to designated funds around areas parish growth, net zero carbon and buildings projects

Budgeting process

DIOCESE OF ST ALBANS
Living God's Love

- DBF reviews budgeting progress in July
- Budget Scrutiny Committee reviews Synod and DBF feedback
- DBF considers and proposes budget in September
- Diocesan Synod approves final budget in October

Reminder about Parish Share

DIOCESE OF ST ALBANS
Living God's Love

- The questions for discussion are on the margin of diocesan finance
- The central message is that Parish Share will remain critical to maintaining and developing mission and ministry in the diocese
- We give thanks to God for the generosity from parishes and from individuals within parishes
- That continuing generosity will be needed to enable Living God's Love across the diocese in future years