Response to Diocesan Budget Challenges

November 2024

Introduction

1. In September 2023, the Diocesan Synod approved a three-year financial plan for our diocese. https://winchester.anglican.org/governance/resources-from-previous-meetings-of-diocesan-synod/

2. As part of the Budget Consultation Process, Synod adopted a series of 'tests and aspirations' to help ensure clarity of communication, offer a strong framework for budget discussions and enable a simple process for ongoing monitoring.

3. A summary of current progress against these tests and aspirations is set out below based on data to the end of Q3 2024. These results will be updated over the coming months as new financial data is available

Budget Tests & Aspirations	RAG	Comments
a. Stipends should increase in line with the national Stipends Benchmark each year.		7% uplift in stipends agreed from 1 April 2024 in line with national recommendation.
b. At least 80% of our total expenditure should be allocated to 'Ministry Support' and 'Parish & Schools Support'.		Was 82% at end of Q3
c. 'Diocesan Support Costs' should not exceed total non-CMF income.		Costs were 67% of non-CMF income at end of Q3
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.		Very early stages, but currently on track to meet this.
e. The annual increase in total Common Mission Fund request will be no more than the total annual cost of clergy stipend increase. *A 4% increase in stipends for example will lead to a 2.6% increase in CMF.*		Increase in CMF for 2025 is £217k over 2024 request. 7% increase in clergy stipends represents an increase of £226k
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. *(2022 collection rate was 86%)*		CMF collection rate at end of Q3 was just 88% despite the £700k reduction in total request for 2024.
g. We will maintain a minimum of 116.5 stipendiary clergy across our diocese until 2026, funding any shortfalls in income from reserves.		Our headcount (including current vacancies) is above 116.5 due to national and local funding for additional posts.

4. As the above demonstrates, the 6 aspirations which can be controlled or managed by the Winchester Diocesan Board of Finance (WDBF) are on track to be met. The only area where there is significant divergence is in CMF Collection rates.

5. In launching the new 3 Year Financial Plan, it was recognised that we had been, and continued to be in, a period of significant financial uncertainty. As such it was agreed that we would commit to funding any shortfalls in income from reserves for this 3-year period.

6. The Plan therefore noted that without change, our medium-term prospects were not good, with a growing gap between income and expenditure each year.

	2024	2025	2026	2027	2028	2029	2030
Income	**11,718**	**11,973**	**12,241**	**12,506**	**12,770**	**13,040**	**13,316**
Expenditure	**11,816**	**12,161**	**12,518**	**12,886**	**13,326**	**13,782**	**14,254**
Operating Surplus/(Deficit)	**(99)**	**(188)**	**(276)**	**(380)**	**(556)**	**(742)**	**(938)**

7. Sadly, the CMF collection rates for the first half of 2024 have been very disappointing. If this trend were to continue for the rest of the triennium, we would see the projected Operating Deficits above potentially triple each year, leading to deficits of nearly £3m a year by 2030.

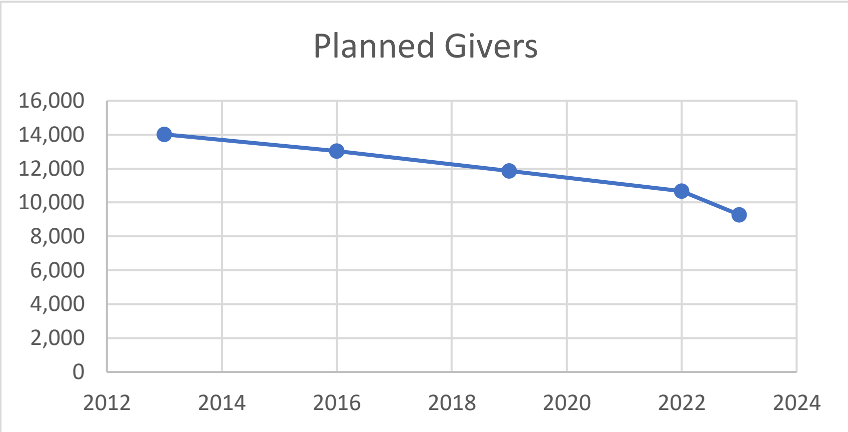
8. **This paper has been prepared by the Diocesan Finance Committee and Bishop's Council to review this risk in more detail and make recommendations to Diocesan Synod on potential next steps and solutions.**

Parish Financial Context

9. Any review of the Diocesan finances must start with a clear acceptance of the symbiotic nature of diocesan/DBF and Parish/PCC finances. The financial viability & sustainability of the WDBF is only ever a reflection of the financial viability and sustainability of our 236 parishes. When our parishes are struggling, then so too will Diocesan/DBF income levels. If the DBF finances struggle, then savings will have to be made that will negatively impact on mission and ministry at parish level. **This section therefore offers a high-level look at PCC finances.**

10. The tables and charts below show the changes in Common Mission Fund contributions, Planned Giving[1], and number of planned givers across our diocese since 2013:

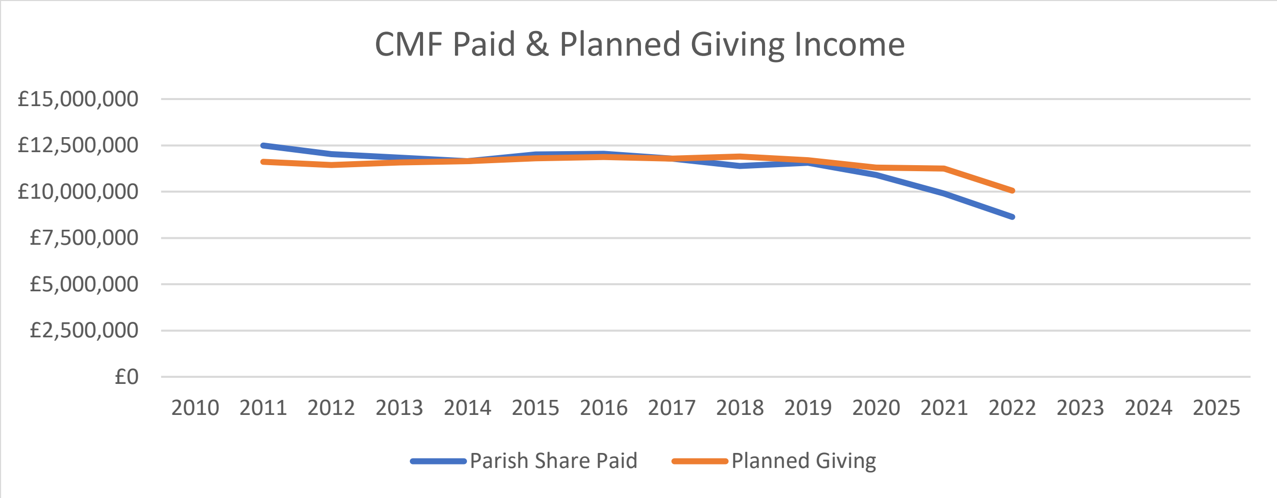
Year	Planned Givers	3 Year Change
2013	14,020	
2016	13,029	-7%
2019	11,858	-9%
2022	10,680	-10%
2023	*9,281*	*-13%*



11. Since 2013, we have seen a reduction in the number of planned givers of 4,739 (-34%). Despite this steady decline, until 2016, Planned Giving Income continued to increase each year, as the increase in individual giving levels were greater than the lost income from declining numbers:

Year	CMF Paid	3 Year Change	Planned Giving	3 Year Change	CMF as % of Planned Giving
2013	£11,837,250		£11,583,306		102%
2016	£12,045,305	*2%*	£11,868,027	*2%*	101%
2019	£11,564,255	*-4%*	£11,701,291	*-1%*	99%
2022	£8,634,000	*-25%*	£10,054,000	*-14%*	86%
2023	*£8,362,000*	*-3.2%*	*tbc*		*tbc*

[1] Planned Givers are defined as those who give to their PCC in a planned manner – i.e. through standing order, parish giving scheme (Direct debit) envelope scheme etc. It does not include people who regularly give through cash in a collection.



12. By 2019, things had changed and we started to see an overall decline in total planned giving income. This quickly accelerated from a drop of 1% between 2016 and 2019, to a fall of 14% between 2019 and 2022.

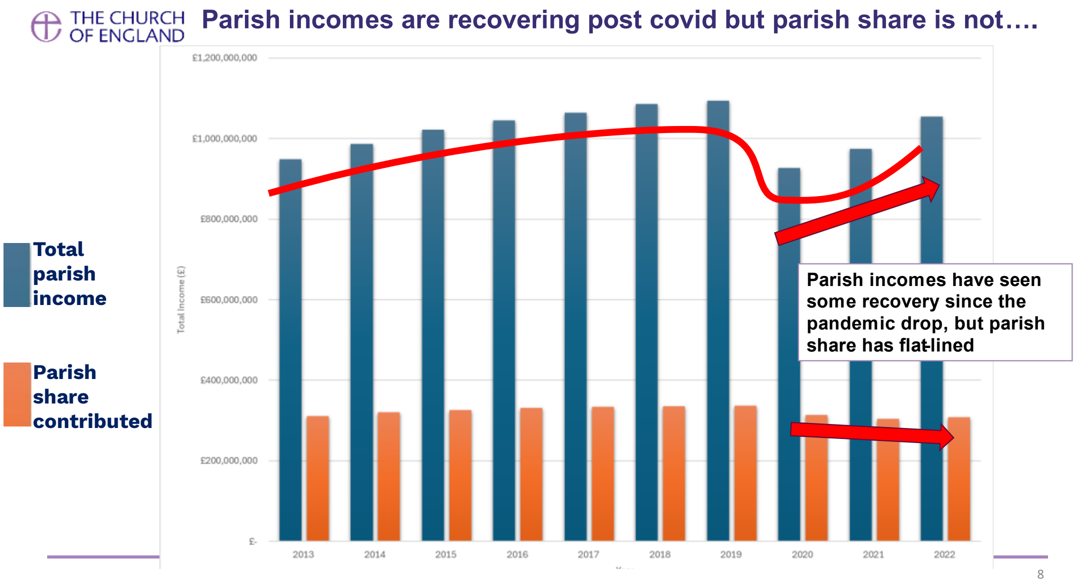
13. A similar, if more exagerated trend can also be seen with CMF contribution levels. Up till 2016 CMF income continued to rise each year. By 2019 we had begun to see income levels starting to fall (4%). By 2022, we had seen a 25% reduction in CMF contributions over a 3 year period.

14. During this 10 year period, CMF contributions have moved from representing 102% of total Parish Planned Giving to just 86% in 2022. This trend will in part be due to core costs for each PCC (utilities, insurance, maintenance etc.) increasing whilst giving levels have declined.

15. By 2022, only 67% of our PCCs met their CMF request in full with the figure remaining at 67% in 2023[2].

16. It is interesting to note however that at a national level, total PCC income across the country has begun to recover slightly in recent years, although contributions to CMF (Parish Share) have continued to decline.

[2] Only 57% of our PCCs have paid in full in both 2022 and 2023.



National Church Institutions 2024

17. Taking an even longer view can help to offer further context to these challenges. In the last 20 years we have seen the following:

    a. Attendance has declined by roughly 40%
    b. The number of Stipendiary Clergy has declined by roughly 40%
    c. The number of Church buildings has reduced by 3%
    d. The number of separate PCCs has reduced by 8%
    e. Requirements of compliance in the areas of safeguarding, finance, data protection and trusteeship have all increased signficantly.

18. With our 'workforce' declining, costs increasing, but our underlying structures remaining broadly flat at a parish level, these trends mean each year we are investing an ever increasing percentage of our resoruces in to operations, goverance and administration, and a declining percentage into mission, ministry and outreach. This is not a model for growth and sustainability.

Diocesan Context

19. Diocesan costs represent a significant element of our expenditure and must be kept under constant review. Outside of housing maintenance costs and ministry training costs (ordinands and curates), the largest area of central expenditure is salary costs for the Diocesan Team. Much has been done in recent years to review and, where appropriate, reduce such costs, leading to a £270,000 reduction between 2021 and 2022.

20. It is often tempting to view Diocesan costs as detached and tangential to parish and frontline mission and ministry. This can lead to a tempting and attractive narrative in parishes that 'central expenditure' is unnecessary and detracts from parish life. We do not believe this perception to be accurate or correct. We have been struck in recent years at a somewhat naïve approach from many PCCs in these discussions. Requests for increased support in a huge range of areas, have often come from the same parishes demanding reductions in CMF and calling for more redundancies within the Diocesan Team. This expectation that our employees can deliver 'more with less' is foolish and needs to be challenged.

21. Staffing headcount and salary levels in our diocese are reviewed regularly and compared to the wider national picture. This has shown the following:

    a. On average, the 42 DBFs of the Church of England employ 58.11 full time equivalent employees.
    b. In Winchester (an average sized Diocese) we employ 51.2 full time equivalent employees.
    c. In 2024, salaries for diocesan posts in Winchester were on average 7% lower than other dioceses in the South and Southeast of England, with one senior post being 15% lower than the regional average.

22. We also must be aware that DBFs do not operate in a vacuum. Ecclesiastical governance structures mean that large areas of diocesan expenditure can be set or increased by decisions of General Synod – usually without any formal need to consult or assess the financial implications at diocesan level[3].

23. It is worth reflecting on the different sources of income available to the DBF to fund all their statutory responsibilities and missional priorities, and the genuine challenges that go with each. This is not shared out of a desire to criticise parishes and stakeholders, but only to openly and honestly reflect the reality of the funding, cultural and political context in which we operate:

    a. **Common Mission Fund:** The CMF represents just under 74% of our total budgeted income each year and is therefore our single greatest source of income.

[3] I am grateful to our General Synod representatives who recently helped rebut a proposed 25% increase in nationally set Diocesan Legal fees which was due to be approved as 'deemed business' without any consultation with DBFs.

In response to the financial concerns of PCCs, we reduced the total request by £700,000 for 2024. Despite this huge reduction we are still only collecting 88% of the total ask. Whilst PCCs are under no legal obligation to contribute to the CMF, the methodology for calculating PCC requests, and the total amount required, is considered and approved by the elected representatives of Diocesan Synod and Bishop's Council. There is a therefore a strong argument that contributions to the CMF transcend legal obligations on Charity Trustees, becoming a form of covenantal agreement between the parishes of the Diocese.

It is worth noting that the amount currently requested for CMF in 2024, is well below the direct costs of providing ministry and support to our parishes and schools.

b. **Parochial Fees:** With budgeted income of £460k, PCC Fees (for weddings and funerals) account for around 4% of our income. Significant Diocesan Staff time is invested in this area helping PCCs to remember to transfer the DBF element of all fees to us on a timely basis. Even with this support, the decline in the number of occasional offices across our parishes means this income stream is reducing.

   The recent decision by General Synod to launch a regional pilot to investigate scrapping all wedding fees has had to be postponed due to logistical challenges in implementation. There does however continue to be vocal support in General Synod for removing all fees for weddings and funerals. As well as the loss of £460k of income to the DBF, such a decision would reduce total PCC income by over £811k a year in our diocese alone.

c. **Rental Income:** Letting vacant properties during vacancies generates over £1m of income a year (9% of total income). This policy has the dual advantage of generating much needed funds to support our ministry costs, whilst also ensuring vicarages are not left vacant for long periods of time (with the resulting insurance and maintenance concerns).

   Increasingly PCCs heading into a vacancy are requesting that their vicarage not be let out due to concerns that doing so may artificially extend the length of vacancy. In reality there is little evidence that a 6-month let will have a tangible impact on the average length of a vacancy. Our policy allows for exceptions to be made where there is a particular need for an urgent appointment to be made. Where such appointments are made, we not only lose the rental income, but some of the assumed budgeted savings in stipends/pensions arising from vacant posts each year. Managing this balance between fiscal responsibility and ministerial needs is an ongoing process of difficult judgement calls.

d. **Investment Income:** Our investment income (budgeted at £400k) is one of the few areas where we are currently exceeding budget for 2024, by 56% so far this year. This has helped to slightly offset our shortfall in other areas.

This is in no small part due to our decision in 2021 to sell around 40 properties that were no longer required for ministerial purposes. The capital released from these sales has been invested, with the income designated for supporting stipendiary clergy costs.

This process of selling houses has not been straight-forward. Many parishes have strongly objected to the sale of a house in their benefice expressing deep anger and hurt at the decision. We have done our best to explain the rationale for this process but recognise that for many the sale of a clergy house (even ones that have not been used for many years) is an emotive rather than pragmatic matter.

e. **Grants:** Grants from external funders are challenging to budget for but we are committed to seeking funding wherever appropriate. The main source of external funding for DBFs, remains the National Church's Diocesan Investment Programme (DIP). Our successful bid in 2023 to invest over £4.5m in approximately 40 to 45 parishes over the coming 5 years, generated negative reactions from some clergy and PCCs.

   Whilst it is well known and publicised that DIP funding is allocated in line with strict national criteria which we have no ability to influence, we still received complaints from clergy and parishes that did not perceive they would individually benefit from the latest grant. We will continue to do our utmost to seek external funding to support all our parishes, recognising that due to the mutuality inherent within our funding and resourcing model, investing in one parish will have positive implications for others.

24. In short, all sources of income available to the DBF are currently contested and at risk to varying degrees. This is a reality we need to accept and acknowledge so that we can proceed with informed and balanced conversations as we seek to make difficult judgment calls in the future.

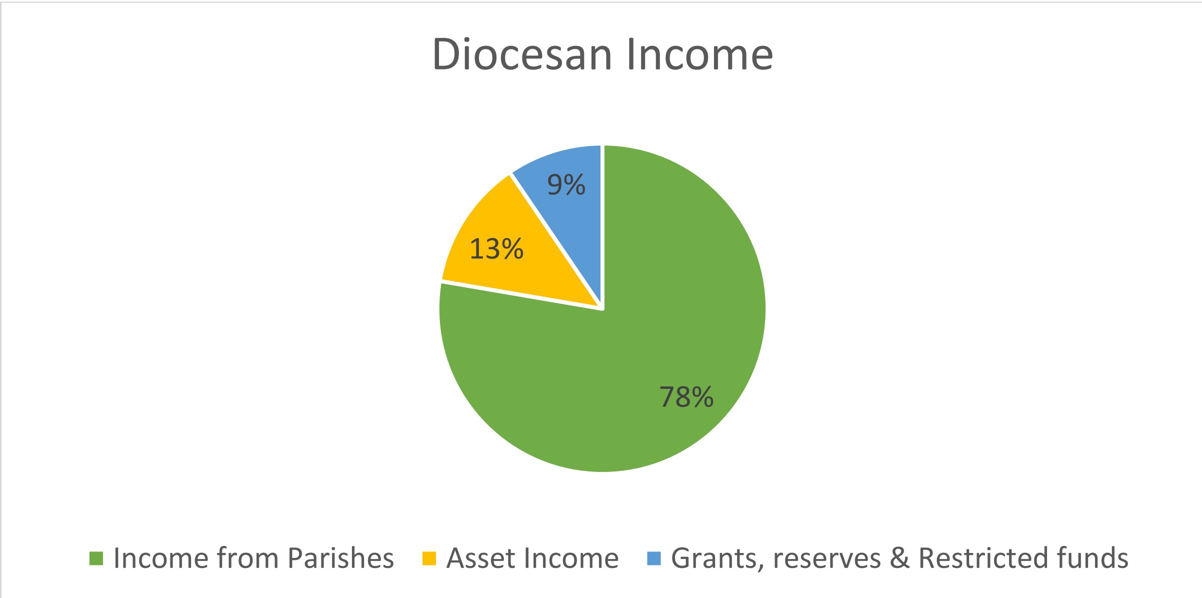
25. We are aware that often when people in parishes review the Annual Report & Accounts of the WDBF, they are struck by the size of the balance sheet, and therefore conclude that we are a wealthy entity. As members of Diocesan Synod will be very aware, the vast majority of the WDBF's assets are clergy houses. These do not represent investments or reserves that can be easily spent or utilised. Many of the remaining investments we hold, are also restricted or held as permanent endowments that can only be used for specific purposes.

The path to sustainability

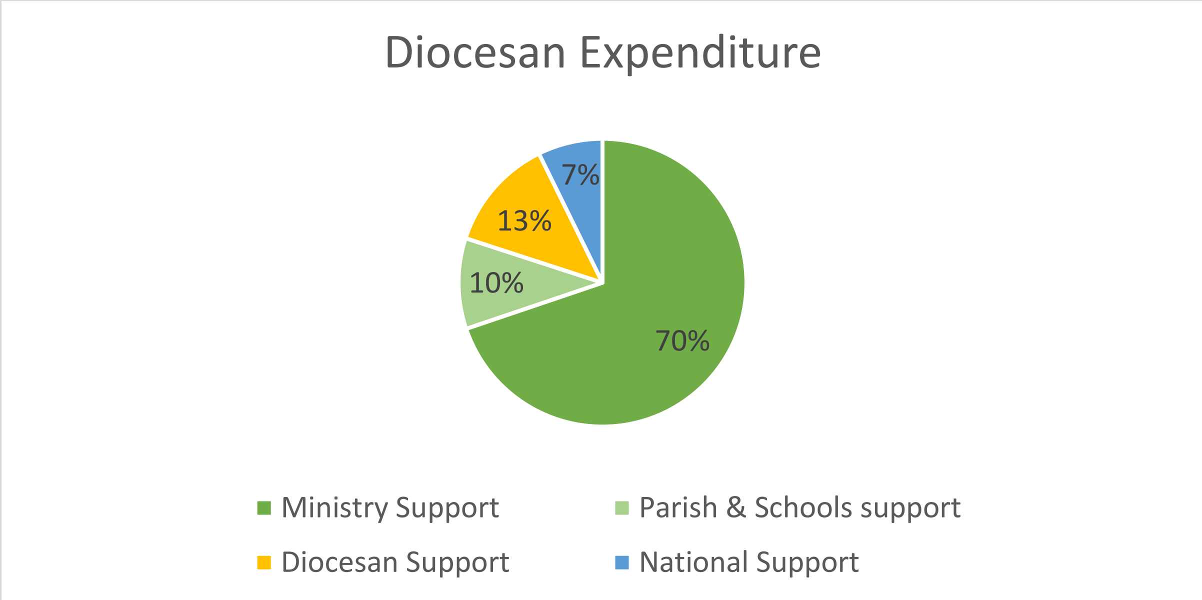
26. Given the financial context described above, we must now consider how we move forward. The analysis in this paper suggests that finances are not 'the problem', only a symptom. The underlying challenge is the relentless decline in attendance over many decades. The long-term solution must therefore be to focus on sustainable growth. Whilst this sounds positive, to deliver it will still require sacrifice, compromise and change.

27. When faced with financial data described in this paper, it would be logical for any Charitable Company to consider an urgent programme of budgetary cuts. This option must not be dismissed, but it must be acknowledged that this approach has been the standard response to managing financial concerns in the past. The evidence to date suggests that cutting costs only delays future financial challenges - it does not address them. Arguably it is merely **a mechanism for managing decline, not investing in growth**.

28. As the charts below illustrate, most of our expenditure each year is spent resourcing local ministry in our parishes and schools[4]. If our budget aspirations had been met, 78% of our income would have come from parishes (through CMF and Parochial Fees) with 80% of our expenditure being spent on supporting ministry in our parishes and schools.



[4] Even those areas identified as Diocesan or National support costs still include significant expenditure linked to supporting clergy (£400k on ministry training, £150k on supporting retired clergy etc.)



29. We must therefore be clear and honest with ourselves that if sizeable financial savings become necessary, these will result in significant further reductions in our number of stipendiary clergy.

30. The challenge before our diocesan community is therefore how we find a path to sustainable growth. **Walking the Wessex Way** is intended to be the strategic framework to provide the momentum and direction for this journey. https://winchester.anglican.org/who-we-are/ As well as offering an invitation to all parishes and deaneries to engage in reviewing their local mission, it will in due course allow us to discern Diocesan level 'commitments' to help focus our resources and funding applications for the coming years[5].

31. The question before us now therefore is whether we feel able to continue our current level of expenditure, recognising the significant risks to income, or if an urgent revision of our three-year financial plan is now required?

[5] Current thinking is that BCSC and Synod will be asked to contribute to Walking the Wessex Way (part 2) during Q4 2024 and Q1 2025 leading to a significant application to the Strategic Mission & Ministry Investment Board in 2025.

Recommendation

32. Having considered the current situation, the Bishop's Council & Standing Committee believe that now is not the time to make major changes to our budget. Whilst the current financial outlook is a clear challenge for all of us, the Council believe that the answer is to continue to invest in growth, not to manage decline.

33. In reaching this conclusion they noted the following:

i. Nationally there are signs of hope with attendance and PCC finances beginning to improve.
ii. The Bishop's Council intend to begin consultations on our next application to the Strategic Mission & Ministry Investment Board in early 2025, building on the aspirations and commitments of Walking the Wessex Way.
iii. The Synod Business Committee have been considering a multi-diocesan motion to General Synod (originating in the Dioceses of Gloucester and of Hereford). This motion calls upon General Synod to ask the Church Commissioners to release £2.6bn of their funds to Diocesan Clergy Stipend Capital funds (restricted funds all DBFs manage where the income can only be used to support stipendiary clergy). It is expected that this motion will be brought to our Synod in March 2025.

34. The Bishop's Council therefore recommends the following motion to Diocesan Synod:

This Synod:

a. Takes note of the challenging financial context as set out in the report from the Bishop's Council & Standing Committee DS24/07
b. Requests the Bishop's Council & Standing Committee to communicate this information widely across our Deanery Synods and PCCs to help raise awareness of our shared challenges, calling on all to consider how they might respond.
c. Instructs the Bishop's Council to provide a further update by November 2025.

November 2024