Paper G2

Budget strategy from 2025 onwards

Finance Committee

Basic information

Contact name and email address	Mr Alan Yates, Treasurer and Convenor alan.yates@urc.org.uk Mr John Samson, CFO john.samson@urc.org.uk
Action required	Decision – adoption of resolution.
Draft resolution(s)	Assembly Executive instructs the Finance Committee to begin work and consultations to manage the budget deficits from 2025 onwards in line with the agreed option: 1. Reduce the deficit quickly (two to three years); or 2. Reduce the deficit slowly (>ten years); or 3. Maintain the deficit at today's levels; or 4. Increase the deficit (spend to grow). And to report back to Assembly Executive or General Assembly as soon as possible. Note: the actual option agreed will be captured in the minutes.

Summary of content

Subject and aim(s)	The aim of the paper is to seek the mind of Assembly Executive as to how the Finance Committee should manage future budget deficits.
Main points	1. Since the pandemic, the URC budget has been operating at a deficit. As we enter our 'new normal' our present structure, procedures and policies are such that we appear to have a significant budget deficit that is likely to increase by at least 10% every year unless significant changes are made. 2. The URC Trust cannot continue to fund these deficits indefinitely. 3. We have a number of key options that we could use to manage these ongoing deficits, and Assembly Executive is asked to give the Finance Committee guidance on how they should proceed.
Previous relevant documents	1. URC audited statutory accounts for the year ended 31 December 2022 2. URC Budget for 2024 3. URC Reserves policy.

Consultation has taken place with...	The URC Trust and the General Secretariat.

Summary of impact

Financial	Dependent upon the option decided upon by Assembly Executive.
External (e.g. ecumenical)	The Pension Regulator and the Charity Commission may need to be involved should our reserves fall below our stated policy level.

Budget strategy from 2025 onwards

1. Introduction and context

1.1 As we return to our 'new normal' following the pandemic, the Finance Committee wish to return to the practice of issuing a three-year budget, where the budgets for years two and three are indicative and in less detail.

1.2 This has been done, and the derived budgets are shown in Appendix A. The key assumptions used in making these forecasts are given in Appendix B. Please note that the Finance Committee is not recommending using these budgets, they are indicative only. Further forecasts will be issued once Assembly Executive has provided guidance on budget strategy.

1.3 It was inevitable during the pandemic that we would run a deficit budget, caused by the loss of income for our local churches and the consequent knock-on effect to the M&M receipts. As we establish a new normal, we continue to run the M&M fund with a significant deficit, albeit reduced from its peak in 2021.

1.4 The three-year budget indicates that the forecast deficit will grow from £1m for 2023 up to £2.1m in 2026.

1.5 Unless significant changes are made to our organisation and/or its policies and procedures these annual deficits are likely to remain and grow at a rate of £¼m pa.

1.6 These deficits are, at present, funded by the URC Trust from their unrestricted funds. The unrestricted funds held by the Trust provide the reserves we need to cover such things as the pension fund guarantee, possible legal costs and working capital requirements.

1.7 The URC Trust holds the funds of the General Assembly and has legal responsibilities to ensure that those funds are used legally, compliantly, prudently and solvently. It is clear that simply continuing the current trajectory without taking some clear strategic decisions would be a position that is untenable. The purpose of this paper is to enable Assembly Executive to express its view on the strategy that should be adopted to deal with the present situation. Assembly Executive is being asked to advise on the level of deficit (if any) that is acceptable and to instruct the Finance Committee to consult with the Church and the Trust to determine how the desired deficit levels can be achieved.

2. The URC Trust reserves policy

2.1 The current reserves policy requires reserves of between £24.7m and £25.5m to be held, based on the following factors:

- £24m maintained to cover the pension fund guarantee,
- between £500k and £1m to be maintained to cover any shortfall on the M&M Fund, and
- between £250k and £500k to be maintained as cover for possible legal claims against the church.

2.2 The Finance Committee are considering updating the reserves policy to include six months of working capital (a usual requirement of 'going concerns').
In consultation with the URC Trust and the URC Pension Trust, as the funds accrue towards meeting the deficit in the pension fund, it is hoped to be able to revise the reserves policy in this respect too. If this reserves policy is adopted, it means that from next year our unrestricted funds are likely be less than our reserves policy prescribes. Dependent upon the assumptions used, our net funds (ie the actual unrestricted funds less the amount required to be held under our reserves policy) could fall to between -£1m and £7m by the end of the decade – not a comfortable position.

3. Key options for 2025 and beyond

3.1 We have identified four key options for Assembly Executive to consider. Others are possible but are likely to be variants of the four identified. The key options, summarised in Appendix C, are:

- Reduce the deficit quickly, say, in about two or three years
- Reduce the deficit slowly, say, over a decade or more
- Maintain the deficit at today's levels, implying the deficit will grow numerically due to inflation
- Increase the deficit in a programmed way to stimulate growth.

3.2 **Assumptions**.
In describing these options, a couple of assumptions have been made. The first is that although the Church Life review may well have an impact on many of the issues raised it is assumed that it won't have any significant impact within the next few years. Therefore, the need to act now remains an imperative. The second assumption is that there will not be a significant change to the cost of stipendiary ministry. Consequently, to reduce expenditure as a means of reducing the deficit will require a focus on non-stipend expenditure (ie for the 2024 budget it is £19.22m less £12.59m), approximately £6.6m pa.

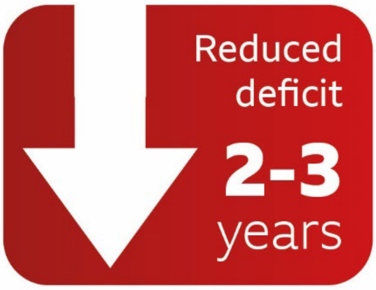
3.3 **Implications**.
In order to reduce the deficit, there are three 'levers' that can be pulled. It is expected that a combination of these levers will be needed because each one on their own might be very difficult or distressing to achieve. The levers, not in any particular order, are:

- **Reducing expenditure**. As already mentioned, because of our unwillingness to put pressure on the ministry budget, any cost savings need to come from other expenditure; primarily Assembly Committees and Church House functions. This would require a one-off cost saving target of the order of 20% (if this is the only mechanism used to reduce the deficit) coupled with a long-term 'habit' of reducing expenditure to account for inflation.

- **Increasing revenue**. There are two main streams of revenue: M&M and income from investments. In the deficit and reserves model we have assumed that the investment income increases by 4% pa, even allowing for capital erosion due to the deficits. In recent years, we have been blessed with the fact that M&M receipts have declined more slowly than membership. Our model assumes a decline in receipts of 2.5% pa. To address the deficit with M&M receipts alone would require a one-off increase of about 6% overall (or more like 8 to 9% relative to the expected sum after a further year of decline).
  In addition, to maintain a balanced budget, future ministerial targets would need to decline in line with M&M receipts. This approach comes with a caveat. Although statistically the number of stipendiary ministers per member is more-or-less at the all-time high, it is unlikely that is how it is seen 'from the pews'. Asking for increased M&M at a time when the number of churches per minister is also more-or-less at an all-time high might generate more Revolting Christians than Greenbelt!

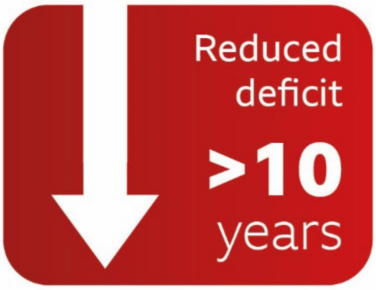
- **Synod subvention**. The URC Trust deficit could be alleviated by subventions from Synod Trusts that can afford to make the gifts. In one sense, this could just be seen as shifting the loss from one budget to another. But in a deeper sense it would be sharing 'the pain' among the wider family of the URC.
  This approach also comes with a caveat in that this cannot be seen as a one-off exercise (like the pension fund deficit) and would need to be a systematic solution covering all future budgets, not just 2025. This is not a trivial challenge, as any combined synod funding would be at least as big as the current annual collection of Inter Synod Resource Sharing funds.

4. Option one – Reducing the deficit quickly (two to three years)



4.1 Achieving a balanced budget quickly could be both traumatic and time-consuming to organise. Overall, this could require a 20% reduction in expenditure, which could number of years. It might be preferable to do this in 'one hit', however, that could prove very difficult in the cases where the expenditure forms part of a longer-term commitment, such as for the support we provide to our RCLs (where, for example, they have just made four-year commitments to some students). This, being the most traumatic of all the options, will almost certainly require all three of the levers to be pulled together, which will complicate the implementation process. Although the toughest option, it would leave the finances in the best shape possible.

5. Option two – Reducing the deficit slowly (>ten years)



5.1 This approach, although less traumatic, will need to become 'business as usual' if it is to succeed. Even if it does succeed, the likelihood is that unrestricted URC Trust funds will fall below those suggested by the reserves policy. Annual cost reductions would be of the order of 2% plus inflation; so not trivial.

6. Option three – Maintaining the deficit at today's levels

6.1 This is the 'no change' option and will be the easiest as far as the wider church is concerned. However, it will probably consume all of the URC Trust's unrestricted funds by, or before, the end of the decade. This is not a plausible solution without access to significant funds outside the URC Trust.

7. Option four – Increasing the deficit (invest to grow)

7.1 In a time when the overall financial resources of the denomination are very significant, and growing, it might seem unwise to cut our expenditure, particularly if that affects life on the mission 'front-line'. An option is to spend even more of our wealth to enhance our mission, outreach and pastoral endeavours. The starting point for such an endeavour would normally begin with deciding what you want to do, not what you want to spend … although in reality this can often be an iterative process. This is in part being addressed by the Church Life Review, but as stated above, the Finance Committee need a strategic direction before the CLR is likely to reach significant conclusions.

8. Other considerations

8.1 The actual number of stipendiary ministers on the role will affect the accuracy of the forecast. At present, the Finance Committee is working with the Ministries Committee to define how the target number of stipendiary ministers is calculated. The intention of General Assembly was to link the cost of stipendiary ministry to the actual M&M receipts, but the work to finalise the way this will work has not yet been completed. Any significant changes to today's targets will have a noticeable effect on the deficit.

9. The way forward

9.1 Once the Finance Committee is given a clear steer, they will initiate conversations with interested bodies, likely to include:

- The General Secretariat
- The URC Trust
- Synod Moderators and Treasurers
- Synod Trusts
- Assembly Convenors and Secretaries
- Church Treasurers
- The Inter Synod Resource Sharing task group.

10. Resolution

10.1 **Assembly Executive instructs the Finance Committee to begin work and consultation to manage the budget deficits from 2025 onwards in line with the agreed option, and to report back to Assembly Executive or General Assembly as soon as possible.**

Appendix A

UNITED REFORMED CHURCH
Draft Budget For 2024

	2024 Budget £	2025 Forecast £	2026 Forecast £
Income			
Income from churches and synods	15,845	15,370	14,909
Donations, legacies and grants	176	175	175
Income from training and academic activities	1	1	1
Other income	24	13	14
Income from investments	1,287	1,300	1,300
Income from trading activities	217	200	200
Property income	189	189	189
Total Income	17,739	17,248	16,788
Expenditure			
Stipends and associated costs	12,589	12,245	12,205
Other minister costs	236	244	251
Salaries and associated costs	2,717	2,797	2,798
RCL support	693	693	500
Student fees and support	435	448	461
Programme expenditure	270	278	286
Committee and other meeting costs	316	316	275
Grants	384	380	376
Travel, accommodation and subsistence	142	146	151
Office and other staff costs	243	251	258
Professional and consultancy fees	242	349	360
Telecoms	35	36	38
Facilities and buildings costs	179	184	190
IT costs	290	319	329
Cost of sales	162	167	172
Sundries	22	23	23
Depreciation	87	87	87
Irrecoverable VAT	175	180	186
Total expenditure	19,217	19,143	18,946
Net expenditure	1,478	1,895	2,158

Appendix B

Assumptions used in making the forecasts for 2025 and 2026

1. M&M is expected to fall by 3% per annum
2. Investment income: (awaiting feedback from CCLA before finalising)
3. Stipends and salaries to rise by 3% per annum
4. Minister numbers to fall by six in 2025 and ten in 2026
5. RCL support to remain steady in 2025, but some drop expected in 2026
6. A 3% inflationary rise for most other costs has been applied.

Appendix C

Budget deficit options matrix

OPTIONS	ASSUMPTIONS	IMPLICATIONS	MITIGATIONS	NEXT STEPS
1. Reduce the deficit quickly (two to three years)	1. The policy governing stipendiary ministry numbers will not change significantly because of this initiative, so savings will mainly come from non-ministerial expenditure. 2. The Church Life review is unlikely to reduce the budget deficit before 2026.	Achieving this through a reduction in non-ministerial expenditure will require cuts of about 20% (ie £1.2m savings out of £6m expenditure).	Achieved through a combination of: • Significantly increasing M&M • Subvention by the Synods • Significantly reducing expenditure.	Instigate conversations with: 1. General Secretariat 2. URC Trust 3. Synods 4. Synod Trusts 5. Assembly Convenors and Secretaries 6. Church Treasurers.
2. Reduce the deficit slowly (>ten years)	As above.	1. This will require modest cuts of, say, 2% pa (in absolute terms), which could be lowered by increases in M&M 2. It is likely that the URC Trust reserves policy could be breached.	Achieved through a combination of: • Slightly increasing M&M targets • Modest subvention by the Synods to support M&M • Support from Synod Trusts to supplement URCT reserves • Modest reduction in expenditure.	Instigate conversations with: 1. General Secretariat 2. URC Trust 3. Synods 4. Synod Trusts 5. Assembly Convenors and Secretaries 6. Inter Synod Resource Sharing (ISRS).
3. Maintain the deficit in real terms	As above.	It is likely that the URC Trust reserves policy could be breached.	The funding of the deficit would need to be supported by more than just the URC Trust.	Instigate conversations with: 1. General Secretariat 2. URC Trust

				3. Synods 4. Synod Trusts 5. ISRS.
4. Increase the deficit (spend to grow)	Any significant increase in expenditure to fund ‘growth’ should be mission focused.	It is certain that the URC Trust reserves policy will be breached.	1. The funding of the deficit would need to be supported by more than just the URC Trust 2. Growth-focused expenditure would need careful and focused management.	Instigate conversations with: 1. General Secretariat 2. URC Trust 3. Synods 4. Synod Trusts 5. Mission Committee 6. Assembly Convenors and Secretaries 7. ISRS.