



2019 Budget and 2019-2022 Sustainability Plan

Executive Summary

1. It is forecast that the financial outturn for 2018 will be £1m favourable to budget, with a deficit of £2.5m.
2. The 2019 budget shows a deficit of £1.5m, which is a significant improvement on the 2018 budget and latest forecast. However, achieving a long-term balanced budget is going to require significant work to materially increase income or reduce expenditure further.
3. The 2019-22 Sustainability Plan shows the deficit increasing again in 2020 as one-off grants from the National Church are not repeated and regular grants continue to reduce. Assuming share income growth of 1.5% each year the deficit is forecast at £1.8m in 2022 or £0.9m if share growth of 3% can be achieved.

Background

4. Following the formation of the Diocese of Leeds, the Diocesan Synod approved the Leeds Diocesan Board of Finance ('LDBF') to utilise up to £8m of unrestricted reserves. At 31 December 2017 unrestricted reserves were £31.5m, which was £1.3m lower than at the formation of the Diocese (£32.8m). Of the £31.5m unrestricted reserves, only £3.8m was held in cash and investments and therefore, available for immediate utilisation.
5. In 2017 the DBF ran an operating cash deficit of c.£3m, which was funded by the sale of properties and fixed asset investments. The budget for 2018 was to run a deficit of £3.5m, before the utilisation of £1.1m of restricted reserves. However, as it was clear that this was on an ongoing structural deficit and therefore, would require the ongoing utilisation of reserves and the sale of properties, the Board agreed in July 2018 to take immediate actions to begin to reduce the deficit.
6. In March 2018, the Bishop's Strategy Group began assessing the options for balancing the budget. An early principle adopted by the Group was that any scenario should "share the pain" between additional income (principally from Parish Share), lower support costs and lower clergy costs (including property). In broad terms, assuming a cash deficit of £3m this equates to £1m from each of these areas. Within this there was the desire to maintain the level of spend on clergy, given the strategic importance of parish ministry the relatively low level of per capita clergy deployment compared to the national average.

Report

2018 Financial Update

7. Based on the financial results to the end of August 2018, the LDBF is forecast to run an operating cash deficit of £2.5m in 2018, which is £1.0m favourable to budget. The principal drivers for this are lower costs of the Support of Parishes and Schools (£0.5m), lower costs of the Ministry in Parishes (£0.3m), lower Property costs (£0.3m) and higher grants from the National Church than budgeted (£0.3m), partly offset by lower Parish Share (£0.4m).

2019 Budget

Parish Share

8. The total Parish Share request for 2018 was £15.63m, with a current forecast collection of £13.73m (87.8%). Additional, historic and voluntary share payments of £0.19m and £0.15m respectively are forecast to bring full year Share receipts to £14.07m.
9. For 2019 a full analysis of the impact of increasing the share request and/or changing the caps (i.e. maximum increase (10%), maximum decrease (5%) and maximum percentage of unrestricted income (80%)) within the approved share system was undertaken. This demonstrated that c.70% of any increase in the uncapped share request would be absorbed by the current capping mechanism.
10. Specifically, the analysis showed that a 3.0% increase in the Parish Share request (£482k) would result in a 1% increase in the forecast share received (£146k). Whereas increasing the collection rate to 90% would result in £170k additional income. This indicates that a primary focus needs to be on increasing the collection rate, rather than increasing the Share request.
11. Therefore, it is proposed to freeze the uncapped share request for 2019 and focus on working with parishes to improve the collection rate. Additionally, it is proposed to encourage parishes, who are able, to contribute more on a voluntary basis. Specifically we will be asking parishes who have previously paid their Share in full but, due to the capping system, will receive a reduction for 2019 to consider whether they can maintain payments at current levels. We will also ask all parishes receiving a freeze to consider whether they are able to contribute more.

Clergy Stipends

12. It is proposed to freeze the cost of Ministry in Parishes at the forecast 2018 level of £12.6m. Of this £11.9m is for the payment of clergy stipends, national insurance and pension costs. At present the Diocese of Leeds pays the second highest stipend in England (£27,115), with Guilford being the highest (£27,866), Hereford the lowest (£25,350) and the average being (£26,144)¹. Therefore, given the current financial constraints and the savings being made in support staff costs (i.e. voluntary redundancies, closure of defined benefit pension schemes and salary harmonisation), it is proposed to freeze stipends at the 2018 level of £27,115. Clergy pensions are unaffected by this, as they are based on the national minimum stipend.
13. Assuming other dioceses apply pay rises as they did in 2018 this would leave the Diocese of Leeds seventh on the list of highest paying dioceses. It is assumed that this would be for one year only and some stipendiary inflation would be applied from April 2020.

¹ Other dioceses in the Province of York average £25,796: Blackburn - £25,497; Carlisle - £26,030; Chester - £25,526; Durham - £25,490; Liverpool - £25,393; Manchester - £25,433; Newcastle - £25,428; Sheffield - £26,076; Southwell & Nottingham - £25,923 and York - £25,845.

Confidential

Proposed Budget

14. The proposed budget forecasts income of £22.1m and expenditure of £23.6m, and therefore a deficit of £1.5m. The proposed utilisation of £0.9m restricted reserves will result in a deficit of £0.6m.
15. Total budgeted income of £22.1m is £0.5m higher than the latest forecast for 2018 primarily due to:
 - 15.1. £0.2m higher parish share receipts, which is a 1.5% increase on the latest 2018 Parish Share forecast and would require the collection rate to increase to 90% (forecast 88% in 2018, which would be the same as 2017); and
 - 15.2. £0.3 higher grants from the National Church, which primarily reflects higher Restructuring Grants (the final instalments of the £1.8m awarded in 2017).
16. Total budgeted expenditure of £23.6m is £0.5m lower than the latest forecast for 2018 primarily due to:
 - 16.1. £0.4m lower support costs due principally to lower staff costs as a result of a reduced headcount and the closure of the Lay Workers Defined Benefit Pension Schemes and other non-staff savings;
 - 16.2. £0.2m lower property costs, which will reflect a full year of the tighter criteria on property expenditure; and
 - 16.3. £0.1m lower reorganisation costs, with the final travel subsidies paid in September 2018;

partly offset by
 - 16.4. £0.1m new SDF expenditure, which is partly funded by grants from the National Church; and
 - 16.5. £0.1m higher contribution to the National Church.
17. The budget assumes the usage of £0.9m restricted reserves (2018: £1.1m) as set out in Appendix 1, page 7.
18. The remaining deficit of £0.6m will be funded by the sale of properties. DBF properties identified for sale are forecast to generate net proceeds of £2.2m. These properties are no longer required for ministry in the Diocese.
19. Agents have been appointed to market and sell the former Diocesan Offices at South Parade, Wakefield and Kudgali House, Steeton. Subject to market appetite and acceptable offers being received, it is assumed these sales will complete during 2019.
20. The full 2019 budget and 2019-22 sustainability plan are included at Appendix 1.

2019-22 Sustainability Plan

21. As noted in paragraph 7 the scenario to balance the budget emphasises a “sharing of the pain”. In broad terms, this is seen to be £1m additional income by 2022 (versus 2018), £1m lower property expenditure (versus 2017) and support costs equal to 2017 (£1.25m below the 2018 budget). The current position on each of these is as follows:
 - 21.1. Income – for total income to increase by £1.0m, Parish Share will need to increase by c.£2m to offset decreases in funding from the National Church. This equates to a 3% year-on-year growth or 15% above the 2017 actual position. This is a challenging target but it is vital that we rise to this

challenge in order to deliver the Diocesan Strategy. Other income areas are assumed to grow at 2% per year.

- 21.2. Property costs – the target is to reduce property costs by £1m versus the 2017 actual of £4.4m (i.e. to £3.4m). The budget for 2019 is £3.7m and therefore additional savings of £0.3m are still to be identified. The Sustainability Plan assumes this is achieved in 2020.
- 21.3. Support costs – the target is to reduce support costs back to the 2017 level of £5.55m. The budget for 2019 is £5.90m and therefore savings of £0.35m are still to be identified. The Sustainability Plan has not included these unidentified reductions but work is ongoing in this area.
22. Based on the assumption of share growth of 1.5% per year (Appendix 1, page 8), the deficit before the utilisation of restricted reserves is forecast at c.£1.8m in 2022 or £1.5m after the utilisation of restricted reserves. Under such a scenario, £7.0m of unrestricted reserves would have been utilised by the end of 2022. Assuming share growth of 3% per year (Appendix 1, page 9), the deficit is forecast at £0.6m after the utilisation of restricted reserves.
23. Therefore, there is still significant work to be undertaken in order to balance the budget by the end of 2022. Specifically, the focus in the coming year will be on how to enable a 3% increase in the amount of Parish Share received and what the alternative approach will be should this not be achieved.

Conclusions & Recommendations

12 Stephen Hogg will proposed that the following motion:

- 12.1 “That the Diocesan Synod authorise the Diocesan Board of Finance to raise and expend a sum not exceeding £23,549,241 for the calendar year 2019”.

Geoff Park
CFO
25 September 2018

Appendices

Appendix 1 – 2019 Budget and Sustainability Plan

APPENDIX I: 2019 BUDGET AND 2019-22 SUSTAINABILITY PLAN

OCTOBER 2018



2018 LATEST FORECAST

(£'000)	2017 Actual	2018 Budget	2018 Latest F'cast	Variance
Parish Share	13,811	14,460	14,078	(382)
National Church	4,119	3,787	4,120	333
Other	3,315	3,407	3,334	(73)
Total Income	21,245	21,653	21,533	(120)
Ministry in Parishes	12,972	12,933	12,584	349
National Church	1,094	1,140	1,140	-
Property Costs	4,428	4,203	3,900	303
Support for Parishes & Sch	5,550	6,806	6,302	504
Reorganisation (17-18)	292	85	85	-
Total Expenditure	24,336	25,167	24,011	1,156
Surplus / (Shortfall)	(3,091)	(3,513)	(2,478)	1,035
Restricted Reserves	750	1,150	1,150	-
Net Surplus / (Shortfall)	(2,341)	(2,363)	(1,328)	1,035

PROPOSED 2019 BUDGET

(£'000)	2017 Actual	2018 Budget	2018 Latest F'cast	2019 Budget
Parish Share	13,811	14,460	14,078	14,290
National Church	4,119	3,787	4,120	4,454
Other	3,315	3,407	3,334	3,312
Total Income	21,245	21,653	21,533	22,056
Ministry in Parishes	12,972	12,933	12,584	12,585
National Church	1,094	1,140	1,140	1,251
Property Costs	4,428	4,203	3,900	3,696
Support for Parishes & Sch	5,550	6,806	6,302	5,895
SDF	-	-	-	122
Reorganisation	292	85	85	-
Total Expenditure	24,336	25,167	24,011	23,549
Surplus / (Shortfall)	(3,091)	(3,513)	(2,478)	(1,493)
Restricted Reserves	750	1,150	1,150	900
Net Surplus/(Shortfall)	(2,341)	(2,363)	(1,328)	(593)

INCOME BREAKDOWN

Area (£'000)	Detail	2017 Actual	2018 Budget	2018 Latest F'cast	2019 Budget
Parish Share	Parish Share	13,811	14,460	14,079	14,290
Grants from National Church	Transition Allocation	2,067	1,900	1,900	1,700
Grants from National Church	Poorest Communities Allocation	1,400	1,500	1,500	1,600
Grants from National Church	Church Commissioners Restructuring Fund	516	300	440	641
Grants from National Church	Church Commissioners Funding Legal	136	87	87	87
Grants from National Church	SDF	-	-	-	96
Grants from National Church	RME	-	-	194	330
Grants from National Church	Total	4,119	3,787	4,121	4,454
Clergy Fees	Clergy Fees	1,106	1,165	1,260	1,285
Investment income	Investment income	613	250	600	612
Other Grants	Parsonage Improvement Grants	22	21	10	10
Other Grants	Allchurches Trust Grant	335	335	335	318
Other Grants	Other	56	-	-	-
Other Grants	Total	414	356	345	328
Income from Property	Rental Income	588	608	584	534
Other income	Education Buildings Professional Services	50	50	50	50
Other income	Parcevall Hall	264	312	299	305
Other income	Education	186	180	165	165
Other income	Other	96	486	31	33
Other income	Total	595	1,028	545	552
Income	Total	21,245	21,653	21,533	22,056

EXPENDITURE – CLERGY COST BREAKDOWN

Cost Type (£'000)	2017 Actual	2018 Budget	2018 Latest F'cast	2019 Budget
Stipends & NI	9,118	9,077	8,968	8,958
Pension	3,002	2,922	2,800	2,823
App Levy	0	42	42	41
New role Grants	291	330	291	291
Parish Support Grants	18	15	25	25
Occasional office grant	171	200	180	180
Other (Expenses, etc)	373	346	280	267
Total Costs	12,972	12,933	12,585	12,585

EXPENDITURE – SUPPORT COSTS BREAKDOWN

Area (£'000)	2017 Actual	2018 Budget	2018 Latest F'cast	2019 Budget
Ministry & Mission				
Ordinands & Vocations ¹	408	428	491	657
Director of Lay Training	198	443	406	376
Clergy Development	286	371	313	321
Children & Youth	143	173	182	166
Ministry & Mission	112	126	142	137
Church Growth	66	178	117	115
Urban Mission Officer	90	60	81	65
Interfaith	64	150	137	31
Environment	7	27	22	23
Disability	0	12	17	20
Resource Centres	6	24	16	19
Other	46	75	21	24
Total Ministry & Mission	1,425	2,066	1,947	1,954
Other Parish & Schools Support				
Education	799	1,093	832	712
Mission & Pastoral	253	317	264	298
Resourcing Parishes	436	435	448	203
Diocesan Advisory Committee	176	185	185	187
Buildings for Mission	87	94	53	53
Higher Education	23	188	33	43
Link Dioceses	42	50	26	25
Total Other Support	1,816	2,362	1,842	1,521

Area (£'000)	2017 Actual	2018 Budget	2018 Latest F'cast	2019 Budget
Retreat & Outdoor Centres				
Parcevall Hall	247	299	290	293
Marrick Priory	33	55	61	45
Total Retreat & Outdoor Centres	281	354	351	338
Shared Central Support Costs				
Governance	554	585	505	448
Lay Pension Deficit	63	63	309	337
Finance	280	258	265	279
Diocesan Offices	283	311	278	265
Administration	253	216	222	209
Safeguarding	154	205	163	179
Communications	247	240	190	157
HR	80	80	134	128
IT & Equipment	114	65	95	79
Total Shared Central Support Costs	2,028	2,024	2,161	2,081
Total	5,550	6,806	6,302	5,895

1 - Ordinands and vocations includes RME funding of £194k in the 2018 latest forecast and £330k in 2019.

RESERVES USAGE

- The utilisation of restricted reserves has currently been assumed as follows:

(£'000)	2018 Budget	2018 Latest F'cast	2019 Budget	2020 Latest F'cast	2021 Latest F'cast	2022 Latest F'cast
Education 554	600	600	400	400	300	100
Pension	100	100	100	100	-	-
Training for Ministry	200	170	150	150	150	50
Inglefield	250	100	70	45	45	45
Pastoral	-	180	180	180	180	180
Total	1,150	1,150	900	875	675	375

FORECAST 2018 – 2022 (1.5% SHARE GROWTH)

(£'000)	2017 Actual	2018 Latest F'cast	2019 Budget	2020 Latest F'cast	2021 Latest F'cast	2022 Latest F'cast
Parish Share	13,811	14,078	14,290	14,504	14,722	14,943
National Church	4,119	4,120	4,454	3,615	3,418	3,320
Other	3,315	3,334	3,312	3,355	3,399	3,445
Total Income	21,245	21,533	22,056	21,475	21,539	21,707
Ministry in Parishes	12,972	12,584	12,585	12,585	12,585	12,585
National Church	1,094	1,140	1,251	1,287	1,312	1,339
Property Costs	4,428	3,900	3,696	3,421	3,424	3,427
Support for Parishes & Sch	5,550	6,302	5,895	5,959	5,993	6,025
SDF	-	-	122	150	161	165
Reorganisation	292	85	-	-	-	-
Total Expenditure	24,336	24,011	23,549	23,407	23,482	23,547
Surplus / (Shortfall)	(3,091)	(2,478)	(1,493)	(1,932)	(1,943)	(1,840)
Restricted Reserves	750	1,150	900	875	675	375
Net Surplus/(Shortfall)	(2,341)	(1,328)	(593)	(1,057)	(1,268)	(1,465)

FORECAST 2018 – 2022 (3.0% SHARE GROWTH)

(£'000)	2017 Actual	2018 Latest F'cast	2019 Budget	2020 Latest F'cast	2021 Latest F'cast	2022 Latest F'cast
Parish Share	13,811	14,078	14,501	14,936	15,384	15,846
National Church	4,119	4,120	4,454	3,615	3,418	3,320
Other	3,315	3,334	3,312	3,355	3,399	3,445
Total Income	21,245	21,533	22,267	21,906	22,201	22,611
Ministry in Parishes	12,972	12,584	12,585	12,585	12,585	12,585
National Church	1,094	1,140	1,251	1,287	1,312	1,339
Property Costs	4,428	3,900	3,696	3,421	3,424	3,427
Support for Parishes & Sch	5,550	6,302	5,895	5,959	5,993	6,025
SDF	-	-	122	150	161	165
Reorganisation	292	85	-	-	-	-
Total Expenditure	24,336	24,011	23,549	23,402	23,475	23,541
Surplus / (Shortfall)	(3,091)	(2,478)	(1,282)	(1,496)	(1,274)	(930)
Restricted Reserves	750	1,150	900	875	675	375
Net Surplus/(Shortfall)	(2,341)	(1,328)	(382)	(621)	(599)	(555)