

Paper E1

Budget for 2021

Finance Committee

Basic information

Contact name and email address	Ian Hardie ianzhardie@googlemail.com John Piper john.piper30@ntworld.com
Action required	Decision.
Draft resolution(s)	Recognising that there is more than usual uncertainty about future income, Mission Council nonetheless adopts the budget for 2021 as set out in the Appendix to paper E for November 2020 Mission Council.

Summary of content

Subject and aim(s)	The paper presents a budget for 2021 and financial projections for 2022 and 2023.
Main points	We face significant uncertainty as to our likely levels of income in 2021 (and beyond) with the result that the budget has to be more tentative than usual. Some significant actions are proposed to curtail expenditure next year, including no general increases in stipends/salaries. Nonetheless, although we expect substantial deficits in both 2020 and 2021, we do not propose any more drastic action now and recommend that a strategic review of denominational activities should take place once we are clearer about future levels of income.
Previous relevant documents	Paper G1 and G1 Addendum for November 2019 Mission Council Re the pensions issues – papers G3 for November 2019 Mission Council, G1 for March 2020 Mission Council and the report to General Assembly 2020, 'URC Pension Schemes – Facing up to some serious challenges'.
Consultation has taken place with...	Budget holders and the URC Trust.

Summary of impact

Financial	
External (e.g. ecumenical)	None.

Introduction

1. Since budgets, by their very nature, concern the future they inevitably involve an element of uncertainty. Generally, this level of uncertainty may be mitigated by referring to previous and current financial results and extrapolating from recent trends. This year, however, we find ourselves in a situation where the impact of Covid-19 has rendered past experience of limited relevance; where our ability to forecast the outcome for the current year is much more problematic than usual, even as late in the year as September (when this is being written); and where even relatively recent trends are unlikely to be a reliable guide to what awaits us in 2021 and beyond.
2. Nonetheless, the Finance Committee offers Mission Council the draft budget for next year as set out at column three of the attached Appendix, but on the understanding that the budgeted M&M contributions figure may be less reliable than usual. This draft budget has been reviewed by the URC trustees and, while acknowledging the significantly increased level of uncertainty, it has their support.

Income

	2020 Forecast £000	2020 Budget £000	2021 Budget £000
Total	19,053	20,160	19,123
Local church contributions	17,584	18,477	17,442

3. Over 90% of the Ministry and Mission ('M&M') Fund's income comes in the form of contributions from local churches. Since March 2020 churches have been closed and many have suffered significantly reduced offerings as well as, in many cases, losing large amounts of property rental income. Some will also have experienced reduced investment income. Synods have been taking what steps they can to assist their churches and to encourage them to maintain the level of their contributions to the M&M Fund wherever possible. We want to take this opportunity to express our deep gratitude to churches and synods for their commitment to honouring their covenant with the wider church at this difficult time for everyone. Nonetheless, over the six months to June 2020, M&M contributions were around £350,000 below budget expectations. It is uncertain what will happen in the second half of the year; but our present forecast is that we may have a contribution shortfall approaching £900,000.
4. In constructing the budget for the following year, it is our normal practice to seek estimates from the synods over the summer as to the likely level of contributions to be expected in that coming year. While never entirely accurate, generally speaking such estimates have provided a sound basis for budgeting for contributions in most years. The current level of uncertainty means that synods have had far less confidence in their ability to supply meaningful estimates than has been the previous norm. They have suggested figures which cumulatively equate to a drop of around 5.6 per cent in M&M contributions compared to the 2020 budget; but this could be wildly overoptimistic or unduly pessimistic.

5. Although we are forecasting that money given by synods from property sales will be £212k below budget this year, we have left the 2021 budget for additional pension support from shares of synod property disposal proceeds unchanged – despite uncertainty as to the number and value of future property sales. Ongoing discussions about pension issues may significantly alter this figure but the outcome is too uncertain to budget for at present.
6. The Church’s investment income has remained surprisingly buoyant to date and our investment managers are confident of maintaining our current level of dividend income through 2021 – though they are more cautious about the longer-term.
7. As a result our current forecast for this year shows a potential income shortfall of £1.1 million while the draft 2021 budget shows total income around £1 million less than the 2020 budget.

Expenditure

	2020 Forecast £000	2020 Budget £000	2021 Budget £000
Total	19,379	20,286	19,481
Ministries	14,385	14,774	14,054

8. In response to the lockdown we asked budget holders to reduce or defer expenditure in 2020 wherever possible. At the end of June every department was below budgeted expenditure and our present forecast is that total expenditure for 2020 will be around £900,000 below budget. If that proves accurate it will result in a total deficit of around £326,000 instead of a budgeted deficit of £70,110.
9. In arriving at the budget for expenditure next year we have been acutely conscious of the potentially significant reduction in our likely income as indicated in paragraph four above.
10. In normal years it is our practice to consider increases to stipends and central employee salaries based on movements in cost of living indices and average earnings. But, in all years, such consideration also weighs the affordability of the increases.
11. In view of the very considerable uncertainty about the level of our income next year we are recommending that there be no general increases in stipends or salaries in 2021, though a very few salaries will be changed to complete rectification of an anomaly in current pay scales revealed by our job evaluation tool. A number of representations were received to the effect that it would be insensitive to increase stipends/salaries when many wage earners in our congregations are faced with wage or hour cuts and increased threats of redundancies. Some also referred to cost savings on travel, etc. which increased levels of home working have introduced and which are likely to be maintained into next year. However, while noting such views, it is the uncertainty around short-term affordability which has been uppermost in our minds. Had we followed the usual method of calculating stipend increases, the 1.6 per cent uplift would have added a further £190k to the deficit

mentioned below while an increase of (say) 1 per cent in staff salaries would have added another £30k. If possible, we would hope to be able to mitigate or reverse the impact of our decision this year when we come to look at the position again in 12 months.

12. To reflect the recent Mission Council decision that central funds should pay half the costs of Pastoral Supervision for ministers and CRCWs, £90k has been added to the Ministries Department budget in 2021.
13. Similarly, to reflect the decision that *Walking the Way* should be funded by the M&M Fund to the extent necessary during 2021 to allow time to consider its long-term future, £20k has been included within the Mission budget.
14. At the request of the Education and Learning ('E&L') Finance Sub-Committee a one-off amount of £20k has been included within the E&L budget for 2021 to cater for ministerial sabbaticals or professional development which has not been possible during 2020.
15. Increased levels of litigation have necessitated increases in the Governance budget but with the exception of that budget category and the modest increase in Mission Department costs for *Walking the Way*, every departmental budget for next year shows a reduction.
16. Our total expenditure in 2021 is therefore budgeted to be approximately £805k less than in 2020.

Overall budget for 2020

	2020 Forecast £000	2020 Budget £000	2021 Budget £000
Excess Expenditure over Income	326	70	358

17. The net effect of the reduced income budget and the limiting of expenditure, including the non-payment of any general cost of living increases to stipends and salaries, is a budgeted deficit for 2021 of around £358k. In the longer term, such deficits as those being forecast for this year and now budgeted for next year would be unsustainable. However, the degree of uncertainty about the next couple of years is such that the Finance Committee and the URC Trust think that now is not the time for a drastic knee-jerk change in the way the M&M budget is used. That could do lasting damage to the effectiveness of the Church and might prove to have been unnecessary or inappropriate.
18. Rather we believe the Trust should bear the forecast losses for 2020 and 2021 from its reserves on the understanding that a strategic review of the M&M budget and the activities it funds will be undertaken when there is greater clarity about our 'new normal' and our likely levels of future income.

Resolution

19. Accordingly, the committee proposes the resolution set out above.

Projections for 2022 and 2023

20. A separate paper for this Mission Council – paper [E2] – reports on the current state of the ongoing conversation about pensions within the URC family. Pending further clarification of how the issues under consideration will be addressed, the projections set out in columns four and five of the Appendix to this paper make no attempt to reflect any of the necessary financial arrangements yet to be agreed.
21. As usual the projections should be regarded as no more than very rough approximations only and, in common with the budget column, suffer from the current state of uncertainty about our financial future.
22. In both years we have projected a modest recovery in the M&M position and also included some stipend and salary increases. What we have not done is attempt to take any account of changes to our way of working which reflect any response to our 'new normal' as mentioned in paragraph 18 above.

Appendix

THE UNITED REFORMED CHURCH Ministry & Mission Fund Summary Budget and Projections 2021 to 2023

Department/ Project	2019	2020	2021	2022	2023
	Actual	Budget	Budget	Projection	Projection
	£	£	£	£	£
Income					
Ministry and Mission contributions	(18,816,761)	(18,476,500)	(17,442,285)	(17,616,708)	(17,616,709)
Pensions - additional funding	(537,976)	(300,000)	(300,000)	(300,000)	(300,000)
Investment and other income					
Dividends	(931,795)	(925,000)	(925,000)	(925,000)	(925,000)
Donations	(8,908)	0	0	0	0
Specific legacies	(5,000)	0	0	0	0
Grants/Income - Memorial Hall Trust/Fu	(290,742)	(288,000)	(288,000)	(288,000)	(288,000)
Net other interest & bank charges	(10,983)	(8,000)	0	0	0
Other income, including property rentals	(146,413)	(162,400)	(167,300)	(167,300)	(167,300)
	(1,393,839)	(1,383,400)	(1,380,300)	(1,380,300)	(1,380,300)
Total income	(20,748,577)	(20,159,900)	(19,122,585)	(19,297,008)	(19,297,009)
Expenditure					
Discipleship Dept.					
Ministry					
Local and special ministries and CRCWs	13,253,105	13,698,000	12,910,700	12,910,700	13,100,700
Synod Moderators - stipends and expens	641,313	739,000	709,500	695,588	681,949
Ministries department	347,111	334,600	431,300	434,300	437,300
Pastoral & welfare	1,232	2,000	2,000	2,000	2,000
	14,242,760	14,773,600	14,053,500	14,042,588	14,221,949
Education & Learning					
Initial training for ministry	678,150	547,570	479,985	474,018	474,018
Continuing training for ministry	120,067	95,500	116,500	96,500	96,500
Resource Centres support	627,919	638,640	699,000	714,000	720,000
	1,426,136	1,281,710	1,295,485	1,284,518	1,290,518
Stepwise	130,175	120,000	119,000	122,300	124,300
Lay preachers support	5,708	7,000	7,000	7,000	7,000
On-line learning	57,814	60,000	58,700	60,700	61,700
Discipleship Development	0	25,000	2,500	22,500	22,500
Education & Learning department	167,124	168,000	148,100	151,400	153,400
	1,786,956	1,663,310	1,630,785	1,648,418	1,659,418
Children's and Youth Work					
Staff costs	210,139	216,500	206,600	210,600	214,600
Management, resources and programme	62,307	111,200	111,200	111,200	111,200
	272,446	327,700	317,800	321,800	325,800
Safeguarding					
Safeguarding policy and practice	96,401	199,500	197,800	182,800	184,800
Discipleship Secretariat					
Deputy General Secretary - Discipleship	64,861	83,600	10,125	40,500	41,310
Mission Dept.					
Mission dept staff and core costs	499,237	529,200	509,900	518,900	527,900
Mission programmes and memberships	186,651	250,200	260,050	260,050	260,050
	685,888	779,400	769,950	778,950	787,950
National Ecumenical Officers	33,435	36,500	36,700	36,700	36,700
	719,323	815,900	806,650	815,650	824,650
Administration & Resources Dept.					
Central Secretariat	284,655	270,500	284,200	288,200	292,200
Facilities	374,714	385,000	357,700	360,700	363,700
Human Resources	82,001	89,000	86,800	87,800	88,800
IT Services	214,795	237,700	232,000	234,000	236,000
Finance	415,087	385,400	377,900	383,900	389,900
Communications	464,739	464,800	475,200	484,200	493,200
	1,835,990	1,832,400	1,813,800	1,838,800	1,863,800
Governance					
Church Councils	167,058	63,000	188,500	188,500	188,500
Professional fees	105,574	100,000	120,000	120,000	120,000
Other	72,934	76,000	94,100	94,600	95,100
	345,566	339,000	402,600	403,100	403,600
Apprenticeship levy	45,754	55,000	50,000	51,000	52,000
Irrecoverable VAT	141,374	140,000	140,000	140,000	140,000
Property maintenance costs	39,003	55,696	57,500	57,500	57,500
Total expenditure	19,590,434	20,285,706	19,480,560	19,542,156	19,774,827
NET SURPLUS/(DEFICIT)	1,158,142	(70,110)	(357,975)	(245,148)	(477,818)