

DIOCESAN FINANCIAL PLAN BACKGROUND

Creating the Budget for 2024 to 2026

Introduction

1. This paper sets out the main drivers, assumptions and process for creating the Diocesan Financial Plan for 2024 to 2026. It should be read in conjunction with **the 'Diocesan Financial Plan 2024 to 2026 – Budget & Analysis'** document.
2. This comes recommended to the Diocesan Synod by the Bishop's Council & Standing Committee and Diocesan Finance Committee.
3. This paper and draft budget have been written from an operational and financial perspective. There is therefore little sense of vision, strategy, or aspiration at this stage. This is in part a reflection of the current context of our diocese, but it is sincerely hoped that new missional strategic plans will be discerned and shared during the lifetime of this budget.
4. It should also be noted that no references are made to wider strategic priorities such as Net Zero, Racial Justice, children & young people, or the need to invest further in growth through applications to national Strategic Mission & Ministry Investment Board. Further work on developing financial plans that reflect national funding, timescales and priorities is currently being undertaken, but it is reasonable to assume that capital will need to be used to fund these areas, at least in part. The Bishop's Council is therefore considering creating a new '**Carbon Net Zero Designated Fund**' and initially applying around £1m of the WDBF's free reserves to it, in order to be able to provide grants and funding to parishes as they seek to address net zero at a local level.
5. In preparing this budget the Bishop's Council are also mindful of the current uncertainties and divisions around the national LLF proposals and the potential risks this may give rise to around contributions to the CMF.

Consultation

6. The Bishop's Council is grateful to all those who have actively and constructively engaged in the consultation process over the last 9 months.
7. A summary of the Consultation process and timetable is set out in **Appendix 1** with a summary of the responses received during the consultation is given in **Appendix 2**.
8. The Bishop's Council noted a number of comments received during the Consultation Process which highlighted a lack of clarity and understanding around some aspects of Diocesan life and our shared finances. A series of responses to some frequently asked questions have therefore been prepared and are shared in **Appendix 3**.

Financial Planning & Engagement

9. In preparing this Budget, the Bishop’s Council have been acutely aware of the strong sense from many across our diocese of the lack of real engagement and consultation when previous budgets have been developed.
10. In 2012, the Diocese moved to a triennial financial planning model, linked to the introduction of the residential Diocesan Synod Conferences. This change enabled a medium-term approach to our financial planning to be taken, whilst also reducing the amount of Synod time that was absorbed with discussions on finance. Set against this, financial plans shared with Synod became (by necessity) so high-level and lacking concrete detail, that engagement, ownership and buy-in to the budgets reduced dramatically.
11. In the current period of uncertainty we must address this challenge – identifying an approach to financial planning that facilitates medium-term planning, does not require too much staff resource to operate, whilst also ensuring a strong sense of input and ownership from Diocesan Synod and beyond.
12. To address this, the Bishop’s Council are proposing that Diocesan Synod adopt a series of ‘Budget Tests and Aspirations’ for each triennium. It is hoped these will provide a simple yet challenging framework to assist synod members and wider stakeholders in engaging with the complex finances of our diocesan community and providing greater accountability.
13. In proposing this new approach, the Bishop’s Council are keen to stress that the Budget Tests & Aspirations must not be viewed as binding policies. Each year, the proposed budget should be subjected to the tests and, if any of the measures are ‘failed’ a clear explanation will need to be given to Synod, along with proposals for how this can be addressed.
14. The Bishop’s Council would like to recommend the following Tests and Aspirations for 2024 to 2026.

Budget Tests & Aspirations
a. Stipends should increase in line with the national Stipends Benchmark each year.
b. At least 80% of our total expenditure should be allocated to ‘Ministry Support’ and ‘Parish & Schools Support’.
c. ‘Diocesan Support Costs’ should not exceed total non-CMF income.
d. Total ‘Diocesan Support Costs’ (net of external funding and recharges) should increase by an average of no more than 2% from 2024 to 2026.
e. The annual increase in total Common Mission Fund request will be no more than the total annual cost of clergy stipend increase. <i>A 4% increase in stipends for example will lead to a 2.6% increase in CMF.</i>
f. The Common Mission Fund collection rate to return to at least 95% by the end of 2024, increasing by at least 1% a year for 2025 and 2026. <i>(2022 collection rate was 86%)</i>
g. We will maintain a minimum of 116.5 stipendiary clergy across our diocese until 2026, funding any shortfalls in income from reserves.

Triennial Budget Drivers & Assumptions

15. With these budget tests and aspirations in mind, along with the results of the consultation process, the Diocesan Finance Committee and the Bishop's Council have reviewed the key budget drivers and make the following recommendations for 2024 to 2026.

Clergy Numbers & Remuneration

16. As part of the consultation, we sought to understand the spread of priorities in PCCs by posing a hypothetical question on where increased income should be used if financial circumstances improved (Qu2). As the results showed, this question split respondents evenly with no clear overall steer.

17. This highlights the very real tension we face. There is a clear desire for more stipendiary ministry with increased stipend levels, whilst also a sincere fear in many parishes over their ability to even cover existing costs.

18. As such, it seems prudent that we budget to remain with our current headcount of 116.5fte stipendiary posts for the next 3 years¹.

19. This should not imply that the current allocation of posts will remain fixed during that period. With the ability to increase our headcount limited, the need to ensure that all posts are deployed to greatest effect becomes vital.

20. The consultation did however give a much clearer response in regards to the desire for clergy stipends to increase each year. There was less clarity on the mechanism/index to use as a guide.

21. There are two questions to now consider:

- a. An agreed policy/approach for setting stipends going forward.
- b. The percentage increase we should budget for in Stipends over the next 3 years.

22. Now that our stipends are more in line with others in the South East, the Bishop's Council recommends that we aim to follow national stipend increase recommended by RACS². This would ensure stipend increases had a degree of external rationale and would likely keep Winchester in line with national averages. The Directors of the WDBF would retain the right to review the increase each year, making changes if local circumstances so required.

23. RACs has just recommended a 5% increased for the national minimum stipend for 2024. We do not yet know what others in the region will offer, so a 5% figure has been used in

¹ This should be reviewed on an annual basis, using the Budget Aspirations and tests to help assess if additional posts can be afforded.

² Remuneration & Conditions of Service Committee: National body that makes recommendations to General Synod each year on Clergy conditions of service and increase to national minimum stipend and national stipends benchmark.

the calculations. This represents a total increase over 2023 of £300,000. A 4% increase has been used for the 2025 and 2026 budget at this time.

24. A 5% increase for 2024 in the cost of clergy housing maintenance has been proposed in recognition of the continued increase in raw materials and contractors.

Proposal 1: The current headcount of 116.5fte Stipendiary posts funded by the WDBF to continue for the next 3 years.

Proposal 2: Clergy stipends to increase each year in line with the national recommendation from RACS. *A figure of 5% has been used for 2024, and 4% for 2025 and 2026.*

Proposal 3: Clergy housing maintenance costs to increase by 5% in 2024 and then 2% annually thereafter.

Common Mission Fund

25. *Due to the need to inform PCCs of their 2024 CMF requests in July, Synod has already approved the proposed CMF for next year. This section is offered as a reminder for the rationale of that decision, as well as proposing a framework for increases in 2025 and 2026.*
26. Question 5 asked respondents to indicate their expectations for their ability to meet CMF contributions over the next 3 years. Just over 50% indicated their contributions would need to stay the same or reduce. With 48% indicating they hoped to be able to increase contributions. As only around 50% of PCCs responded these results can only offer us a high-level indication of CMF affordability.
27. As ever, the picture will be mixed across our 250 parishes. It is therefore prudent to rebase our CMF requests for 2024 a bit above 2022 actuals and 2023 projections. This would suggest a figure of £8.64m in 2024 (a 1% increase).
28. This represents a reduction on the total amount of CMF requested in 2023 of around £700,000. Due to the way the CMF is calculated, not all PCCs will see a reduction in 2024.
29. Pitching annual increases in CMF is also not simple. A low annual increase is attractive but will result in the gap between income and expenditure widening substantially year on year. One option would be to link the increases in CMF to the cost of increasing clergy stipends. A 4% increase in clergy stipends would therefore require a 2.6% increase in total CMF. This approach would give a clear rationale and justification to CMF increases and help to reduce the gap between income and expenditure each year.
30. In considering the Common Mission Fund levels for 2024, it has become clear that our current model of allocating costs through the CMF is under pressure. The significant average reductions in attendance in recent years, go beyond any of the original stress testing for the system when it was designed. As such, the Bishop' Council & Standing Committee have commissioned a small Working Party to assess if there are any tweaks,

and amendments to the current CMF model that can be made to help it continue operating. This work will commence in Q3 of 2023, following the publication of a national Parish Share Systems Review currently in progress.

31. In proposing this review, the Bishop's Council & Standing Committee were careful to give the group a focused remit. The Group is being asked to consider if it is possible to make small changes to the system that would revitalise it. If they conclude that a much more fundamental re-imagining of cost allocations is needed for our diocese, then a further, more wide-ranging review will need to be scheduled in 2024. Ideally, this would be off the back of the development of a new diocesan strategy.

Proposal 4: The Common Mission fund total request to be reduced to £8.64m for 2024, down from the £9.3m requested in 2023.

Proposal 5: The annual increase in total Common Mission Fund request to cover the total annual cost of clergy stipend increase. *A 4% increase in stipends requires a 2.6% increase in CMF.*

Proposal 6: Any recommendations and proposals arising from the Common Mission Fund Review Group will be presented to Diocesan Synod in early 2024.

Diocesan Support costs

32. The consultation process highlighted several concerns around 'central' diocesan expenditure, with some respondents indicating significant anger at the ratio of DBF employees to stipendiary parish clergy.
33. A few points need to be unpacked in considering this issue.
- a. There is an ongoing need to keep all diocesan level expenditure under continual review, ensuring that our structures, salaries, and resources are appropriate and sufficient to meet the statutory needs of the organisation. Total salary and on costs for employees of the WDBF in 2022 were £370,000 (15%) lower than in 2019. The Bishop's Council continues to keep all costs under review and believes that the budget tests should help ensure a culture of prioritising investment in parish and local ministry will be maintained.
 - b. The workload of the Diocesan team is not primarily driven by the number of stipendiary clergy posts. The number of separate parishes, church buildings, formal governance meetings, schools, and volunteers have a far greater impact on workloads, along with the ever changing and increasing burden of statutory compliance and national CofE priorities.
 - c. There are lots of misconceptions and confusion around the work and funding of the diocesan team. It is therefore vital that we intentionally do more to clarify and communicate the work of the team and how it is funded. For example, we receive over £730k a year of grants from external partners to offset staffing and associated

costs of the Diocesan Team. We will continue to work on the presentation of our Budget and accounts to help make this level of information clearer.

34. In light of the above, in preparing the 2024-2026 budget, the Bishop's Council have proposed a 2% average annual increase in Diocesan Support Costs.

Proposal 7: Diocesan Support costs to increase by an average of 2% over the next 3 years.

Endowments and Restricted Funds

35. A detailed review of the restricted funds and endowments held by the WDBF has been carried out. Whilst our historic income is minor when compared to many other dioceses there are a few options open to us to help mitigate some of the current financial challenges.

36. The Bishop's Council has requested that an annual budget for our restricted funds and endowments be prepared, with income allocated to appropriate costs where possible. From 2024 this will show as a new income stream in our budget of around £365k a year.

37. At the same time the Bishop's Council has requested that we approach the Charity Commission to use the accrued income and capital from some historic funds that are no longer relevant to our current needs. We anticipate that this would release around £2m that can then be used to offset shortfalls in Common Mission Fund collection over the next 5 to 7 years.

Proposal 8: Income from restricted funds of around £365k pa to be overtly shown in our annual budget.

Proposal 9: A £2m CMF contingency fund to be created by seeking permission from the Charity Commission to expand the purposes of some restricted funds that are currently difficult to use. The Contingency Fund to be used to support shortfalls in CMF over the coming 5 to 7 years.

Proposed 3-year Financial Plan

38. The 3 year Financial Plan has been prepared using the 9 proposals above and is set out in the attached document 'Diocesan 3 Year Financial Plan'
39. The layout of the budget overview has been amended from previous years to offer greater clarity on areas of expenditure and purpose. The colour coding of income and expenditure is offered to help offer (a very rough) illustration of the flow of funds in our organisation.
40. The proposed budget suggests that with the prudent use of the CMF contingency fund we could see deficits of less than 1% for the next 3 years.

Longer Term Projections

41. Although our immediate task is to prepare a financial plan for the next three years, we must be mindful of the longer-term implications. Limiting CMF increases for the next three years, will create a growing gap between income and expenditure as the years pass.
42. Projecting the above budget forward to 2030 using the same assumptions would lead to annual deficits of £380k (2027) rising to £938k by 2030.

	2027	2028	2029	2030
Income	12,506	12,770	13,040	13,316
Expenditure	12,886	13,326	13,782	14,254
Operating Surplus/(Deficit)	(380)	(556)	(742)	(938)

43. Prudent use of the CMF contingency would help to mitigate these deficits up to 2029 (give or take) but the risk remains that we are embedding a structural deficit into our budget.
44. **The Bishop's Council believe it is important to acknowledge this stark risk, and to therefore seek to take urgent strategic actions to achieve growth across our parishes to help ensure the long-term sustainability of our diocesan community.**

Motions:

1. **This Synod approves the Diocesan Three Year Financial Plan for 2024 to 2026 as set out in paper DS23/13**
2. **This Synod notes and adopts the proposed budget tests and aspirations as set out in paper DS23/12 and requests the Directors of the WDBF provide a report to Synod each year setting out whether these have been met or not.**

CH
August 2023

Appendix 1

Consultation Phase 1: Discern

31 Jan/26 Feb	Informal meetings of the Synod House of Clergy / House of Laity
6 Feb	Consultation Questions Shared – all PCCs/Deaneries
8 th /22 nd March	Clergy Breakfast Briefings
w/c 27 th March	3 Consultation Meetings. 2 via Zoom and 1 in person at Wolvesey
3 April	Consultation Closes

Consultation Phase 1: Design

18th April	Finance Monitoring Group Reviews responses and prepare outline budget
27 April	Bishop's Council Consider responses and review outline budget.
17/23 May	Informal meetings of the Synod Houses review outline budget

Consultation Phase 1: Distil

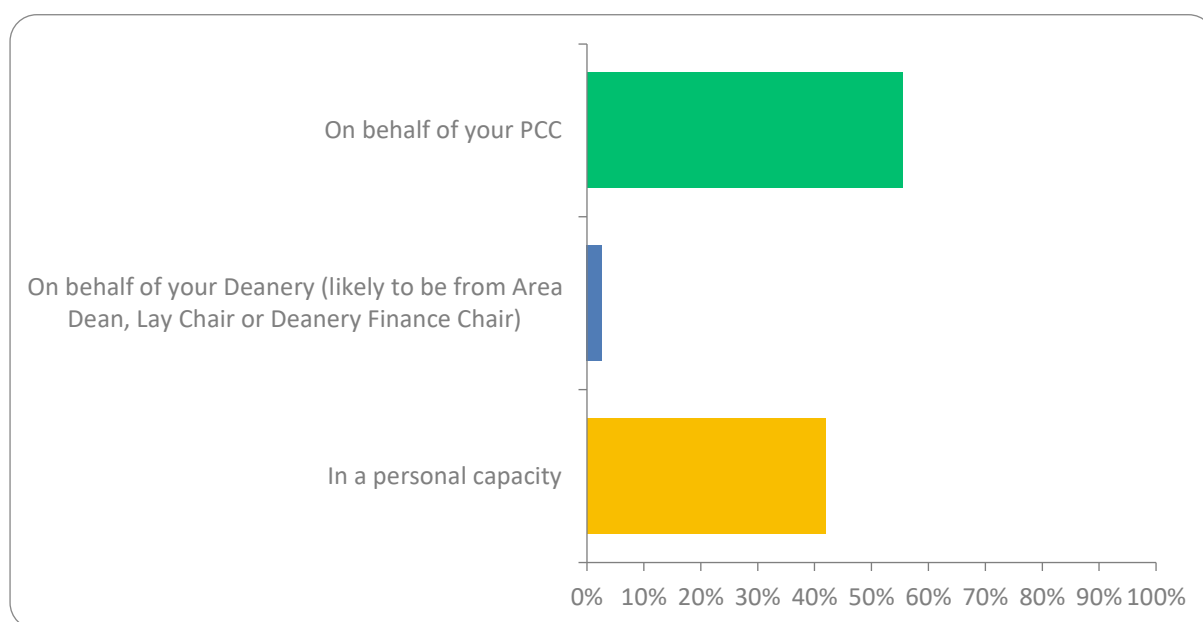
24 May	Finance Monitoring Group Review feedback and prepare Final Budget
8 June	Bishop's Council recommend Final Budget
22 June	<i>Diocesan Synod approve CMF request for 2024</i>
September	Diocesan Synod Budget Meeting (via zoom): Approve Final Budget

Appendix 2

DIOCESAN THREE-YEAR FINANCIAL PLAN CONSULTATION

The survey was open from the 13th February to the 3rd April. In total 227 responses were submitted using the online form. In addition the survey was discussed at both clergy breakfast briefings, the meeting of the House of Laity and two online consultation meetings were held with 23 people in attendance. Feedback from these sessions are included with the Analysis of responses received under Q6.

**Q1: Please confirm in which capacity you are submitting a response:
(227 responses received)**



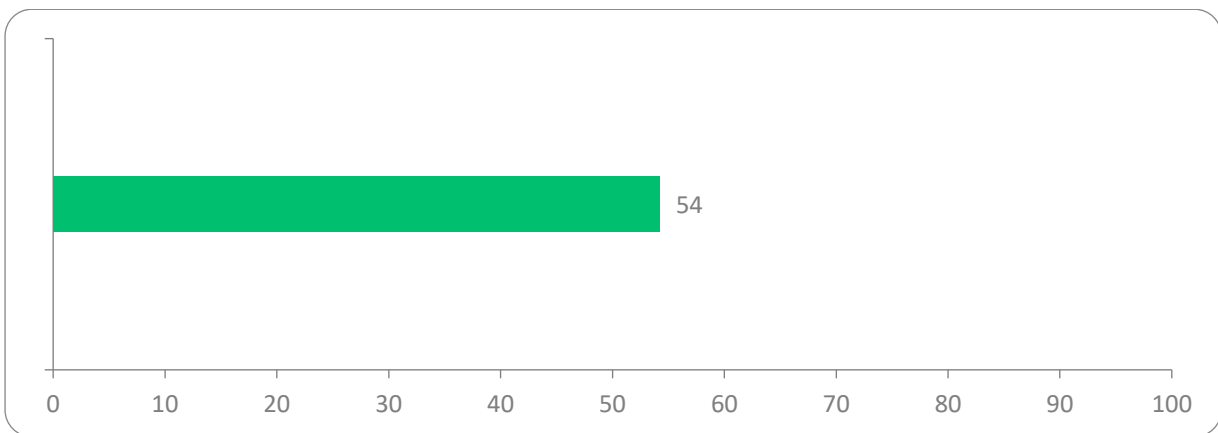
Answers	%	Number
On behalf of your PCC	55.51%	126
On behalf of your Deanery (likely to be from Area Dean, Lay Chair or Deanery Finance Chair)	2.64%	6
In a personal capacity	41.85%	95

Q2: In 2021, in response to the financial challenge presented by the pandemic, we reduced the total stipendiary clergy headcount across our diocese by 22 posts down to 116.5 full-time equivalent posts. If the financial stability of our 250 parishes begins to improve over the next three years please indicate where your parish would be on a scale from:

0 - Seeking increased contributions to the Common Mission Fund to allow for more stipendiary clergy posts to be returned to parish ministry.

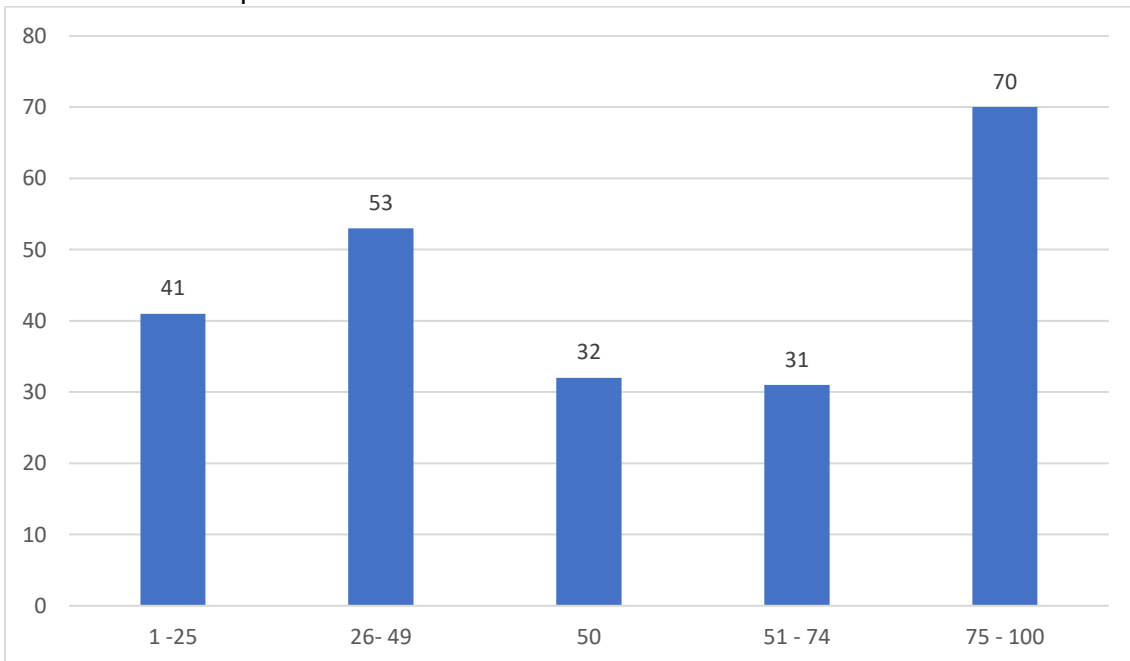
100 - Keeping the Common Mission Fund, and thereby the number of stipendiary clergy posts flat (only increasing in line with core costs/inflation) thereby leaving more income in parishes to spend on local ministry, mission and operating costs.

(227 responses received)

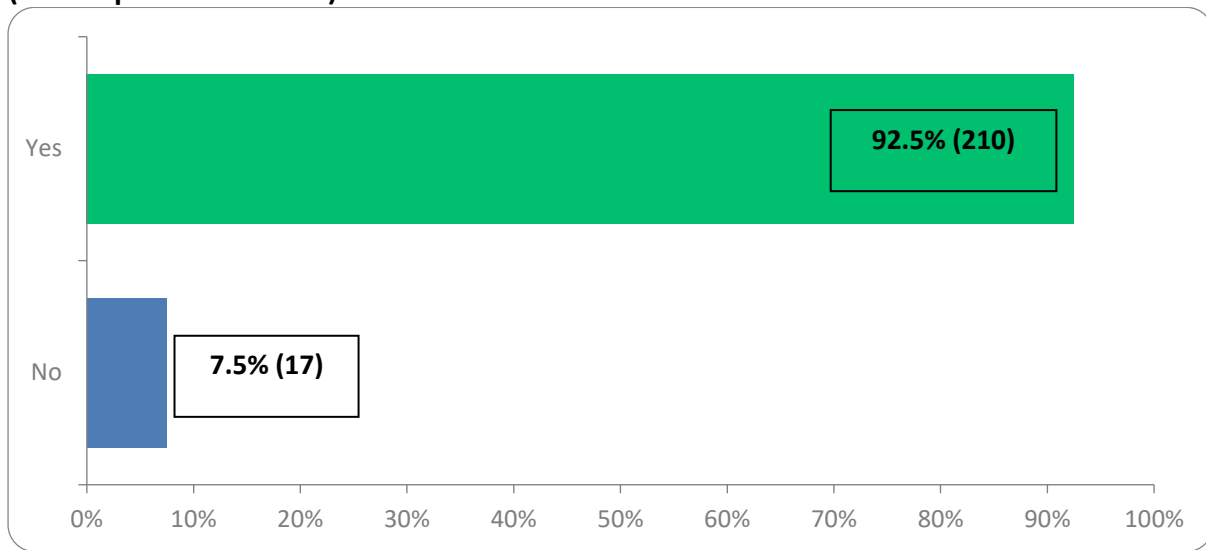


Mean of responses– 54 Mode of responses – 50

Distribution of responses:

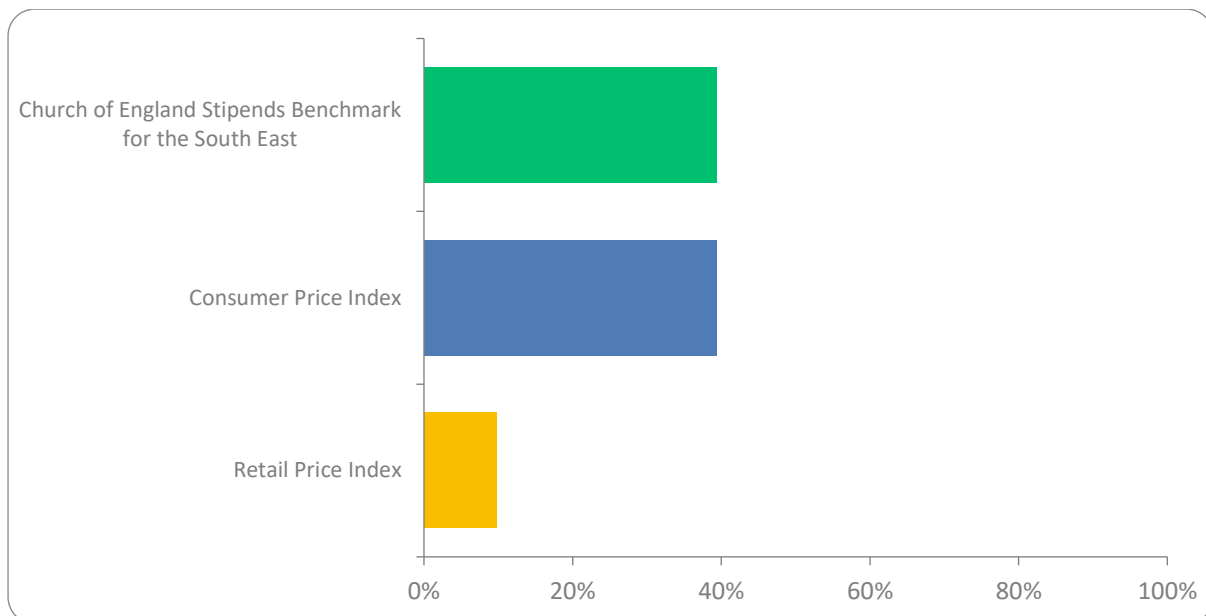


**Q3: Should we aspire to increase stipends each year?
(227 responses received)**



Of the 17 'no' responses 9 were submitted on behalf of an individual and 8 were submitted on behalf of a PCC.

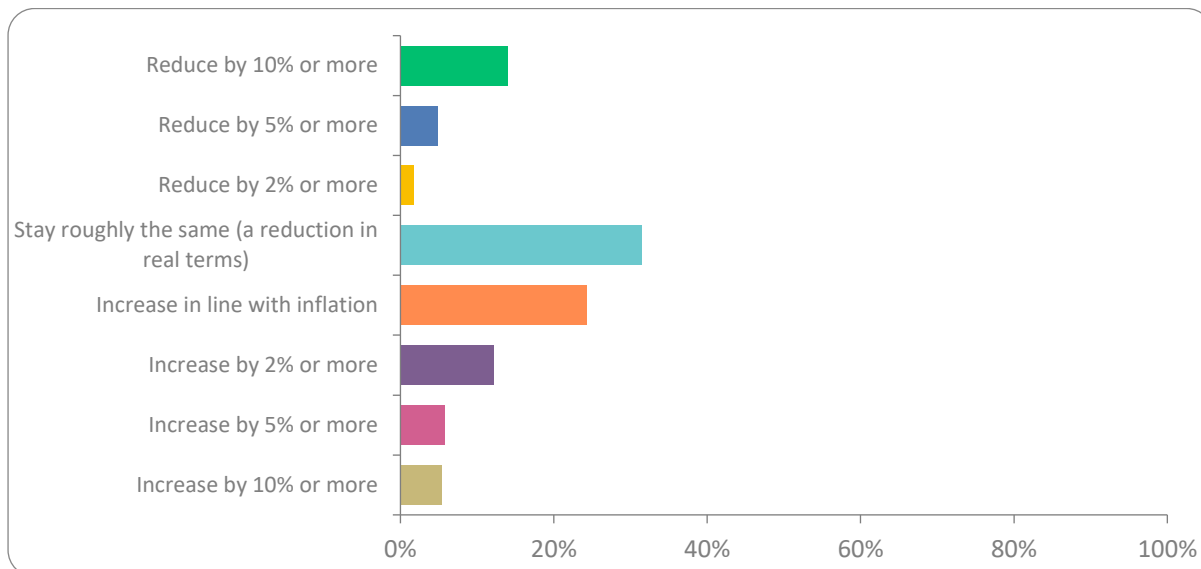
**Q4: If so, which metric would you encourage to be used:
(191 responses received, 36 respondents skipped the question)**



Answers	%	Number
Church of England Stipends Benchmark for the South East	39.35%	85
Consumer Price Index	39.35%	85
Retail Price Index	9.72%	21

Q5: Looking forward to 2024 to 2026 please indicate your expectations of your parish’s ability to contribute to the Common Mission Fund.

(222 responses received, 6 respondents skipped the question)



Answers	%	Number
Reduce by 10% or more	13.96%	31
Reduce by 5% or more	4.95%	11
Reduce by 2% or more	1.80%	4
Stay roughly the same (a reduction in real terms)	31.53%	70
Increase in line with inflation	24.32%	54
Increase by 2% or more	12.16%	27
Increase by 5% or more	5.86%	13
Increase by 10% or more	5.41%	12

Q 6 Is there anything else you would like to feed into the consultation process?

(118 comments received online)

All responses received have been read, below provides a summary of common themes.

	Number	Percent
Level of central costs vs stipendiary clergy	14	12%
Concern over cost of building maintenance	6	5%
Concern over aging & declining congregation	4	3%

Concern over increased energy costs & cost of living crisis	8	7%
Concern over long vacancy & pastoral reorganisation	8	7%
Desire for national church or church commissioners to 'pay more'	5	4%
Desire for higher/competitive stipend	5	4%
Concern over parish finance/future of parish	8	7%
Need for better communication about the CMF, WDBF Budget etc. (answers that include reference to factually incorrect information have also been counted here)	12	10%