

Paper G1

Finance committee

Update on 2019 Financial Projections



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Basic Information

Contact name and email address	Ian Hardie ianzhardie@googlemail.com
Action required	To note
Draft resolution(s)	None

Summary of Content

Subject and aim(s)	To update Mission Council on work done since its November 2017 meeting; and To indicate how finance committee intends to proceed in preparing the 2019 budget.
Main points	A way has been found to address the Lay Staff Pension Scheme deficit which avoids any increase in the annual contributions required of the URC Trust and other employers within the Scheme. The level of projected deficit for 2019 (largely attributable to the need for increased contributions to the URCMPF) has reduced since the previous meeting of Mission Council and the committee is of the view that it is at a level which can be sustained for a year. The implications of the latest actuarial valuation of the MPF, as well as other changes referred to in this paper, will become clearer towards the end of 2018 and we will then be better able to consider the medium term financial situation.
Previous relevant documents	Paper G1 Mission Council November 2017
Consultation has taken place with...	Northern College and those synods which are employers within the Lay Staff Pension Scheme; the URC Pension Executive; the URC Trust; The Retired Ministers' Housing Society; and Synod Treasurers.

Summary of Impact

Financial	
External (e.g. ecumenical)	None

Update on 2019 Financial Projections

1. Paragraph 16 of paper G1 for the last Mission Council indicated that “March Mission Council or 2018 General Assembly [was] likely to be asked to consider steps which might be taken to address the financial position of the Church going forward with a view to bringing the 2019 and subsequent budgets nearer to balance”. At that meeting the Committee flagged up two main areas of uncertainty on both of which some further work has been done.

Lay Staff Pension Scheme

2. Paragraph 11 of the November 2017 paper explained that the URC Trust had agreed to transfer £2 million into the Lay Staff Pension Scheme by the end of 2017 to avoid the Scheme Trustee requiring a substantial increase in annual pension contributions from January 2018 by all Scheme employers. This was intended to give the URC and all other employers within the Scheme time to be appraised fully of the situation and consulted about how to address it without an immediate and substantial increase in contribution rate, potentially leading to wholesale slashing of budgets.
3. A meeting of all the employers within the Scheme was held on 17 November 2017. Details of the current position and options for addressing it were outlined. While recognising that those representatives attending on behalf of each employing body had no authority to commit their synod/college or the URC Trust, all those present agreed to recommend to those bodies that a sufficiently large lump sum proportionate to each one’s share of the overall Scheme deficit should be paid over via the URC Trust to the Lay Staff Scheme Trustee by 30 June 2018 to avoid any increase in annual contribution rate before 2021 at the earliest. This would require a further lump sum of around £1.4 million being paid to reduce the deficit of which the URC Trust would contribute approximately £628,000 in addition to the £2 million transferred to the Trustee in 2017.
4. It is likely to be the end of April before it is known whether each employer has agreed to this approach, but all the indications to date are that the representatives believe that their recommendation will be accepted. If this proves to be the case, there will be no need to increase the URC Trust budget for 2019 to allow for extra employer contributions to the Lay Staff Scheme. That will be true also for the budgets of the other employers within the Scheme.
5. It is important to recognise that the employers within the Scheme are legally responsible for eliminating its deficit and that the lump sums in question are therefore honouring commitments which the various URC bodies have already incurred. They are the minimum the Scheme Trustee is willing to accept to make progress in removing the employers’ indebtedness without increasing the annual contribution rate.

URC Ministers' Pension Fund (URCMPF) Scheme

6. Paragraph 15 of the November 2017 paper reminded Mission Council that a major uncertainty existed as to the level of employer contributions to the URCMPF Scheme likely to be required from January 2019. The preliminary results of the triennial valuation of the Scheme's assets and liabilities as at 31 December 2017, which will determine the contribution level from next January, will not be reported by the actuaries to the URC Ministers' Pension Trust until June 2018 at the earliest. As a result there is still no evidence to displace the assumption made some time ago that the increase required in employer contributions to provide for future benefits within the Scheme is likely to be of the order of £0.5m per annum.
7. However, more recent prudent projections of the likely costs of ministry during 2019 suggest it would be possible to reduce the overall budget for ministry by £250,000 compared with our projections produced during 2017. This would reduce the potential 2019 deficit to just over £320,000.
8. Although Mission Council indicated some time ago that it did not want to call on synods to provide support for the URCMPF after 2015, in fact one synod has continued to provide voluntary support thereafter.
9. In addition, on behalf of the finance committee, the URC Treasurer has spoken to various other Synod Treasurers over the past year about the potential increase in future pension contributions and three of those synods either already have agreed, or are in the process of agreeing, that they will donate a percentage of the proceeds of non-manse property sales to the URCMPF to help in offsetting the proposed increased pension contribution costs. Much of this giving was anticipated at the time the previous projections were prepared; but we estimate that an additional £30,000 or £40,000 might be anticipated from this source in an average year.
10. At this stage it is unclear whether any other synods might follow the lead of the four synods referred to in paragraphs 8 and 9 above.
11. Subject to that, and the detailed budget work normally done over the summer, it seems likely that we would be left with around £280,000 additional costs to absorb within the 2019 URC Trust budget.
12. Finance committee has considered whether and how it might be appropriate to reduce funding available under other budget headings to bring the 2019 budget nearer to being in balance. However, we are conscious that the figures we are working with at present are based on assumptions rather than concrete figures. Accordingly, we have judged it too early to consider making other budget cuts ourselves or to invite Mission Council to consider doing so.
13. Instead, as we prepare the 2019 budget over this summer, we propose to defer taking any deliberate steps to reduce other parts of the URC budget to eliminate any potential deficit.
14. This means that some of our reserves may be required in 2019 to absorb any deficit which ultimately emerges when the final URCMPF figures are known and it becomes clearer whether any other synods have chosen to follow the lead of those referred to in paragraphs 8 and 9 above.
15. At this stage it is difficult to give any more than a rough approximation of the potential impact of this on our available reserves. Page 11 of the 2016 Trustees' Report

indicated that, at the end of that year, readily available unrestricted funds totaled £15.6m: but that the aim should be to have between £6m and £12m available in a normal year. Estimating the movement in such reserves is a complex exercise but, after taking into account the amounts committed to the refurbishment of Church House, the amount contributed to the Lay Staff Pension Scheme during 2017 and early projections of the surplus in that year, the finance committee believes the equivalent available funds at the end of 2017 are likely to be not too far from £12m to £12.7m.

16. As indicated in paragraph 3 above, it will be necessary to commit £628k from reserves during 2018 to meet our obligations to the Lay Staff Pension Scheme. If the 2018 outcome is broadly in line with the 2018 budget, the available reserves at the end of 2018 may be roughly of the order of £11.5m to £12m. In other words, the available reserves would still be towards the top end of the range which we indicated we should be aiming to maintain.
17. In that context, in the view of the finance committee, incurring a deficit of up to £280k in 2019 would be manageable for that one year. Hence our intended approach to preparing next year's budget.