

UNITED REFORMED CHURCH

Synods and General Assembly: Combined Financial Analysis

February 2023

Disclaimer

Please note that the contents of this document are based on the limited work undertaken and on information provided by, and representations of, the United Reformed Church staff. For the purposes of this report, we have not undertaken an audit of the information provided to us.

This document is issued on the understanding that the trustees, management and leadership of the organisation have drawn our attention to all matters that, operationally, financially or otherwise (of which they are aware) may have an impact on our work.

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This document should be one of a number of factors taken into consideration in any decision regarding the future strategy of the organisation and any changes to the finance function.

We hope you find this document thorough and thoughtful. If you have any queries or require any further information, please do not hesitate to contact Marcus Lees-Millais on +44 (0) 20 4582 1452.

1. Introduction

The United Reformed Church ('URC') has lacked good quality, consolidated, and comparable financial information across its Synods and General Assembly with which to take decisions for its future.

The Church Life Review Group ('CLRG'), General Secretary, and Chief Financial Officer, selected Moore Kingston Smith Nonprofit Advisory to develop a template to collect information focused on Synods, and then to consolidate this information for CLRG use. This work, however, does not consider the local Churches that are associated with each Synod and their finances.

This brief paper provides a high level analysis on the data. It makes observations and comments on the URC Financial Model – specifically its income, expenditure, assets and reserves levels. This data allows the start of a different narrative, one that looks at the numbers objectively, and asks how the URC can focus more of its financial assets on its mission for the future.

The key learnings from this analysis are five-fold:

- The Synods and General Assembly reserves have increased significantly from a growth in investment income, and the closure of local churches (and assets and income received from this). We also see Church numbers and member numbers declining; how can these assets be better used to provide for mission for the future?
- Financially, the URC is making a year-on-year loss, but the level of the loss is modest compared to the drop in members and church levels. How can this equation be squared, and where will the URC need to invest and consider consolidation for the future?

- The assets of different Synods are not equally distributed – some Synods are wealthy, while some lack resources to undertake ministry. There is a real question of how to distribute assets more effectively to meet need. Set against this is the need to start to understand both the direct and indirect impact of the URC’s work; without this, the narrative becomes about money alone, rather than focused on the URC’s mission and purpose.
- There is wide variety of mission work going on across the URC. By sharing resources and learning from each other the URC will become a more efficient and effective organisation; and keep costs down at the same time
- Investment income across the URC is critical for its existence. However, there are different levels of spend on managing portfolios across Synods, and on the quality of advice received.

CLRG should review the information contained in this brief financial analysis. This will help their understanding of the direction for the United Reformed Church, as it sets its future strategy.

2. Data Quality and Accounting

The data we analysed for this brief report was two-fold:

- The financial return as developed for this exercise, and completed by Synods (and Church House); cross-referenced against ...
- The statutory accounts for each Synod (and Church House) as filed with the Charity Commission.

Our excel template was developed as a result of several workshops with Synods, and rounds of consultation with the Steering Committee. We asked for data from 2019, 2020, 2021 and budget 2022 from Synods; to provide trend analysis.

While people had concerns as to how long this would take, they provided good quality information for 2021. For other years data was patchy, and so we took trend data from Charity Commission.

We saw a high degree of congruence and similarity in accounting once a template is provided. However, some accounting definitions will need to be ironed out for any future returns, e.g. what constitutes income from closed churches, versus assets from closed churches.

The quality of *Statutory Accounting*, i.e. reports and financial statements as submitted to the Charity Commission, is variable. SORP (the Charity Commission Standards Accounting Policies) is prescriptive as to how it asks for charities to present their information. The URC would benefit from a review of a sample of its Synod accounts and then a good practice workshop to standardise and help improve these.

Note:

The financial returns completed by the Synods are an amalgamation of Synod and Trust financial data. They are also completed using a mixture of management and statutory information so will not always tally back to the reports and accounts.

Additionally, our historic analysis of reports and accounts is made using only Synod data from their published accounts so does not include where Synods also have property and other assets held in a Trust. This means that some data, especially fixed assets and reserves, may be omitted if Synods have substantial levels of assets kept in a Trust.

Appendices 1-3 have been created using the financial returns while Appendix 4 has been created using statutory reports and accounts so will not match with Appendices 1-3.

3. Overall income and expenditure, aligned with Balance Sheet

The URC is an income-driven charity. It relies on large investment portfolios across the Synods, and income from property assets, to generate income with which to do its work. It then spends this money on mission, property support, grants, and overheads as well as placing money in reserves for the future.

Income and expenditure are explored in the next sections of this brief report, but a high level picture looks like Table 1 (below). This is a summary of Appendices 1-3.

Table 1: Summary 2021 Income and Expenditure

	Synods £'000		General Assembly £'000		Total £'000	
Income						
<i>Income (in the normal course of business)</i>						
Investment income	3,692	54%	1,568	8%	5,259	53%
Property income	1,640	24%	178	1%	1,818	18%
Other Income	1,548	23%	1,205	6%	2,753	28%
M&M Income	-		17,203	85%	17,203	
One-off income	6,880		20,154		27,034	
Income / Assets from Closed C	10,259		-		10,259	
Total Income	17,139		20,154		37,293	
Expenditure						
<i>Expenditure (in the normal course of business)</i>						
Mission costs	3,813	28%	3,023	14%	6,836	19%
Property costs	4,409	32%	530	2%	4,939	14%
Building grants	2,151	16%	61	0%	2,212	6%
Support Costs	109	1%	759	4%	868	2%
Ministry Stipend	-		15,475	72%	15,475	44%
Overheads	3,364	24%	1,785	8%	5,148	15%
One-off expenditure	13,846		21,632		35,479	
Pension contributions	8,491		-		8,491	
Total expenditure	22,337		21,632		43,970	
Total surplus / (deficit) (normal course of busin	(6,966)		(1,478)		(8,445)	
Total one-off items	1,767		-		1,767	
Total surplus / (deficit)	(5,199)		(1,478)		(6,677)	
Unrealised gains on investment	12,666		7,876		20,542	
	7,467		6,398		13,865	
Balance Sheet						
Property	61,708	25%	11,615	13%	73,323	22%
Investments	167,497	68%	62,356	68%	229,853	68%
Other (inc Investment Propert	12,415	5%	3,543	4%	15,958	5%
Net Current Assets (inc Cash)	3,685	2%	14,851	16%	18,536	5%
Total Balance Sheet	245,304		92,365		337,669	

Overall picture

In summary, URC finances show a deficit in 2021 across Synods and the General Assembly in the normal course of business [This deficit is before one-off income / assets from closed churches, and

pension contributions which roughly cancel each other out]. It is also in a year when investment returns have been good.

In 2021, the deficit was 3.8% of the total investment assets of the URC, with 4.3% of those in Synods, compared to 2.3% of those in the General Assembly.

There are six ways to respond to this financial squeeze:

- Raise income
- Improve cost recovery on grants and any contracted services
- Start undertaking cost reduction measures
- Use restricted funds better
- Improve efficiency
- Build partnerships
- Re-imagine the URC’s work

Each of these will need to be considered by CLRG for the future, and we explore some of this later in this report.

Income

M&M income to the General Assembly is the bulk of income to the URC Synods and Church House. However, most of this is spent as ministry stipends.

Of the remaining income, the majority comes from investment income (55%) of the whole, and property income (19%). The remaining 26% comes from legacies, donations, special appeals, trading and a multitude of other sources.

Because M&M income and expenditure is so big it distorts the overall picture and so we account for this separately in the Appendices 1-3.

Expenditure

Expenditure is spent mainly on mission: 83%. This breaks down as follows:

Ministry Stipends	44%
Mission costs (training, safeguarding, etc.)	19%
Property Costs	14%
Building Grants	6%

Overhead level and Support Costs cover the remaining 17% of costs; but levels run at **25% in Synods** (on average) with the **General Assembly having 12%**. It should be noted that the General Assembly’s figures are heavily skewed by the M&M expenditure¹.

A similar organisation would typically have around 15-20% overheads, and this potentially shows the high level of administrative needs for a large volume of Churches in each Synod region; with a more

¹ Without M&M, General Assembly’s overheads and support costs are much larger – c.40%. However as a major part of the GA’s work is to manage and administer M&M, it would be unfair to remove these and MKS believe that the analysis above provides a fairer picture.

streamlined central function at the General Assembly. Finally, there are large levels of pension contributions in 2021, which skews the figures.

Staffing

Staffing levels are shown in Table 2, below.

Table 2: Staffing levels

Staffing levels (FTE)	Synods	General Assembly	Total
MISSION Staffing			
Total Staffing (FTE)	70.3	21.2	91.5
Average per Synod (FTE)	5.4		
OVERHEADS AND SUPPORT Staffing			
Total Staffing (FTE)	79.8	32.6	112.4
Average per Synod (FTE)	6.1		
TOTAL STAFFING (FTE)	150.1	53.8	203.8
Average per Synod (FTE)	11.5		

The CLRG should note the larger proportion of mission staff in the Synods versus the General Assembly, and the higher proportion of overheads and support staff in the General Assembly.

Equally, Synods make use of paying consultants or external support in some roles, e.g. property, legal and finance. The headcount and costs relating to this do not appear in the figures above but volunteers are included.

Balance Sheet

The URC balance sheet is held mainly as investments (68%) or property (22%). Most assets are illiquid and not quickly or easily realisable (like cash). In future, as Synods generate deficits they will need to release further levels of investments to stay liquid.

What is also notable is the high level of cash being held across the organisation, but this almost all nets off against liabilities that need to be paid. Cash management appears tight within Synods.

The detail also shows that some Synods are extremely wealthy with multiple years of reserves, whereas others are not sustainable in their current forms. The distribution and sharing of assets is something the CLRG will need to wrestle with for the future.

Different Synods

The detail shows that no two Synods are the same. Each reflects the way they run their own operations.

4. Trends over time

Given that we only had one year of complete data for the financial return - 2021 – we looked at Charity Commission data, and OSCR data (The Scottish regulator) to pull together a picture of previous years’ trends in assets and reserves set against church numbers and the active member picture for the whole of the URC.

The data is provided in Appendix 4.

Total Assets over time

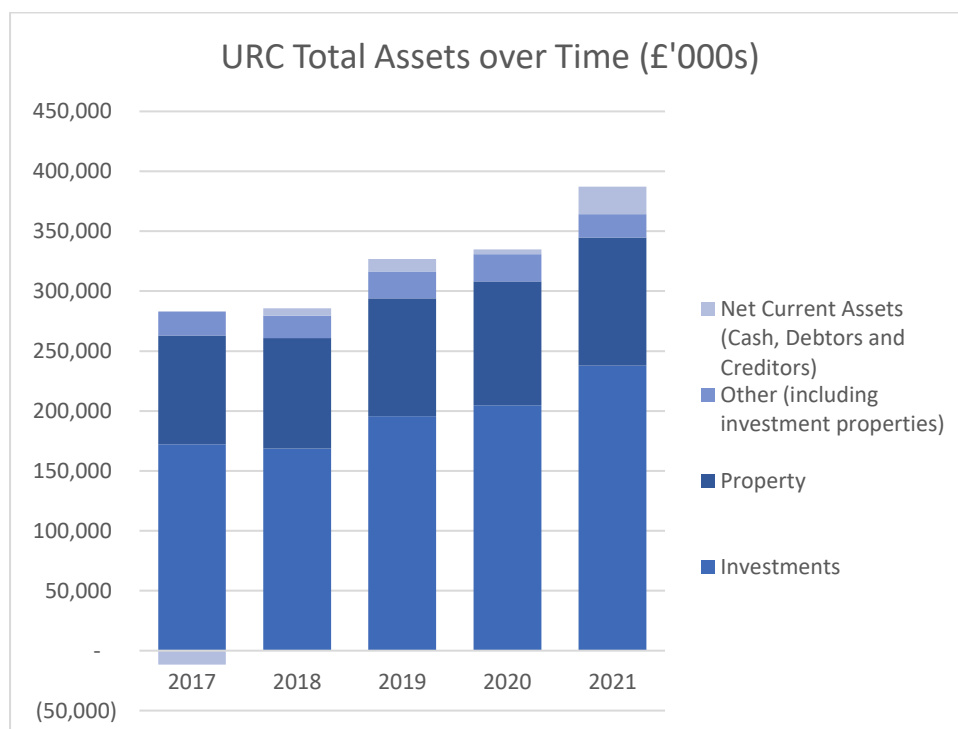
Balance sheet assets break down into three major classes of assets. The first are **Fixed Assets**, these are the buildings and property that the URC owns. These are not readily sold and so are relatively illiquid. Next comes **Investments**, that can be sold but are seen as Fixed Assets by Synods, i.e. they are being held for the long-term rather than short-term. Finally comes **Net Current Assets** – that is cash, debtors and creditors – which are used on a day to day a basis and are needed for everyday trading of Synods and the General Assembly.

We also include **Other Assets** (such as Investment properties and some Manses) as a separate category.

The graph below shows this analysis over the time period: 2017-2021. It shows the large growth in investment portfolio and the stable level of property assets.

We also note the accelerating level of income and assets from closed churches; this started at £2.8m in 2017 and has accelerated to £8.3m (2020) and £14.1m (2021).

Table 3: Increasing total assets over time.



Reserve levels

Not all assets are held as unrestricted reserves. The following analysis shows how URC holds its assets.

Endowment funds are those funds which cannot be used by the URC (unless expendable endowment). Typically the URC will have access to the income, but cannot use the investments or assets freely.

Restricted funds are held for specific legal purposes and all assets in this class must be applied for the purpose intended; this is a hard legal restriction. As an aside, the Charity Commission will intervene and enforce where it finds restricted funds being used for unrestricted purposes.

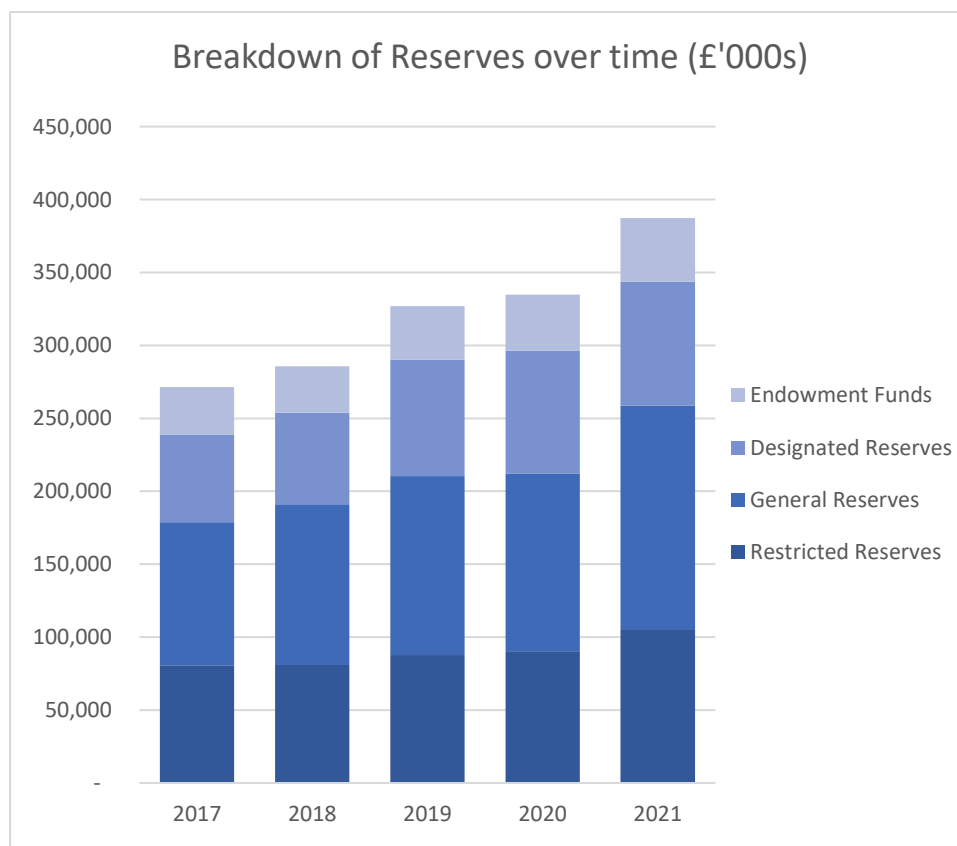
The final class of funds are **designated reserves**; these are growing. These are unrestricted funds held aside and earmarked for a 'demonstrable' purpose.

In summary, the URC is becoming more wealthy, but more assets are being held as endowments, restricted funds or are being designated – this means that not all funds can be used in a free and flexible way.

Charity accountants tend to look at '**Free reserves**' as a better indication of flexibility and assets in an organisation like the URC. This looks at Free Reserves as Unrestricted Funds *less* Unrestricted Fixed Assets and any Designations (i.e. anything which is liquid and easily realisable).

The graph below shows the numbers:

Table 4: Highlighting the breakdown of reserve types over time.



Looking at asset reserve levels over time set against church numbers and members

However, the most informative analysis is looking at reserve levels (in total) set against church numbers and member numbers over time.

In each case, the assets are increasing, while member numbers and number of Churches are decreasing.

Of course, this analysis is incomplete as it does not include Church finances. It does however, show the levels of assets and reserve levels available to support them.

Table 5: Total reserve levels against number of churches 2017-21.

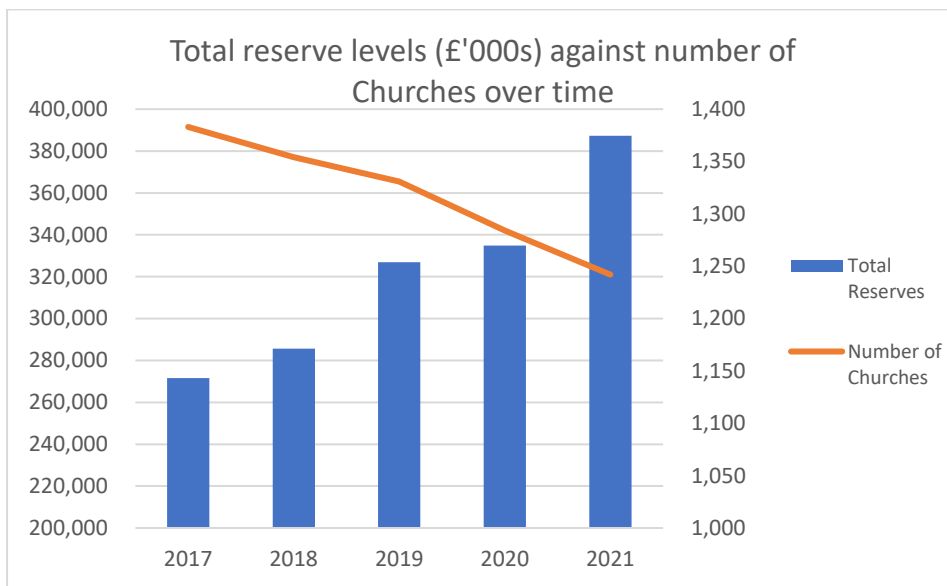
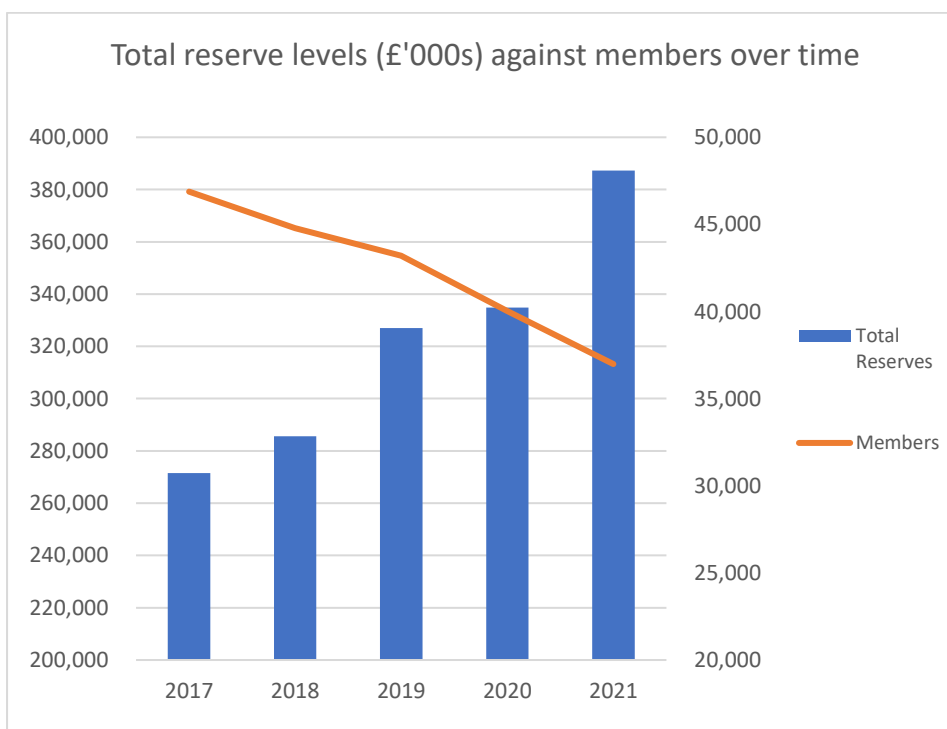


Table 6: Total reserve levels against member numbers 2017-21.



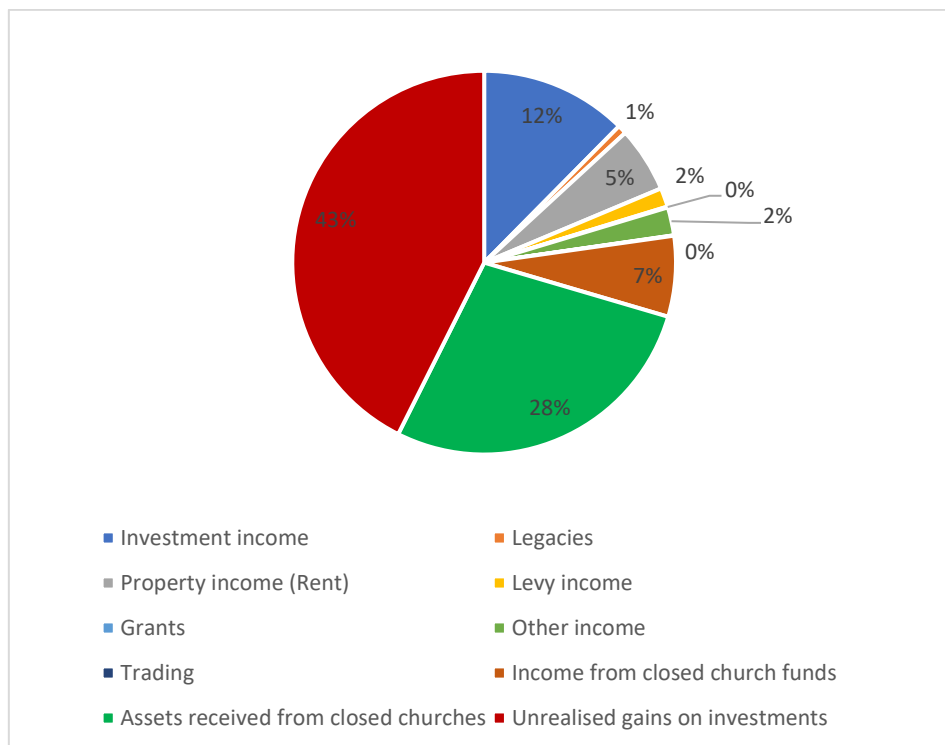
Our conversations have highlighted the declining member and attendance base. It is these members who run local churches and look after different Trusts, Synods and the multiplicity of different charities in the URC's structure.

It is not difficult to see that maintaining an active membership is critical for faithful discipleship, as well as to maintain the functioning structure of the whole.

5. Income

The breakdown of income across all Synods and Church House is shown in table 7:

Table 7: Breakdown of all income across Synods and Church House (excluding M&M)



The analysis shows that the URC is driven by two elements of income:

- **Investment income** – if we add realised investment income (i.e. actually received from investment portfolios as dividends or sales of shares) and unrealised investment income (i.e. portfolio growth not yet realised) **this accounts for 55% of all income**
- **Closed churches** – Income and assets received from Closed Churches **accounts for 35% of the whole.**

Together these two areas account for 90% of the URC's income (excluding M&M).

Investment income

2021 was a good year for investment income as the UK and the World started to recover from the Covid pandemic. By 2022/23 we have fallen back from these heights.

If we analyse the amount spent across Synods on investment management fees, four Synods spent nothing on investment management fees in 2021 (or simply have not disclosed these in either the financial return or the statutory accounts). In the remaining Synods, investment management costs range from 0.2% of income to 5.3% of income; the average being 0.75%. A similar organisation would expect to spend 1.0%-1.5% on investment income and ensuring that these funds are managed professionally should be paramount.

In addition, there is a real risk to investment portfolios and reputation if these investments are not handled professionally.

In terms of portfolio returns, this is THE key metric for the future financial health of the URC. 2021 returns are as follows:

	<u>Total Return</u> (Realised plus Unrealised)
Synod (weighted average)	10.0%
Synod Range of returns	3% - 16%
General Assembly	15%

There were six Synods with total returns under 10%.

There may be benefit in reviewing the investment management resource available to Synods.

Other income

The URC has to 'spend money to make money'. However, six of the organisations under consideration recorded no expenditure on generating funds. This could be as a result of a mistake (and not recording expenditure on generating funds correctly) or could be genuine that the URC does not focus on this. In conversation with CLRG it has, perhaps, highlighted a lack of culture of fundraising. This presents a potential opportunity through fundraising for the future.

6. Expenditure

This report commented earlier on overhead levels, but what is mission actually spent on? The data shows the following:

Mission - Evangelism	21%
Safeguarding	5%
Welfare & Pastoral	6%
Children and Youth	11%
Mission - Other (e.g. Ecumenical & Environmental)	28%
Building Grants	29%

There is an incredible diversity of how mission is delivered across Synods.

There is also huge potential for sharing knowledge and resources better and creating a more unified URC from this.

Appendix 1: Analysis of all income and expenditure across Synods and general Assembly: year end 2021

SIMPLE NUMBERS - ALL					
£000s	<u>Synods</u>		<u>General Assembly</u>		<u>Total</u>
Income					
Investments	3,692		1,568		5,259
Normal Other	<u>1,548</u>		<u>1,205</u>		<u>2,748</u>
Standard Income (ex-property)		5,240		2,773	8,008
Property Income	<u>1,640</u>		<u>178</u>		<u>1,818</u>
Total Income in Normal Course		6,880		2,951	9,826
Assets from Closed Churches	2,007		0		2,007
Income from Closed Churches	<u>8,252</u>		<u>0</u>		<u>8,252</u>
Total Income		17,139		2,951	20,084
Expenditure					
Mission Costs	3,813		3,023		6,836
Building Grants	2,151		61		2,212
Support Costs	109		759		868
Overheads	<u>3,364</u>		<u>1,785</u>		<u>5,148</u>
Total Expenditure before property		(9,437)		(5,627)	(15,064)
Property Costs (staff)	375		141		515
Property Costs (excl. staff)	<u>4,034</u>		<u>389</u>		<u>4,424</u>
Total Expenditure (excl. one off items)		(13,846)		(6,156)	(20,003)
Extra-Ord Pension Contributions	8,491		0		8,491
Total Expenditure		(22,337)		(6,156)	(28,494)
M&M Income			17,208		17,208
Ministry Stipend Expenditure			(15,475)		(15,475)
Total Realised Surplus / (Deficit)		(5,198)		(1,472)	(6,670)
Unrealised Income	12,666		7,876		20,451
Total Surplus / (Deficit) including unrealised gains		8,274		6,398	13,865

Appendix 2: Staffing levels year end 2021

Staffing levels (FTE)	Synods	General Assembly	Total
MISSION Staffing			
- Paid Staff (Headcount)	69.0	24.0	93.0
- Paid Staff (FTE)	39.3	21.2	60.5
- Volunteers (FTE)	31.0	0	31.0
Total Staffing (FTE)	70.3	21.2	91.5
Average per Synod (FTE)	5.4		
OVERHEADS AND SUPPORT Staffing			
- Paid Staff (Headcount)	87.5	34.0	121.5
- Paid Staff (FTE)	64.2	32.6	96.8
- Volunteers (FTE)	15.6	0.0	15.6
Total Staffing (FTE)	79.8	32.6	112.4
Average per Synod (FTE)	6.1		
TOTAL STAFFING (FTE)	150.1	53.8	203.8
Average per Synod (FTE)	11.5		

Appendix 3: Analysis on Balance Sheet and Reserves – year end 2021

SIMPLE NUMBERS – BALANCE SHEET

£000s	<u>Synods</u>		<u>General Assembly</u>		<u>Total</u>	
Balance Sheet						
Fixed Assets						
Property	61,708		11,615		73,323	
Investments	167,497		62,356		229,853	
Other (Including investment properties**)	<u>12,415</u>		<u>3,543</u>		<u>15,958</u>	
		<u>241,619</u>		<u>77,514</u>		<u>319,133</u>
Current Assets						
Cash	23,333		14,533		37,866	
Debtors	<u>6,438</u>		<u>10,793</u>		<u>17,231</u>	
		<u>29,771</u>		<u>25,326</u>		<u>55,097</u>
Net Liabilities						
Creditors	(17,977)		(3,499)		(21,476)	
Pension Obligations	<u>(8,512)</u>		<u>(6,976)</u>		<u>(15,488)</u>	
		<u>(26,508)</u>		<u>(10,475)</u>		<u>(36,964)</u>
Total Net Assets		<u>244,902</u>		<u>92,365</u>		<u>337,267</u>
Reserves						
Restricted Reserves		28,440		27,736		56,176
Unrestricted Reserves						
General Reserves	117,904		28,776		146,680	
Designated Reserves	<u>94,030</u>		<u>1,722</u>		<u>95,752</u>	
		<u>211,934</u>		<u>30,498</u>		<u>242,432</u>
Endowment funds		4,528		34,131		38,659
		<u>244,902</u>		<u>92,365</u>		<u>337,267</u>

Appendix 4:

Consolidated Assets and Reserves Picture 2017 - 2021					
Synods and General Assembly					
	2017	2018	2019	2020	2021
	£'000s	£'000s	£'000s	£'000s	£'000s
Balance Sheet					
Fixed Assets					
Property	90,747	92,215	98,282	103,440	106,948
Investments	172,291	168,611	195,631	204,738	237,797
Other (including investment properties)	19,993	18,627	22,633	22,539	19,523
Net Current Assets (Cash, Debtors and Creditors)	(11,525)	6,185	10,406	4,102	22,954
Total Net Assets	271,505	285,637	326,951	334,819	387,222
Reserves					
Restricted Reserves	80,711	80,872	87,685	90,431	105,571
General Reserves	97,998	110,320	122,644	121,765	153,006
Designated Reserves	60,190	62,748	80,019	84,181	85,003
Endowment Funds	32,607	31,698	36,604	38,443	43,642
Total Reserves	271,505	285,637	326,951	334,819	387,222
Number of Churches					
	1,383	1,354	1,331	1,284	1,242
Regular Attenders					
	16,092	14,456	13,734	11,776	11,869
Average Attendees per Church	12	11	10	9	10
Members					
	46,881	44,788	43,208	40,024	36,986