

Paper G3

M&M Fund budget for 2022

Finance Committee

Basic information

| | |
|---------------------------------------|---|
| Contact name and email address | Ian Hardie ianzhardie@googlemail.com Vaughan Griffiths deputy.treas@urc.org.uk |
| Action required | Decision. |
| Draft resolution(s) | Assembly Executive adopts the M&M Fund budget for 2022 as set out in the Appendix to paper G3 for November 2021 Assembly Executive. |

Summary of content

| | |
|---|---|
| Subject and aim(s) | The paper presents a budget for 2022 to be considered for adoption by Assembly Executive. |
| Main points | <p>In future, pension deficit contributions and payments will not be dealt with through the M&M Fund.</p> <p>Income in 2022 is likely to be substantially reduced as a result of lower expected contributions from local churches.</p> <p>Expenditure is expected to rise mainly as a result of increased future service pension costs and some salary cost increases.</p> <p>The result is a budgeted deficit of around £2.7 million which is manageable for next year; but would be unsustainable in the longer term.</p> |
| Previous relevant documents | <p>Paper E1 for November 2020 Mission Council.</p> <p>Re the pensions position – papers G3 for General Assembly 2021 ‘URC Pension Schemes – current challenges – a family problem requiring a family solution’ and G4 ‘URC Future Pensions – time for a change of approach’.</p> |
| Consultation has taken place with... | Budget holders and the URC Trust Our investment managers and a major grant awarding body. |

Summary of impact

| | |
|-----------------------------------|--|
| Financial | Failure to adopt a budget would create uncertainty around the denomination’s financial arrangements for next year. |
| External (e.g. ecumenical) | None. |

1. When we presented the draft 2021 budget for consideration by Mission Council at its meeting in November 2020, we emphasised the uncertainties the denomination faced as a result of the pandemic. These uncertainties are still with us. Although it is clear that a number of local churches are not going to reopen following lockdown closure or may decide to close in the near future, the numbers involved and their potential impact on M&M contributions is presently unclear. Nonetheless, the Finance Committee presents the draft budget for next year as set out at column three of the attached Appendix: with the same proviso as last year, namely that the budgeted M&M contributions may be less reliable than usual. This draft budget has been reviewed by the directors of the URC Trust and it has their support.

The MPF Pension Deficit

2. By the time Assembly Executive meets it is hoped that all the synod trusts will have formally agreed their respective contributions to clearing the current Ministers' Pension Fund deficit. It is also expected that, by the end of the year, some synods will have contributed around £7 million toward ministers' pension support. It has been agreed with the synods that, starting in 2021, all such contributions by synods and the URC Trust as well as the deficit recovery payments made by the URC Trust should be accounted for in a new restricted fund separate from the M&M fund. Accordingly, the figures in the Appendix make no provision for deficit recovery payments from the M&M Fund in 2022 and show the previous budgeted figures for 2021 in the note at the foot of the Appendix.

Income

3. In arriving at a figure for M&M contributions by local churches and synods for the following year it is our normal practice to seek estimates from the synods during the summer months as to the likely level of contributions to be expected in that coming year. As at the end of July 2021 the actual amounts received by way of M&M contributions for the first seven months of this year were almost 4% down on the budgeted figures synods suggested during last summer. Given the level of uncertainty we referred to in our 2021 budget paper, that is a reasonable position – especially since some local churches “backload” their contributions to near the year end and some synods also tend to contribute late in the year. Given the continuing uncertainties about potential church closures and the speed of recovery in the finances of churches, synods have suggested this summer that the likely M&M contributions might be around 7.5% (or £1.3 million) lower than the 2021 budget figure. Given that synods know their local churches better than we do, the Finance Committee has accepted the figures estimated by synods even though this reduction in income creates a big hole in the denomination's budget for 2022.
4. Following discussion with one significant grant awarding body, our expectation is that our 'donations, legacies and grants' income will be down by around £280k compared with the 2021 budget. On the other hand, following discussions with our investment managers, we expect an increase in investment income of almost the same amount.
5. As a result, the budget suggests a reduction in income compared to the comparable 2021 budget figures of nearly £1.3 million.

Expenditure

6. Our largest single item of expenditure relates to the cost of paying stipends and directly related costs of Ministers of Word and Sacrament and Church Related Community Workers.
7. The task of setting the stipend level has been delegated to the Finance Committee in conjunction with the URC trustees. After a recommendation not to raise stipends at all in 2021, the recommended rise for 2022 is 3% which is built into this budget. The figure has been calculated using the usual formula based on the consumer price index and average weekly earnings. This will increase the stipend by £828 to £28,428.
8. This level of increase adds around £0.25 Million to the cost of ministry but you will see that, despite the number of serving ministers dropping compared to last year, our expenditure on stipends and associated costs is expected to rise by over £1 million compared to last year's budget. This is primarily because of the extremely large increase in future service contributions payable to the Ministers' Pension Fund from 1 January 2022, as reported to General Assembly (paper G4, paragraph 5.1). In July, General Assembly took the decision in principle to close both the URC's defined benefit pension schemes. It will not take a final decision about this until it is satisfied that alternative arrangements have been identified which will give a good pension for ministers and lay staff. The earliest any change can take place is January 2023. So, the increased pension contribution for 2022 is an inescapable budget cost for next year.
9. We are also budgeting for an increase in salaries and associated costs next year. Some of this relates to a proposed 2.5% salary inflation uplift for lay staff following no increase in 2021, as well as the recently announced increase in national insurance contributions. But it also reflects the decision of General Assembly to approve a post to support the new Minister for Digital Worship, the appointment of a Compliance Officer in Church House and the need to increase salary levels for a few vacant posts, where the original salary was not attracting suitably qualified candidates.
10. Professional and consultancy fees have been affected by a long-standing, complex, Employment Tribunal case, which is expected to come to a head later this year with a five week hearing due to begin in November. Accordingly, in drawing up the budget we have assumed that the bulk of the costs of the case will be incurred in 2021. However, should the hearing be postponed (as has happened at earlier stages of this case) it may be necessary to adjust the 2022 budget figure upwards once the position is clearer. The Treasurer will provide an update at Assembly Executive.
11. The result of the budgeted reduction in M&M giving by almost £1.3 million together with increase in stipend and salary costs of around another £1.3 million accounts for the extremely large budget deficit set out in the Appendix of almost £2.7 million. The URC Trust's reserves are sufficient to absorb that level of deficit for 2022 but it would not be sustainable for such large deficits to continue to arise in future years.

12. The Finance Committee is encouraged by the setting up of the URC Church Life Review and looks forward to its work making a significant difference to financial aspects of the life of the denomination as well as other areas of church life.

Resolution

13. Subject to the need to amend the professional fees budget for the matter referred to in paragraph 10 above, the committee proposes the resolution set out above.

Projections

14. In recent years it has been our custom to offer rough projections for the two years following the budget year with health warnings as to accuracy. This year both Finance Committee and the URC Trust directors agreed that several factors made producing such projections at this time pointless. The ongoing uncertainty over future M&M levels together with lack of clarity as to if/when the existing pension schemes will finally close to accruals and the nature and pace of recommendations arising from the Church Life Review make any attempt at producing projections for 2023 and 2024 meaningless.

Appendix

**UNITED REFORMED CHURCH
2022 BUDGET & COMPARATIVES**

| URC TOTAL | 2020 Actual | Full Yr Budget 2021 | Full Yr Budget 2022 |
|---|--------------------|--------------------------------|--------------------------------|
| | £ | £ | £ |
| Income | | | |
| Income from Churches & Synods | 17,908,130 | 17,442,285 | 16,148,127 |
| Donations, Legacies & Grants | 190,083 | 390,000 | 109,950 |
| Income from training & academic activities | 1,634 | 1,000 | 1,000 |
| Other income | 21,333 | 0 | 12,000 |
| Income from Investments | 1,184,782 | 934,000 | 1,199,000 |
| Income from Trading Activities | 249,270 | 210,400 | 219,500 |
| Property income | 166,386 | 167,300 | 163,770 |
| Total Income | 19,721,617 | 19,144,985 | 17,853,347 |
| Expenditure | | | |
| Stipends & associated costs | 13,319,568 | 12,793,725 | 13,837,800 |
| Other Minister costs | 61,184 | 129,000 | 116,800 |
| Salaries & associated costs | 2,380,679 | 2,439,100 | 2,792,737 |
| RCL Support | 658,683 | 699,000 | 683,665 |
| Student Fees & Support | 574,192 | 515,485 | 566,910 |
| Mission Costs | 45,337 | 78,000 | 58,500 |
| Programme expenditure | 119,348 | 393,200 | 258,950 |
| Committee & other meeting costs | 81,330 | 293,450 | 227,150 |
| Grants | 571,492 | 487,100 | 521,520 |
| Travel, accomodation & subsistence | 41,563 | 180,000 | 170,400 |
| Office & other staff costs | 256,148 | 232,250 | 267,850 |
| Professional & Consultancy fees | 270,281 | 194,250 | 254,200 |
| Telecoms | 35,967 | 30,500 | 33,430 |
| Facilities & buildings costs | 165,938 | 170,500 | 183,700 |
| IT Costs | 154,444 | 232,900 | 216,840 |
| Cost of sales | 176,842 | 128,000 | 134,500 |
| Sundries | 19,721 | 23,000 | 15,250 |
| Depreciation | 66,293 | 69,500 | 74,200 |
| Irrecoverable VAT | 112,712 | 140,000 | 120,000 |
| Total expenditure | 19,111,724 | 19,228,961 | 20,534,402 |
| Net expenditure/(Income) excl Pension Deficit items | (609,893) | 83,976 | 2,681,055 |
| Pension deficit | | | |
| - Contributions from Synods/URCT | (88,031) | (300,000) | (6,356,633) |
| - Payments to Pension fund | 574,719 | 574,000 | 4,700,000 |
| Net | 486,688 | 274,000 | (1,656,633) |
| Net/(Income) Expenditure after Pension Deficit items | (123,205) | 357,976 | 1,024,422 |