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Budget 2012 and Implications

1 Attached is the draft budget for 2012 which the Finance Committee presents to Mission Council with the support of the URC Trustees. This is discussed in Section 1 below. The budget highlights significant challenges for the medium term which Section 2 of this paper seeks to open up. Mission Council needs to give a clear steer to future work, not least by Assembly Committees before the 2012 General Assembly.

SECTION 1: THE 2012 BUDGET

Ministry and Mission Fund (M&M) Contributions

2 M&M offers from the Synods are the predominant source of income for the budget. The latest information from the Synods, on behalf of local churches, suggests that the M&M offering in 2012 will be a reduction of £372,000 (or £372k) relative to offers for 2011. This is equivalent to a reduction of 1.8% in cash terms and over 6% in real terms (ie in terms of what the money will buy after the effects of inflation). This confirms the hints in recent years that, at this stage in the life of the URC, M&M offers are on a downward trend. Reduced income is the context for expenditure decisions.

Setting the Stipend

3 Mission Council has delegated the task of setting the ministerial stipend to the Finance Committee in conjunction with the URC Trustees. The budget incorporates the decision to raise stipends by 2% for 2012.

4 The discussions leading to this conclusion were exceptionally difficult and protracted this year. The conventional formula takes the average of the annual rise in the Retail Prices Index excluding housing costs (RPIX) and the index of Average Weekly Earnings excluding bonuses. That would have produced an increase of 3.7%.

5 There is much to be said for keeping consistently to a clear and straightforward formula for setting stipends. Some ministers no doubt sense that the Church's willingness to follow where the formula leads, even in difficult economic times, is one important way the Church shows its appreciation of their ministry. There is no plan to abandon the formula as the norm for considering stipend rises. However, as 2011 progressed and the wider economic news unfolded, there were growing doubts about whether a rise of 3.7% was the right one for 2012.

6 The main reasons for deciding that 3.7% was too high were:

- The Consumer Prices Index (CPI) is increasingly used as the best benchmark indicator of inflation and also excludes housing; it was running 0.8% lower than RPIX
- The one-off increase in VAT in 2011 was temporarily adding 0.8% to the inflation indices and we do not normally compensate ministers for changes in tax policy
- The formula used for setting stipends has meant ministers have received average increases in the three years since the economic downturn (2009-11) no less than those in

the last three years of "boom" (2006-8), which contrasts sharply with the experience of many church members

- A stipend rise of 3.7% would mean giving per member would have to rise more than was felt reasonable in the present economic climate.

7 Eventually a decision was made to fix the 2012 rise at 2% and so raise the stipend from £23,232 to £23,700. This adds around £350k to the overall budget.

Minister Numbers

8 A key figure for the budget is the number of stipends likely to be in payment. Assembly policy is to change the number of stipends in line with changes in the overall membership of the Church, for which we currently assume a trend decline of 3% pa.

9 On this basis the budget estimate for the number of stipendiary ministers in 2012 is slightly below the trend number as shown in Table 1 below. However it is too early to be sure of the impact of a more flexible retirement policy and some of the ministerial Baby Boomer retirements built into these figures for 2012 may be postponed. Given that uncertainty, and the wider financial tightness, the Ministries Committee has suspended the issue of Certificates of Eligibility which allow ministers from sister denominations to join the URC Roll of Ministers.

Table 1: Stipendiary Minister Numbers (full-time equivalents)

	Assembly Policy	Actual/Expected
2010	522	510
2011	506	504
2012	491	485

Committee Programme Costs

10 For all parts of the budget not directly related to minister costs, this budget has been prepared on the basis that Assembly Committees and all budgetholders need to restrict their expenditure to no more than was agreed for 2011. This continues the policy of recent years but this year represents a more demanding reduction target in real terms of 5% given the current level of inflation. The overall target has not quite been met, with an increase in costs (other than stipends for front line ministry) of £53k: this is a rise of 0.9% in cash terms but still a reduction of over 4% in real terms.

11 There are major uncertainties relating to the Education and Learning budget due to the Government's evolving policies on Higher Education funding and this is the one area where the 2012 budget is significantly above 2011, eg by £47k for initial ministerial training. The budget for *Reform* reflects the decision of the May Mission Council to provide an annual subsidy of up to £90k. The budget also reflects the Mission Council decisions on medical checks for ministerial students, a shared post with the Methodist Church regarding the creative use of buildings and the use of two part-time ministerial posts to be ecumenical officers in Scotland and Wales.

Overall Budget Balance

12 As the Appendix indicates, the tight control on committee programme and infrastructure costs, when coupled with lower direct ministry costs, result in an overall expenditure budget of £22,823k. This is a reduction relative to the 2011 budget. However, the lower M&M offers mean that the income side totals £21,865k, a larger reduction relative to 2011. As a result the overall deficit has risen to £958k.

13 A deficit of almost £1m is not comfortable or sustainable. After full discussion, the Finance Committee and the URC Trustees believe the best course is to accept this budget on condition that action is instigated now to ensure the 2013 budget can look distinctly different with a much reduced deficit. The URC Trustees recommend to Mission Council that the 2013 deficit should be not more than £500k. If income falls by a similar amount in 2013 as it looks likely to do in 2012, this implies reducing costs by around £1m by 2013. Section 2 of this paper looks at some of the issues.

Resolution 1

Mission Council accepts the budget for 2012 set out in the Appendix, noting a substantial projected deficit and the need to reduce this in 2013.

SECTION 2: BEYOND 2012

Pensions Impact

14 By law our pension funds are subject to a formal actuarial valuation every three years. Mission Council last May made some decisions to help set the framework for the next valuation, which will include taking a snapshot of market conditions as at 31 December 2011. The last valuation, at the end of 2008, took place in the midst of unprecedented economic turmoil. As a result, its conclusions certainly did not assist our overall budget.

15 For 2009-11 Mission Council decided to make short term arrangements to handle the enlarged Ministers' Pension Fund deficit from the 2008 valuation, as the exceptional circumstances of 2008 made it impossible to predict which of the dramatic changes taking place then were permanent and which were temporary. The willingness of the Synods to promise a total of £2.5m in extra pensions support over the period has been crucial in avoiding drastic changes in other parts of the budget.

16 As the 2011 valuation of the ministers' fund approaches, and we also negotiate on the smaller lay staff pension scheme, it is all too clear that many of the same issues that affected the 2008 valuation remain. Therefore we cannot expect a markedly more palatable outcome from the valuation. The changes Mission Council agreed in May to the benefits which the ministers' scheme provides will reduce the contributions required but is unlikely to reduce them to the level before 2008.

17 Therefore we need to decide whether to make the special support from Synods a permanent feature of our financial arrangements or to phase it out and bring a realistic estimate of total pension costs back within the normal budget, funded from M&M giving. Given the overall financial situation a commitment to an immediate end to this special support after 2012 does not look wise. The Finance Committee is willing and able to work with either a phasing out or a permanent retention but to test the mind of Mission Council brings the following Resolution.

Resolution 2

In setting future budgets, Mission Council will seek to phase out not later than 2016 the current request for special pensions support from the Synods.

The Structural Problem

18 Being realistic about pension costs underlines the fact that the figures for 2012 demonstrate we have a structural, rather than just a temporary, problem with the budget. The costs of supporting each minister in active service and through retirement have risen over recent years and are not about to fall back; the Assembly has asked for the number of ministers to reduce in line with the number of members; but the higher cost per minister means the total cost of providing ministry is rising per member. Meanwhile the M&M offers are falling, not rising. In short, our main source of income is falling but on existing policies our main expenditure item will continue to rise. Hence the advice that a budget deficit of almost £1m can be sustained for one year but only if there is a plan in place to reduce it thereafter.

Revisiting Minister Numbers

19 One way to bring the budget back towards balance would be to change the Assembly policy on stipendiary minister numbers. If the number of paid ministers reduced more rapidly, the higher cost per minister could be more comfortably borne. Clearly Mission Council will not be keen to suggest any changes that make ministers less evident around the Church. However if a change is to be made, this is a good time to make it: minister numbers are likely to fall relatively sharply over the next five years due to the retirements bulge and so overall numbers could be reduced without any need to change policies on accepting candidates for training and ordination. A continuing suspension of Certificates of Eligibility would almost certainly be necessary.

20 The Finance Committee would therefore like to propose that Mission Council considers an alternative policy to make the trend in the overall <u>costs</u> of supporting stipendiary ministers move in line with membership instead of the overall minister <u>numbers</u>**.**

21 When the Assembly decided to link minister numbers to membership trends the intention was to help ensure that the costs borne by church members through the M&M did not rise at a rate that members were not willing or able to meet. Effectively the challenge to members was to increase their M&M giving by at least the rate of inflation without expecting larger increases as the norm. This policy creaks badly, however, if the costs of supporting ministers rise faster than general inflation. This has been the case recently, as stipend and pension costs have risen per minister by more than inflation. This makes it difficult, if not impossible, to balance a budget where the main income is M&M and the main cost the support of ministers.

22 If as an alternative we linked the costs of supporting ministers in real terms (ie after taking out the effects of general inflation) to the membership trends, in periods when the costs of supporting ministers rise rapidly per minister we would not incur costs with no source of income with which to cover them. Conversely, in periods when the costs of supporting ministers might rise less rapidly, the number of ministers could increase above trend again.

23 If this alternative policy had been in place over the last few years, it would have made very little difference in the period 2007-9 as minister support costs were not accelerating above inflation and therefore target numbers would have been much as they were under the existing policy. However in the period 2010-12 the pressure to meet markedly higher costs would have been greatly relieved by the proposed policy and the impact on the target number of ministers in 2012 would have been to reduce it from around 490 to around 460.

24 As with the existing policy on stipendiary minister numbers, there would be no attempt to regulate minister numbers every month, or even every year, exactly in line with the formula. However for medium term planning by both the Ministries and Finance Committee it is very helpful to know the overall trends which the Church wishes to see.

Resolution 3

Mission Council asks for a proposal to be brought to the 2012 General Assembly to amend the policy on stipendiary minister numbers so that it links trends in the overall costs falling on the Assembly budget, rather than trends in the number of ministers, to trends in overall Church membership.

Programme and Other Costs

25 While costs of stipendiary ministry represent three-quarters of the budget, the remaining quarter is still £6m pa and needs to be re-assessed in the light of the structural deficit. It is unlikely Mission Council would wish to countenance a deliberate trend towards the proportion of the budget made available for stipends decreasing in order to preserve all other expenses borne centrally.

26 In the time available at Mission Council for the Moderators' Think Tank report, Council members will be invited to clarify what are the most important of the various activities and services provided from the Assembly budget. In the light of the outcome of that discernment exercise, and in the spirit of consensus decision-making, resolutions will then be drafted for Mission Council to consider regarding future spending by the Assembly Committees. It is unlikely that these resolutions would seek immediate changes but would focus on guiding the Committees as they consider what to suggest might be in the 2013 budget.

Hoping for Growth

27 This paper is vulnerable to the charge that the Finance Committee is simply "planning for decline". It is true it is attempting to respond to the fact that Synods are saying Church members collectively wish to give less to support centrally funded work. However it is also important to note that every change proposed in this paper is reversible and if the wider economy or the life of the Church changes over the next few years, new options will emerge and can be seized gratefully.

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October 2011