

Strategic Resource Allocation in the Church of England

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Every day, different parts of the Church of England make decisions about the allocation of the resources they have available to them. Parishes, team ministries, deaneries, dioceses, the national Church institutions must work out how best to deploy their human and financial resources, buildings and equipment in order to help advance the Church's mission. Individual members of the Church must also take decisions about their resources: of money, time and talents.

This note considers how those decisions should be taken, particularly focused on decision-making at diocesan level and sets out in an annex a framework to help inform those decisions.¹

I. The Resource Allocation Challenge

A central challenge for businesses, charities, governments and individuals is about making choices in the light of finite resources: we can't do everything, so what should we do? And, more crucially, what shouldn't we do? The challenge of choice applies not only to money but to time, energy, etc.

The risk for any organisation is that its resource allocation is more arbitrary than strategic, where 'arbitrary' =

- doing things as they've always been done (consciously or otherwise); or
- adding inflation onto last year's figures (or taking a bit off); or
- taking decisions merely to balance the views of different interest groups; or
- being influenced by whim or anecdote; or
- allowing the exercise of patronage, or
- basing activity on the untested good initiative in immediate view.

Whereas, 'strategic' =

- intentionally aligning decisions to priorities; and
- basing decisions on evidence rather than intuition; and
- exercising careful judgement between options; and
- assessing every possible use of resources; and
- being prepared to close down some areas of work and re-allocate resources to where they can be used more fruitfully elsewhere; and
- providing a clear accountability framework for the performance of those working for the organisation.

The ultimate goal in choices over resource usage is to allocate funds to where the overall return – in terms of the organisation's objectives – is highest. The marginal return from

¹ The note has been prepared through conversation with diocesan secretaries and other diocesan leaders with responsibility for resource allocation issues, and with a number of Christian economists. It draws in particular on the insights of Prof Peter Johnson, Emeritus Professor of Business Economics, Durham Business School – see, for example, his introduction to the review of mission development funding 2008 at <http://www.churchofengland.org/media/57443/MDF%20report.pdf>.

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the last £ spent in each of the uses should be the same. (If this were not the case, it would be possible by withdrawing money from a lower return usage and placing it in a higher return usage, to increase the overall return.) Thus, when one looks across the piece, one would not want to reallocate funds.

In the commercial world, returns are normally well defined. Indeed, businesses have **legitimacy** for taking 'tough' decisions about resource allocation because it is understood internally and externally that they have to do so to survive and thrive. However much consultation there is within a business – and some companies take considerable care to give their employees a voice – it is recognised that ultimately the Board/CEO must take decisions and there are unpalatable consequences if they get them wrong.

This is not to say that businesses never perform badly – but such performance will normally be clearly identified and dealt with (even if that means the business closing down). Other organisations such as charities can lack this legitimacy and find it difficult to take the decisive action necessary to re-allocate resources away from existing activity, however poor their current performance. Within such organisations, a financial crisis can be the only thing which stimulates discussion about change. It can thus be tempting for people within such organisations to create an 'artificial crisis' to help stimulate change, although the risk is that if there is not any clear vision, the financial crisis will merely lead to a squeeze on existing activity rather than a re-shaping of resources in line with priorities.

There is a clear parallel here for the Church. Its various financial crises (the reduction in Church Commissioners' support in the 1990s, the pension funding problems over the last decade) have led to significant change in aspects of its activity; but the crisis of its steadily declining membership does not appear to have prompted quite the same strategic response in terms of changing its resource allocation (albeit some parts of the Church are pro-actively addressing the challenge).

In view of the Biblical mandate of good stewardship, the Church should take more care to allocate its resources in line with its purposes than other institutions. In reality, although a good deal of consideration is given within the Church to resource allocation issues, the language tends to be guarded and the need to make choices is often implicit rather than explicit. At times, discussions about the Church's mission activity are carried on with little consideration of resource issues.

Yet the Church must face the issue, along with other organisations, that resources are scarce, relative to the demand for them. That might not quite square, of course, with the notion of a God who gives abundantly to His people and to build His Kingdom. As Peter Johnson has said 'This might suggest that shortages of funds are prima facie evidence of misallocation of resources. At the same time, though, exhortations to give sacrificially and generously abound in the New Testament. The availability of funding is dependent on decisions on giving and these decisions, sadly, are not automatic and cannot be taken as given. Where giving falls short of what it should be, choices will have to be made. It is also clear that by the very nature of things, the scale of the task is huge relative to the availability of resources: 'the harvest is plentiful but the labourers are few' (Matt 9). Choice about deployment of resources seems to be implicit in this.'²

There is, inevitably, suspicion about using economic language within the context of the Kingdom of God. The Church is often (and perhaps rightly) uncomfortable with the notion

² Ibid.

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of 'returns' but, as a good steward, it is called to be focused on the 'harvest' or 'fruit' of its activity. The Church's resource allocation task is to look at the potential harvest or fruit from alternative resource uses. Thus it needs to be clear what it is trying, under God, to achieve. What does it expect to see as the result of its mission? Fruitfulness can be expressed in all sorts of ways. For example, the fruit from ministry to the ill and dying, alongside that of evangelistic work among children or the fruit that might come from the spiritual deepening of the lives of existing church members. But the fact that 'Kingdom fruit' is so varied does not remove the duty on the Church to make choices about resources or the comparisons implicit in those choices.

2. Insights from Other Organisations

Thus the Church can usefully learn insights about resource management from other organisations, business or otherwise, although care needs to be taken to place them within the context of its mission, and re-phrased in its language. Some of these insights are set out below:

The need for **clear vision and leadership and communication** may seem obvious but its importance cannot be under-estimated. There is also the need to back up vision and strategy with a **change programme** i.e. putting someone in charge to deliver the agreed strategy, who has a timescale plan of implementation. The risk otherwise is that the vision remains as just a set of aspirations. It is important also not to be fixated on annual budgets but have **costed longer-term plans** which set out the financial implications of changing strategic direction. This can help lift horizons beyond the maintenance of the status quo and there is always a strong pressure to maintain existing activity.

There is also a need for clear lines of responsibility: Many institutions have decentralised decision-making structures because evidence suggests those at 'the frontline' more effectively assimilate information intuitively about local needs and what works in addressing them. It also enhances the sense of responsibility of frontline staff over resource decisions. For example, the empowerment of individual departments within universities to take resource decisions has been shown to create ownership and incentivise creativity.

It can appear as though there is a binary choice about who should control spending within businesses, charities, or education authorities i.e. there are either remote central bureaucrats who inefficiently squander resources or entrepreneurial frontline leaders who make optimal decisions about performance. But within most organisations, effective resource allocation requires **some centralised and strategic decision-making as well as the empowerment of frontline managers**. Top-down decisions about resources can add value to an organisation, even when field managers have significant budget autonomy, when, for example, the cost of an opportunity that will benefit the whole organisation is larger than the budget authority of frontline or middle managers. Or in a situation where current investors and customers like things as they are and therefore have few incentives to provide additional resources for new activities. Or disinvestment from existing activities is required, but meaningful incentives exist for decentralized decision-makers to continue funding them.

Thus many organisations will retain central resources to invest in strategic change, as well as delegating responsibility downwards. For example, within universities, where departments have been empowered to make decisions, some resources are 'top-sliced' to invest in excellence and help turn round failing departments (or hasten their death). Making explicit

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the responsibility given to departments in respect of resource allocation, has also helped clarify what the 'centre' is for.

The use of **metrics** is also vital. Effective resource allocation requires some assessment of the returns being generated from current resource usage i.e. some sort of measurement of outcomes. Measurement can be very problematic. The measures can be only very partial, they may distort the behaviour of those involved, and can tend to emphasise the measurable and the shorter term. It is also important not to confuse outcomes and the resources required to generate them, even though the latter may be more easily identified and measured. For example, the number of police officers is not – or should not – be an indicator of police effectiveness. (In the same way, an increase or otherwise in the number of clergy or youth workers is not the same as an increase in ministry effectiveness.) Nor should the measures of outcomes be confused with the outcomes themselves (achievement of certain health statistics do not necessarily equate to good health).

But provided organisations are aware of all these issues, measurement can play a useful part in assessing returns. Indeed, it is extremely difficult to manage what cannot be measured. In many cases, quantitative measures are the most appropriate to use in order to inform judgements about effectiveness. Elsewhere, measurement may be less precise although just as informative. For example, in universities, the work of staff and departments is often measured on a 'low-medium-high' assessment based on peer review, and this is used to guide resource allocation decisions and ensure accountability over performance.

Another important resource allocation point is that businesses and other organisations seek to ensure that their **incentive structures** (which include but go beyond remuneration) are aligned with their priorities. Many organisations will experience a gap between their intended and realised strategy because the incentive structures of those implementing the strategy or existing customer demands take it in a different direction from intended or serve to retain the status quo.

3. Challenges for the Church

Whilst the focus of its members is predominantly at parish-level, the Church of England is organised for mission and administrative purposes into dioceses, led by diocesan bishops. Very broadly, the Church's funding in the 18th century relied on local endowments; in the 19th and 20th centuries, these assets were then collected together and administered at national and diocesan level. Yet now the Church's resources are primarily drawn from the voluntary act of giving by its members to their local parishes. Each member of the parish church has the discretion over whether to give money to it or not (as they are free whether to attend it or not).

It is difficult within the Church's financial system to pinpoint who has responsibility for the different aspects of resource allocation. This is demonstrated by the fact that, although diocesan boards of finance have the legal responsibility for paying parish clergy stipends and pensions, they primarily rely on parishes for their funding. There is a fundamental disconnection within the system between responsibility for decisions about ministry and decisions about funding it. This can serve to create a lack of responsibility for decisions among those operating within the system, at parish, diocesan and national level.

The gulf between decision-making in relation to ministry/mission expenditure and that in respect of income generation provides little incentive to financial giving: because there is a lack of transparency over the true cost of ministry and a lack of ownership over how the

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funds generated by member giving are deployed. Parish share systems are often regarded as taxation systems, despite their voluntary nature, and despite the fact that the 'tax' involved may in reality involve a parish receiving a subsidy in relation to the true cost of its ministry.

The trend in recent years has been towards **local responsibility for mission and finance** on the premise that local churches have knowledge about their context in a way that cannot be assimilated at the 'centre' (i.e. the diocese or national Church institutions). And that greater ownership over resource allocation decisions incentivises local energy, creativity, entrepreneurship and generosity. A close connection between income-generation and expenditure decision-making can enable donors to see the impact of their giving and stimulate higher rates of giving. The risk of 'central bodies' intervening too much in resource allocation decisions is that they provide a disincentive to local mission action.

This trend towards local responsibility manifests itself in several ways:

- Sustained effort by diocesan leaders to consult locally on mission and financial issues in order to be responsive to their 'funders'.
- Delegation of decision-making over clergy deployment and parish share payments away from the diocese to a more local level (parishes or deaneries), leaving the diocese to hold the ring between locally developed strategies.
- Changing parish quota systems so that the sums requested of parishes or deaneries bear greater resemblance to their 'true costs', and
- Ensuring the systems involve less 'taxation' of growth i.e. so that those parishes growing in numbers (and income) are not automatically 'penalised' with higher share requests; or
- Moving to an 'offer' system whereby there is no parish share formula and parishes (or deaneries) are free to pay what they want in the light of knowledge about their costs, thus working with the grain of the voluntary nature of giving.
- Providing direct subsidy to parishes which cannot pay their full costs and linking funding decisions to assessment of their mission plans which make some judgement about their 'viability' and 'effectiveness', rather than mechanically 'hiding' the subsidy provided within the parish share formula system. This underlines the responsibility upon parishes for mission and resource planning.

These steps have the potential to give real responsibility to parishes and deaneries for resource allocation decisions as long as there are not too many constraints on the decision-making. Otherwise the responsibility has little meaning. (For example, telling deaneries that they have responsibility for clergy deployment but denying them the opportunity to *increase* their numbers (even where they have the funds to do) places a significant constraint on their freedom to act.)

Although there is a good case on efficiency grounds for giving responsibility for resource allocation decisions to parishes and deaneries, the ecclesiology of the Church of England demands that the diocese – led by the diocesan bishop – retains oversight of such decisions and there is some shared responsibility for resources within a diocese, in line with the following principles³:

³ These are largely drawn from the principles used by Toronto diocese to inform its resource allocation decisions – see http://www.toronto.anglican.ca/images/up-Sustainable_and_Strategic_Ministry_Policy_2004.pdf

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- The mission of the diocese calls everyone to use the gifts God has entrusted them for the benefit of the Church's work in extending the Kingdom and to the glory of Christ throughout the diocese.
- Arising from this shared collective mission, there is a collective obligation of stewardship that requires everyone to work together to ensure that ministry within the dioceses is as healthy and vibrant as possible.
- Parish boundaries have been created under diocesan authority (subject to national oversight) to provide a gathering place for worship in the community and to serve the local community as a local expression of ministry and mission. The parish church is tangible evidence of the Church's mission and of God's reign here on earth. Although parishes have a fairly autonomous form of governance and management, the parish always exists in the context of the mission of the diocese, led by the diocesan bishop. It delivers ministry to the local community on behalf of the whole diocese. Thus, the parishes and the diocese always exist and work together in mutuality of interest.
- Parishes and congregations are not permanent structures. They have a life cycle. They are planted; they grow; sometimes they die; sometimes they transform. There is a mutual stewardship responsibility, shared between the local ministry and the rest of the diocese, which obliges them to work together through all stages of the life cycle. This goes beyond congregational self-designation and self-determination. This responsibility includes a discernment of what to do when a ministry has insufficient resources and when it can call upon the resources of the wider Church.

There are also efficiency reasons why diocesan leaders should retain a role in resource allocation e.g. to retain an overview of where resources are being allocated and ensure there is adequate investment in areas of need and opportunity, and to provide services where diocesan activity can add value because there is economy of scale or 'market failure'. Whatever the balance between local and diocesan responsibility, all dioceses have a role in the following resource allocation decisions:

- The deployment of clergy.
- The training and support of clergy.
- Investment in sector ministry.
- Consultancy and administrative support of parishes.
- The contribution asked of each parish to pay towards ministry and support costs – and thus the indirect subsidy/donation it receives from/makes to other parts of the Church.
- Grants/loans given direct to parishes.
- Merging parishes and selling surplus assets.
- Investment in new opportunities.
- Recruitment of new ministers.
- Enhancing value through asset management and/or fund-raising.

How can a diocese, led by the diocesan bishop, ensure that these decisions are taken strategically?

4. Strategic Framework

The annex to this note sets out some questions which together provide a strategic framework for any individual decision to allocate resources in the form of X (a clergy

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person, youth worker, financial subsidy etc) to Y parish (or fresh expression or deanery). Some illustrative responses to the questions are set out in italics.

Although the resource allocation process should not determine the Church's objectives, it can help refine its thinking about its aims. The key aim of the framework is to aid the Church's prayerful discernment about resource options such that every decision taken yields the best result in terms of the objectives which the diocese is trying to achieve. What use of resources will be most fruitful? What will most enhance the outcomes we are seeking?

The operation of the framework – and the ability of diocesan leaders and staff to answer the questions within it – **requires a number of things to be in place:**

1. **A clear strategy**, with **measurable outcomes** to enable progress to be monitored, and a robust (and sufficiently-resourced) **delivery programme** to make it happen, and **clear lines of accountability** for those responsible for doing so. The Church does not, of course, have a 'top-down' decision-making structure as other institutions have, which reflects both its ecclesiology (and particularly its dispersed authority) and the voluntary nature of its funding. Thus, the legitimacy of its resource allocation decisions depends in large part on its ability to build up shared ownership about its objectives.
2. Systems to provide **effective analysis of data**: to understand the impact of existing resource usage and help planning in relation to future resource allocation.
3. An important part of this analysis is for a diocese to **assess the existing mission health and financial viability of its parishes** (where the vast majority of the Church's resources are currently located).⁴ This can provide an objective framework to assess the potential to re-allocate resources from non-viable parishes for investment in new opportunities and/or existing areas of strength.
4. An **evidential base for decisions**: so that, for example, the decision to invest in a youth worker or church plant or team ministry is founded on evidence that such types of ministry/mission will prove effective.
5. Ensuring **decision-making is intentional not mechanical, or at the very least transparent**. Although a parish share system requests funds from parishes, it effectively allocates resources to parishes since the formula within the system will invite any single parish to pay more or less than its ministry costs and share of other costs. Thus, that parish will effectively be a 'donor' or 'recipient' of diocesan funds. The risk is that this resource decision is hidden within the system. Even if a formula is deemed the best way to allocate resources, it is important that there is transparency about which parishes are being subsidised or are providing a cross-subsidy.

5. Opportunity Cost

The most important – and difficult – component of the framework is the need to assess possible different uses of resources i.e. **the opportunity cost**: the foregone alternative resulting from a course of action. As highlighted earlier, the ultimate goal in choices over

⁴ A description of how two different dioceses have undertaken such an exercise can be found at <http://www.churchofengland.org/media/34392/healthandviability.pdf> (on London diocese) and <http://www.churchofengland.org/media/57304/resourcing%20mission%20bulletin%20-%20all%20papers%20-%20july%202010.pdf> (Toronto diocese). A more detailed guide on health and viability assessment is being prepared by the Strategy and Development Unit.

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resource usage is the allocation of resources in such a way that the overall return – in terms of the objectives of the organisation doing the allocating – is at its highest. Thus, looking across the piece, one would not wish to reallocate any resources across the different possible uses. The key point is that it is not simply enough to show that some ‘good’ comes from the use of resources in a particular way. The question is whether more good might come from an alternative use. **The aim is to discover not a good but the best outcome.**

Thus it is of crucial importance to make comparisons across different uses of resources, looking at existing uses as well as potential new ones. It should also embrace comparisons across uses that have different time horizons or that have different levels of risk attached to them.

Yet the temptation in the Church is to look at different areas of resource allocation in isolation from each other, or sequentially, without looking at the overall picture. Something may be seen as ‘good’ in itself – and resources allocated to it – without much consideration of how it will be resourced and what implications it may have for other areas of ministry. Furthermore, there is a strong tendency to regard existing patterns of resource allocation as being optimal.

The concept of opportunity cost is particularly relevant to the Church since it is currently investing heavily in patterns of ministry which are engaging little with the nation. In Jesus’ parable, the shepherd was focused on finding the one sheep out of his flock of a hundred. The Church of England’s ministry is focused on the couple or so out of a hundred which currently attend its churches. Granted some are members of other denominations, what about the huge numbers left?

The Church continues year by year to put a huge effort into keeping the existing show on the road – and will probably be able to do so for some time yet. The risk is that those bits of it which are in financial difficulty will drag down those parts which are thriving – and thus the whole Church – simply to keep the existing show on the road. The Church’s mission calling to engage with the whole nation seems to require a radical re-shaping of the use of its resources rather than maintaining or tinkering with existing patterns. What could or should it be doing instead?

The Church generally has not been good at developing and implementing ‘exit strategies’ but addressing poor performance or non-viable areas of ministry is vital if sufficient new resources are to be released to help advance its mission. It is counter-cultural also for the Church to invest in existing strength and success but, again, this is essential, if it is to take its mission forward.

There are a number of practical ways a diocese can help ensure it answers that question around opportunity cost. First is to undertake an **objective analysis of current health and viability** (as mentioned earlier), since this will reveal the potential to re-allocate resources to new opportunities. Second, **develop criteria or tests to help weigh all the possible options for the use of the resources side by side.** For example, to have a ‘growth test’ – is spending £50,000 on X, Y or Z more likely to produce the highest return in terms of church growth?

Third, **build discretionary capacity within the diocesan budget to invest in new initiatives and/or existing areas of strength.** The downside of local responsibility for mission and resource planning is that there can be little incentive for parishes to change, where they are financially viable. And the resources a diocese has available (from

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endowment income, fees or cross-subsidy from parishes) may be largely invested in existing ministry patterns. What it requires is some 'development funding' in order to invest in new opportunities, using its historic income, support from the national funds managed by the Church Commissioners or by re-allocating surplus capital (from non-viable parish buildings or spare parsonages).

Fourth, **take advantage of existing structural flexibility.** As noted earlier, all organisations can experience a difference between 'intended strategy' and 'actual strategy' because of internal or external factors which prevent efficient resource allocation. The Church of England's legislative structures do not, as a general rule, help incentivise such efficiency. They often result in there being a structural separation between income generation and expenditure decision-making. Moreover, the freehold possessed by many clergy, and the complex process for changing parish boundaries, closing churches, and planting new ones, can all prevent resources being allocated in a way which achieves the best outcome within the context of a diocese's strategy. It is obviously difficult to re-allocate resources where it is hard (or even impossible) to get rid of poorly performing ministers or close down non-viable parish buildings.

That said, there is often more flexibility within the current legislative structures than may look apparent e.g. in terms of re-organising ministry patterns. The recent legislation authorising bishop's mission orders in relation to church plants has created further flexibility. It is important to exploit what freedom there exists. But there is no denying that the Church needs to look again at its legal structures to examine how they might be changed to help facilitate better resource decision-making.

The blockages to efficient resource allocation in the Church may be strong, but they only serve to deepen the need to have a strategic framework to guide decision-making so that the Church can take intentional strides towards its goals. The aim of this note has been to help dioceses think through such a framework.

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