Synod
November 2020

DIOCESE OF TRURO
DISCOVERING GOD'S KINGDOM
GROWING THE CHURCH

TDBF 2021 Budget and 2022-2030 Projections

Summary

The 2021 Truro Diocesan Board of Finance (TDBF) budget summary is attached at Appendix 1 and shows an operating fund deficit budget of £1.3m, with an overall deficit budget of £2.1m.

The Finance, Asset and Risk (FAR) Committee reviewed the budget at their meeting on 14 October and recommended it to BDC, who approved it for recommendation to Synod on 19 October. There was a very full and robust conversation at FAR about various elements of the budget and the Committee members were of the view that officers, including Episcopal College, and parishes need to hear a strong message that they expect 2022 to start looking significantly different and that this may mean considering accelerating the deanery planning, mission planning and ministry planning.

A nine-year projection has also been prepared; see Appendix 2. This describes what the years 2022-2030 could look like if we continue with a budget which isn't shaped by new strategic planning or vision for mission, and is intended to assist in contextualising the 2021 deficit showing what might need to be done to get to a sustainable financial position.

The 2021 budget is being recommended by BDC to Synod for approval and the 2022-2030 projection is for information only, not for approval.

This report highlights the key areas for consideration and decision before it is approved by Synod.

Rejoicing, in a desert place

In the "Rejoicing, in a desert place" document three questions were asked:

- How are we doing?
- What is God doing?
- What are we going to do?

The points raised in "Rejoicing" have been reflected in the 2021 budget to some extent, but more fully in the nine-year projection.

This paper endeavours to answer the 5 questions asked in the "What are we going to do?" heading.

1. **Do we abandon the stewardship model and find a new one?**

The Episcopal College discussed this question on 20 August 2020 and concluded that the stewardship model is to be kept but much change is needed. For example, in some deaneries there is a very large gap between MMF income and cost of ministry, Lowest Income Communities Funding (LICF) could be used differently; central "Church House" costs need to be paid for somehow. LICF is funding received from Archbishops Council for the support of mission to lowest income communities. We receive this income because we have a higher number of people living in these communities, not all dioceses receive this.

At BDC on 24 September Bishop Philip said that our current MMF model is more like a service model than a stewardship model. Parishes or deaneries "pay for a service" (or don't pay for it), a stewardship model would be "the church joyfully giving all it has and it is to God. A church that rejoices in the generosity of God".

We are deliberately not making significant changes for 2021 because we need to base major changes on new strategy and planning that is not yet in place.

2. **How can we best support parishes in the challenges they face?**

Planning that focusses on mission is urgently needed, and ways to resource this planning will need to be found. The FAR Committee wanted to emphasise this.

The Ministry Strategy Working Group will contribute to the planning, and parishes are already being supported with mission opportunities and further mission funding is included in the budget. In the meantime, this budget commits us to another year of supporting existing patterns of ministry from reserves.

3. **How can we help parish leaders to have confidence in our plans?**

Parish leaders need to know that diocesan leadership is determined to drive change in a way that has not yet been seen in all areas. We need to recognise that our current ways of working are unaffordable and we need to make changes, changes which are based on deanery plans which are yet to emerge.

We are therefore proposing a transitional budget that has more in common with 2019 than our financial situation may otherwise have called for.

A full review of Church House capacity and costs will be carried out, but again the full impact of this review will not be felt in 2021 but in future years, as this too must be led by a vision for mission that is held at deanery level.

4. **There is every reason to think that the impact of Covid-19 will be profound. How can we respond to this with integrity?**

LICF needs to reach the lowest income communities effectively and this will take time to understand and embed, it therefore does not have a large impact on the 2021 budget but will more in future years.

Any planning and decision making needs to be 'nimble'. In the meantime the TDBF will continue to sustain the models of ministry from reserves, stipends will continue to be paid.

5. **How can we respond whole-heartedly to the call at the heart of The Saints Way?**

The Net Zero 2030 ambition is likely to need investment, some of it capital, and we will meet this from Total Return, at least in part. We are not currently planning for additional staff posts specifically devoted to the work described in The Saints Way.

Budget process

A budget is a strategy in numbers. We want to offer a budget that grows out of a strategy for mission and ministry, and for this strategy to be held between the leadership and grass roots of the diocese, principally through the deanery plans. Deanery conversations in July of 2020 made it clear that we are not ready to shape a significantly different budget based on those plans, so what we are presenting here is a modest step but with some significant indications of a direction of travel. Work must urgently continue with the deanery's to progress deanery planning, and consultation, and it is hoped that the 2022 budget process will have a more mission and ministry led focus and therefore look and feel different.

Our overall plan is to use assets and reserves to give us the space to change, but not to give us permission to stay the same.

This has been a particularly challenging budget to compile as there are so many uncertainties, more than in 'normal' years, and this is particularly the case for income projections. Many things could change within the budget; deanery plans, the continued impact of Covid-19, ministry plans to name but a few, highlighting the magnitude and complexity of the task in hand.

Appendix 1 also includes the latest 2020 out-turn which was completed at the end of September 2020, for reference. It shows a reforecast budgeted operating deficit of £505k, compared to an original budgeted deficit of £586k.

Appendix 3 shows the proportion of income and expenditure budgeted for in 2021 by the main categories in the form of pie charts.

Clergy numbers
As in previous years, and until deanery plans are complete, the Archdeacons have provided the stipend numbers which have been used in the budget and toolkit. In 2021 the ministry numbers are:

	2020 budget				2021 budget		
	In post FTE	Vacancies	Budget FTE	2020 reforecast	In post FTE	Vacancies @ 10%	Budget FTE
Stipend clergy	69.05	(1.73)	67.32	61.65	67.3	(6.73)	60.57
Stipend curates			16.04	14.63			18.89
SSM			15				12
HfD			8				4
Readers			109				108
PTO			150				145

Lay staff FTE's
The following table shows the lay staff FTE's that are included in the 2021 budget. These numbers don't include the people who are consultants for the organisation, the budget for that resource in 2021 is £157k (2020 £181k), or the impact of the full review of staffing.

	2019 actuals	**2020 forecast**	**2021 budget**
Admin and financial management	11.42	11.97	11.31
Communications	1.47	1.27	1.47
Discipleship, ministry and stewardship	9.59	9.23	9.47
Safeguarding	2.50	2.51	2.81
Education	2.55	1.47	1.80
	27.53	**26.44**	**26.87**
TM	6.35	9.49	10.90
	33.88	**35.93**	**37.77**

Use of funds
Appendix 1 shows how much of the budget is to be funded from the various funds held by TDBF. The £1.3m operating deficit will be predominantly funded from the General Fund and the Diocesan Pastoral Account (DPA). £598k of funds released from the Total Returns process will be used for Transforming Mission, mission grants and Net Zero 2030, £58k of the Church House Fund, which is an unrestricted undesignated fund, is to be used along with £134k of restricted funds.

Reserves Policy
The draft Reserves Policy is at Appendix 4.
The DPA includes some funds which are required to be ring-fenced due to timings of parsonage sales and purchases. The balance of the Fund which is required to be ring-fenced at the end of September 2020 is £5.4m.
The General Fund is budgeted to be £1.8m at the end of 2021 and is being forecast to be £3.1m at the end of 2020, a reduction of £1.3m in 2021.

Key assumptions

The following points are the key assumptions which have been used in the preparation of the 2021 budget that we want to draw to your attention:

1) MMF has been budgeted at a level of £3.017m. This compares to £3.539m actually received in 2019 and £2.966m being forecast to be received in 2020.

2) Dividend investment income has been budgeted for based on advice from the investment managers and has been scrutinised by the Investment Management Committee.

3) Parochial fee income has been budgeted at a level of £225k. This compares to £262k actually received in 2019 and £190k being forecast to be received in 2020.

4) Use of Total Returns for Transforming Mission, other mission grants and the Net Zero 2030 work.

5) A cost of living increase of 0% has been included for both stipends and lay staff salaries.

6) That the deficit will be funded predominantly from the General Fund and Diocesan Pastoral Account.

Key policies

The following policy decisions have been made whilst preparing the 2021 budget:

1) For 2021 the 'unit costs' of ministry used in the MMF toolkit are 'frozen' at the 2020 level.

2) That we commit to a thorough review of the MMF toolkit cost of ministry in 2021 that properly reflects the costs of Church House to be included in the MMF calculations for the long term.

3) That the MMF transitional provision for 2021 will be a 5% reduction in MMF call for those deaneries where the MMF call exceeds their ministry costs and a 0% increase for those deaneries where their call is less than ministry costs.

Key decisions

The following points are the key decisions which the Synod needs to consider before the budget is approved:

1) Do we make structural changes in the shape of ministry before ministry plans and deanery plans are in place, or do we wait, trusting that those changes can be based on genuine mission planning? How do we ensure there is a realistic time frame for that planning and those changes?

2) Do we begin to use LICF differently, ensuring that it reaches the lowest income communities in our diocese, this budget starts that process but it must be considered alongside the deanery plans?

3) Do we begin to make efficiencies and savings at Church House including a full lay staff review, in line with our best assumptions for mission planning?

4) Do we continue to prioritise safeguarding, the only staffing area that is likely to see a significant increase in resourcing?

Appendix 1

Budget 2021

Summary	2019 Actuals £'000	2020 Budget £'000	2020 Forecast £'000	2021 Budget £'000
Income				
Ministry and Mission Fund *	3,539	3,670	2,928	3,017
External Income - excl TM	406	356	415	311
External Income - TM	351	729	397	660
Investment Income - Other	1,197	1,209	1,083	1,104
Investment Income - Glebe *	388	380	337	300
Strategic Ministry Fund *	-	-	39	140
Parsonage Rental Income *	259	240	276	260
Parochial Fees *	262	320	190	225
Church Commissioners' Grant - LICF	860	877	856	861
	7,262	**7,780**	**6,520**	**6,877**
Expenditure				
Ministry - Authorised Ministry Costs *	(5,448)	(5,472)	(4,761)	(5,343)
Ministry - Other	(53)	(125)	(160)	(276)
Discipleship	(106)	(136)	(79)	(86)
Mission - excl TM	(361)	(456)	(325)	(436)
Mission - TM	(307)	(732)	(394)	(657)
Board of Education	(212)	(210)	(151)	(207)
Governance	(447)	(424)	(421)	(388)
Support Costs - excl legal & Registrar fees	(247)	(271)	(226)	(247)
Support Costs - legal & Registrar fees	(144)	(106)	(115)	(140)
National Church Support	(140)	(140)	(138)	(131)
Churches and Bishop's advisors	(209)	(296)	(257)	(259)
	(7,673)	**(8,367)**	**(7,026)**	**(8,170)**
Exceptional items				
CEFPS Pension surplus / (deficit)	**855**	-	-	-
Operating surplus / (deficit)	**443**	**(586)**	**(505)**	**(1,293)**
Add spend on activities to be funded from Total Returns:				
Transforming Mission Phase 1	(118)	(135)	(73)	(69)
Transforming Mission Phase 2	(10)	(267)	(183)	(279)
Net Zero 2030	-	-	-	(100)
Mission grants	(71)	(250)	(69)	(150)
Operating surplus / (deficit) after use of Total Return funds	**244**	**(1,237)**	**(830)**	**(1,891)**
Unrestricted Designated Funds				
Church House Fund	(43)	(58)	(52)	(58)
Restricted Funds				
DCMU	5	(18)	(26)	(19)
Education Trusts	(85)	(132)	(58)	(111)
Bishop Phillpott Library	(4)	(6)	(4)	(5)
Total designated and restricted funds to be used to fund budgeted expenditu	(127)	(214)	(140)	(193)
TOTAL SURPLUS / (DEFICIT)	**117**	**(1,451)**	**(970)**	**(2,084)**
* The "gap" - the difference between the MMF contributions and the authorised cost of ministry, as per the toolkit	(1,000)	(862)	(991)	(1,402)

Appendix 2

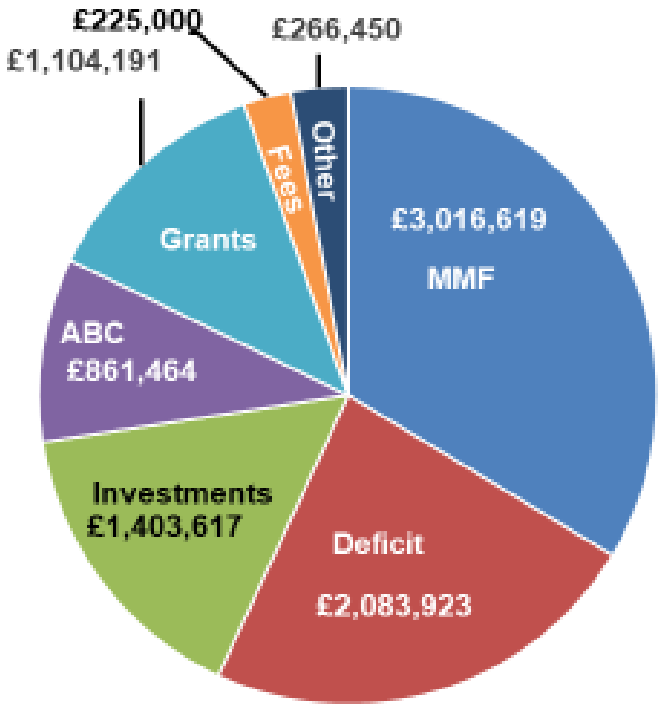
2022-2030 Projection

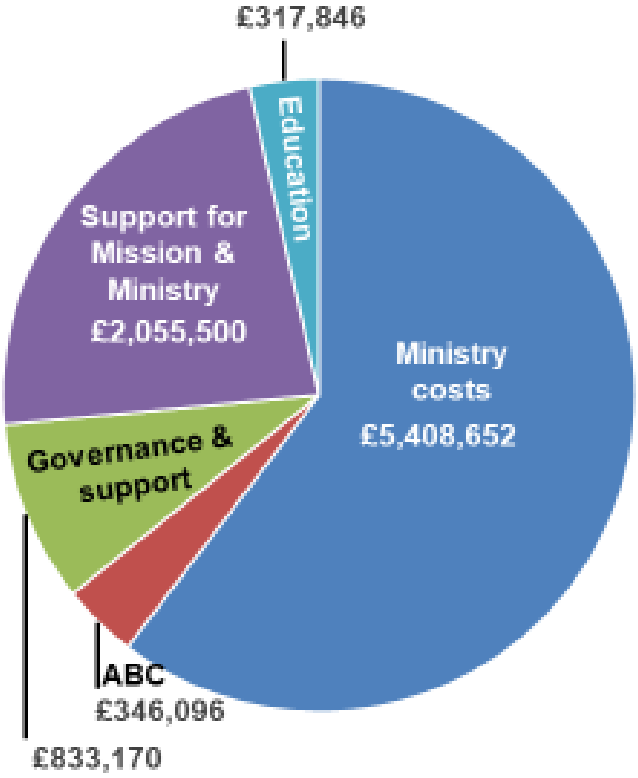
	Draft budget 2021	F'cast 2022	F'cast 2023	F'cast 2024	F'cast 2025	F'cast 2026	F'cast 2027	F'cast 2028	F'cast 2029	*F'cast 2030*
Operating income and expenditure	**£k**	**£k**	**£k**	**£k**	**£k**	**£k**	**£k**	**£k**	**£k**	***£k***
MMF received	**3,017**	**3,283**	**3,415**	**3,525**	**3,443**	**3,520**	**3,625**	**3,730**	**3,840**	***3,949***
LICF for stipendiary ministry and other operating costs	800	820	828	836	844	853	872	891	911	*931*
LICF income for new commitments	50	60	70	80	90	100	100	100	100	*100*
Investment income (incl some Glebe rents recovery)	1,404	1,457	1,511	1,541	1,572	1,603	1,635	1,668	1,701	*1,735*
Parochial Fees (2018: £312k; 2019: £262k)	225	200	200	200	200	200	200	200	200	*200*
SMF funding for curates (above baseline intake of 3 from 2021)	140	326	394	275	194	154	157	160	163	*167*
SDF grant income for Transforming Mission projects	660	533	343	236	152	0	0	0	0	*0*
Parsonages rental + Other income (incr from 2022 by half CPI)	582	588	594	600	606	612	618	624	630	*636*
Total operating income	6,877	7,267	7,355	7,293	7,101	7,042	7,207	7,373	7,545	*7,718*
Stipendiary clergy Authorised Ministry Costs (posts)	-4,186	-4,079	-3,967	-3,848	-3,723	-3,797	-3,873	-3,951	-4,030	*-4,110*
less: Vacancies	419	408	397	385	372	380	387	395	403	*411*
SSM, HfD, Reader, PTO and Archdeacon costs	-419	-427	-436	-445	-454	-463	-472	-481	-491	*-501*
Curate costs	-1,156	-1,214	-1,203	-1,227	-1,104	-1,051	-1,072	-1,093	-1,115	*-1,137*
Transforming Mission project costs funded by SDF grant	-660	-533	-343	-236	-152	0	0	0	0	*0*
Other diocesan costs	-2,117	-2,150	-2,183	-2,216	-2,250	-2,285	-2,321	-2,357	-2,394	*-2,432*
LICF allocation for new commitments	-50	-60	-70	-80	-90	-100	-100	-100	-100	*-100*
Total operating costs	**-8,169**	**-8,055**	**-7,805**	**-7,667**	**-7,401**	**-7,316**	**-7,451**	**-7,587**	**-7,727**	***-7,869***
Operating surplus/(deficit) before impact of inv income	-1,292	-788	-450	-374	-300	-274	-244	-214	-182	*-151*
Loss of income from prior investment sales	0	0	-29	-51	-69	-95	-106	-121	-140	-158
Investment income (loss) on sales in year	0	-14	-11	-9	-13	-5	-8	-9	-9	-9
Operating surplus/(deficit) after impact of inv income	**-1,292**	**-802**	**-490**	**-434**	**-382**	**-374**	**-358**	**-344**	**-331**	**-318**
Approved uses of Total Return										
TM1	-69	-96	-24	0	0	0	0	0	0	*0*
TM2	-279	-212	-188	-157	-102	0	0	0	0	*0*
NetZero 2030	-100	-110	-120	-130	-140	-150	-160	-170	-180	*-190*
Mission grants/spend from TR in addition to TM	-150	-100	-100	-100	-100	-100	-100	-100	-100	-100
Total approved uses of Total Return	**-598**	**-518**	**-432**	**-387**	**-342**	**-250**	**-260**	**-270**	**-280**	***-290***
Total use of other miscellaneous funds	**-193**	**-192**	**-190**	**-172**	**-169**	**-169**	**-169**	**-169**	**-146**	***0***
Cumulative investment (or parsonage) sales	*0*	*960*	*1,709*	*2,313*	*3,159*	*3,517*	*4,047*	*4,661*	*5,272*	*5,880*
Stipendiary clergy posts (FTEs excl curates & archdeacons)	*67.30*	*64.30*	*61.30*	*58.30*	*55.30*	*55.30*	*55.30*	*55.30*	*55.30*	*55.30*

Appendix 3

Income and expenditure for 2021

Overview – income and expenditure





Appendix 4

Reserves Policy

1. Working capital to cover the normal cash flow within a balanced budget

Most of our expenditure streams are evenly distributed, with stipends, salaries and pensions being the main items. Although there are long/medium term trends in MMF receipts, there are a significant number of contributors (>200) and no single monthly payment is sufficiently large to merit specific provision, so that the month-by-month variation is limited. Most of the cash flow working capital is needed within one month covering the timing differences between regular incomings and outgoings.

We recommend that 2.75 times average MMF monthly receipts should be held in this category. (2021: say £700k)

2. Bridging loans for parsonage houses being replaced

Despite having every intention to seek a sale before a purchase, this doesn't often happen so a reserve is needed to finance purchases before sales are made. Receipts from permanent disposals are not included in this calculation as they are, in the first instance, additions to specific funds. Past experience suggests that between 2 and 3 transactions may be outstanding at any point.

We recommend that 2.2 times average parsonage cost should be held in this category. (2021: say £1m)

3. Provision for covering an unexpected deficit

Within any one year, the reserves should include sufficient at the start of the year to cover any unexpected deficit. (2021: £500k)

4. Working capital for parsonage and Board houses regular maintenance and repair

The company has a policy of regular maintenance and repair such that its buildings are kept in a continual state of sound repair. More recently a period of catch up has taken place to bring the condition of the properties up to a good state of repair. The budget includes a figure to continue the regular maintenance but if the level of spend is higher than budgeted then provision is made to finance further spend for unexpected works. (2021: £200k)

5. Future unplanned developments

The Diocese continues to work towards a sustainable future. There are no plans for staff posts, or other costs, specifically devoted to The Saints Way however it would be prudent to make provision to finance unbudgeted, unexpected development costs. (2021: say £100k)

6. Loans to PCC's

The Diocese is approached from time to time by PCCs wishing to undertake projects for which they require a loan to provide the necessary liquidity to enable the project to go ahead. An amount needs to be held to cover this activity. (2021: say £400k)

7. Designated Funds

The Bishop's Diocesan Council has designated some of the Unrestricted Funds and they are:

Designated Fund	Amount £m
Board Houses Fund	10.16
Church House Fund	0.45
Total	10.61

8. Diocesan Pastoral Account (DPA) Benefice Accounts

The Diocese is required to hold the sale proceeds received when a parsonage is sold until such time as approval has been received to release them. (2021: say £6.0m)

In summary, the 2021 budget process needs to work within a Reserves Policy level:

Note		General Fund £m	Designated Funds £m	Pastoral Account £m	Total £m
1	Working capital	0.70	0.00	0.00	0.70
2	Bridging loan - replacing parsonages	0.00	0.00	1.00	1.00
3	Unexpected deficit	0.50	0.00	0.00	0.50
4	Parsonage repairs	0.00	0.00	0.20	0.20
5	Future unplanned developments	0.10	0.00	0.00	0.10
6	Loans to PCC's	0.40	0.00	0.00	0.40
7	Designated Funds	0.00	10.61	0.00	10.61
8	DPA Benefice Accounts	0.00	0.00	6.00	6.00
	Total	**1.70**	**10.61**	**7.20**	**19.51**
	Funds balances at start of 2020	3.43	11.08	10.58	25.09

Total Returns is no longer included in the reserves policy as it is only released from the Stipends Capital Account as it is used.