

## FINANCIAL STRATEGY REVIEW

### Consultation Document

1. At its meeting in November 2008 the Archbishops' Council commissioned a review of financial strategy to examine the options for its own budgets in the period 2011 to 2015. The members of the strategy review group are listed at Annex A below.
2. This consultation document has been prepared by the Group for discussion by the Finance Committee, the Council, the Inter Diocesan Finance Forum and the House of Bishops in April and May of this year. Following that discussion the Group will prepare a report to the Council for its meeting in June. If it is approved by the Council, the report will be presented to General Synod for debate in July 2009.

#### *Introduction*

3. The Archbishops' Council's annual expenditure is funded by money requested from dioceses, which are in turn primarily dependent on money raised from the parishes. In 2009 dioceses are providing £27.6 million. This compares with total annual Church of England expenditure of over £1.1 billion<sup>1</sup>. For individual dioceses the proportion of their budget accounted for by the money raised by the Archbishops' Council varies from around 4% to 8%. So compared with the largest categories of church expenditure – clergy stipends, housing and working costs (£317 million), clergy pensions (£113 million) and building repairs and maintenance (£135 million), the Council's budget is not large.
4. Nevertheless, the sums involved are significant and the Church needs to be satisfied that they are necessary. In 2009 nearly 44% of the money provided to the Council by dioceses will be for funding ordination training, nearly 37% for the costs of work carried out nationally by Council staff, around 11% for subsidising the housing costs of retired clergy using the CHARM scheme run by the Pensions Board, about 6% for a range of grants to outside bodies and for legal aid costs and just under 3% for the pension contributions of clergy employed by the Partnership for World Mission (PWM) mission agencies.
5. The Council submits to Synod each July a budget for the following calendar year. Within that relatively short time-frame the scope for changing the balance of expenditure is limited. The advantage of a strategic review over, say, five years, is that options are not constrained in the same way by the immediate financial pressures and by the present deployment of staff. It enables the Council to take a fresh look at the relative priority of its various objectives and the means of achieving them. If the financial strategy is used as a framework for setting budgets in subsequent years, then it should make for greater predictability both of income and of expenditure for the Council and dioceses as its key funders.

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<sup>1</sup> The figures for total expenditure relate to 2006: the latest available consolidated figures, see <http://www.cofe.anglican.org/info/finance/financeoverview.pdf>

6. The objectives of the Council, as set out in the document 'Into the New Quinquennium', are as follows:
  - *to enhance the Church's mission by:*
    - *promoting spiritual and numerical growth*
    - *enabling and supporting the worshipping Church and encouraging and promoting new ways of being Church, and*
    - *engaging with issues of social justice and environmental stewardship*
  - *to sustain and advance the Church's work in education, lifelong learning and discipleship*
  - *to enable the Church to select, train and resource the right people, both ordained and lay, to carry out public ministry and to encourage lay people in their vocation to the world*
  - *to encourage the maintenance and development of the inherited fabric of Church buildings for worship and service to the community.*
7. Prior to setting up this review, the Council reaffirmed these objectives and agreed they should guide the planning process for the 2010-2015 quinquennium.
8. This review is now being conducted under the shadow of a global economic crisis with serious implications for our church, in our parishes, cathedrals, dioceses and national institutions. We have no way of predicting how long or how deep the downturn will be in levels of activity or in asset prices. We hope, obviously enough, that it will be over within the five years covered by this review. We recognise, however, that any strategy adopted now will need sufficient flexibility so that it can be updated as circumstances dictate. Assumptions and numbers will need to be revised on a year-by-year basis.
9. In this document we present three illustrative projections, one with the apportionment rising in real terms in order to deliver existing policies and commitments, one with apportionment increases equal to assumed inflation, and one with it falling by 0.5% a year in real terms. As part of the discussion around this document we are inviting comment on the plausibility, or desirability, of each of these scenarios. We may then be able, in our final report, to identify a single projection as representative of our preferred strategy and invite the Council to adopt it – at least until such time as it has to be revised.

### *Three Scenarios*

10. The three scenarios are intended to show the implication of different assumptions about apportionment growth rates over a five-year period. We have not tried to construct a time-path year by year. They all begin from the same forecast expenditure outturn for 2009 and draft budget for 2010, thereafter they are essentially smooth projections of expenditure using assumptions contained within Annex B. Thus, in all our scenarios, we use an assumption of inflation at an average of 2 percent a year over the period. This would be consistent with an inflation rate lower than that in the first few years, followed by some re-acceleration later on. Inevitably the projection of apportionment trends that differ by a small amount each year can cumulate to very different results over a five-year period. A comparison between the scenarios will readily confirm that arithmetic reality.
11. Our first scenario is constructed on the basis that the apportionment will rise each year to enable existing plans and commitments (broadly as embodied in the forecasts for 2009 and 2010) to be maintained. This gives us a figure of about 2.7 percent a year, or 0.7 percent in real terms, for the likely growth in the total apportionment. Whether any increase in the apportionment in real terms can be contemplated over the next few years is a question that will need careful thought, but it is worth noting that a 0.7% real terms increase would be tighter than the average growth rate of 0.9% a year in real terms between 2005 (when vote 5 first came onto the Council's budget) and 2009. Even this scenario therefore implies a slowing down in the growth of total Council spending relative to recent trends.
12. The more the dioceses are asked to pay to the Council, the less they will have available to meet their own expenditure needs, especially to support mission including resourcing the parish clergy. In the five years covered by this review it seems probable that diocesan finances will remain under pressure, even if the economy is, by then, recovering. This is because of reduced investment income, additional pension costs and the effects of continuing financial pressure on the parishes.
13. The value of expenditure by the Council has to be set against the loss of spending it may imply at diocesan or parish level. With this in mind, we have constructed our second scenario on the assumption that the apportionment will increase in line with our inflation assumption of 2% a year and our third scenario on the assumption that the apportionment will be falling in real terms by 0.5% a year. Either of these approaches would necessitate significant changes to present policies and commitments; they could not be delivered by simply doing the same more economically.
14. To construct all these scenarios we have first to make a forecast of expenditure under each of the five votes on current assumptions. (The Votes are: Vote 1 Training for Ministry, Vote 2 National Support, Vote 3 Grants, Vote 4 Mission Agencies Pensions, Vote 5 Clergy Retirement Housing). These assumptions are explained in more detail in Annex B. We then turn our attention to the projections of vote 1 (training for ministry).

15. For the first scenario we have assumed that vote 1 expenditure will reflect current Ministry Division projections of numbers coming forward for training, and current arrangements for financing that training at colleges and on courses. We have also assumed that the new funding arrangements with the Higher Education Funding Council for England (HEFCE) will be cash neutral for the Church. Under the second and third scenarios however we have assumed, given the cumulative squeeze on the apportionment compared with present policies, that vote 1 could not be completely exempt from the need to contribute savings.
16. In these two scenarios, we have, therefore, built in an assumption that vote 1 expenditure would not be allowed to rise, in any year, by more than one percent above the total apportionment increase. Thus, if the apportionment increase is set at say 1.5 percent in a particular year, vote 1 expenditure would not rise by more than 2.5 percent in that year. No doubt this is quite an arbitrary formula, and of course the question whether vote 1 should, for the first time, be cash limited will need much more discussion. But it enables us to indicate how severe the pressure on the Council's finances might be in different circumstances. If vote 1 were not cash limited the need to find savings elsewhere would be correspondingly larger.
17. We have noted that vote 5, in support of Clergy Housing in Retirement, is becoming an increasingly significant part of the Council's budget and one over which the Council itself has little, if any, control. By contrast, the Council has direct control over expenditure in votes 2 and 3 and there is a cap in place limiting the maximum exposure to vote 4. We have also suggested that some measure of planning and control should be introduced for vote 1. If, therefore, there is to be an overall limit on the growth of the apportionment in the next quinquennium the question of some greater control over vote 5 will need to be addressed, otherwise for any extra amount spent on vote 5 further cuts would have to be made in vote 2.
18. The projections for votes 3 to 5 are unchanged as between the three scenarios and assume the continuation of existing policies and commitments except where they are already known to be changing. That leaves vote 2 (national church responsibilities) as the residual item in the account. This, again, is somewhat arbitrary, but it reflects our impression that it is within vote 2 that there is, over time, most scope for changing the Council's pattern of expenditure. We are left then with a gap to close between the projection of vote 2 on unchanged policies and the finance available for it in the second and third scenarios.

19. The results are set out in the table below and in more detail in Annex B.

**Annual Growth Rate 2011 to 2015**

<b>Illustrations of average growth rates in apportionment for three scenarios</b>						
	<b>Vote 1</b>	<b>Vote 2</b>	<b>Vote 3</b>	<b>Vote 4</b>	<b>Vote 5</b>	<b>Total</b>
	<b>% p.a.</b>	<b>% p.a.</b>	<b>% p.a.</b>	<b>% p.a.</b>	<b>% p.a.</b>	<b>% p.a.</b>
<b>Case 1 Current Assumptions</b>	<b>3.0</b>	<b>1.9</b>	<b>2.6</b>	<b>(0.4)</b>	<b>4.9</b>	<b>2.7</b>
<b>Case 2 Growth in line with assumed inflation</b>	<b>2.7</b>	<b>0.2</b>	<b>2.6</b>	<b>(0.4)</b>	<b>4.9</b>	<b>2.0</b>
<b>Case 3 Real growth rate minus 0.5 percent</b>	<b>2.5</b>	<b>(0.9)</b>	<b>2.6</b>	<b>(0.4)</b>	<b>4.9</b>	<b>1.5</b>

20. To summarise:

- On current assumptions and to meet current commitments (Case 1), the increase in the total apportionment over 2011-2015 would have to be an average of 0.7% above the assumed rate of inflation, with expenditure on ministry training running well ahead of other expenditure except for support for retired clergy housing under vote 5.
- If average apportionment increases over the five year period matched the assumed rate of inflation of 2% (Case 2) then, on our assumptions, savings of £1.1 million would be required by 2015. If vote 1 were cash limited (as suggested in paragraph 16) to an annual increase of not more than 1% above the total apportionment increase, savings of around £0.2 million (1.4% of anticipated vote 1 expenditure under Case 1) would be required in 2015. The impact on vote 2 would be more severe as, on our assumptions, the average annual increase over 2011-2015 would only be 0.2% per year, representing a considerable real terms reduction. The cuts required by 2015 compared with Case 1 are estimated at around £0.9 million, 8.0% of vote 2 expenditure.
- To reduce the annual rate of increase of total apportionment to a half percentage point below inflation (Case 3) would require substantial falls in expenditure on vote 2 in cash terms (greater in real terms) even assuming that vote 1 was limited to an annual rise of not more than 1% above the total apportionment increase. By the end of the period the cuts in vote 1 as compared with Case 1 would amount to some £0.36 million or 2.7% of vote 1 expenditure. The cuts in vote 2 spending would be much more severe amounting to about £1.5 million a year, or 13.1% of vote 2 expenditure.

21. To assess the implications of these different views of the future, we need to look at what lies behind them for each of the votes. We have to turn our attention particularly to the implications of the second and third scenarios in which substantial cuts in Council expenditure would be required.

*Vote 1: Training for Ministry*

22. Forecasts of the costs of training our Church's future ministers are notoriously volatile, largely due to the unpredictability of numbers in training and the lack of any policy instruments to deliver a fixed budget for each year. Even during the short time that this review was being conducted the estimates of the numbers of ordinands entering training in 2009 and 2010 have changed substantially (on this occasion, as it happens, downwards, but recent experience has shown that the volatility does work both ways). Looking further ahead than that almost anything is possible - upwards or downwards. This lack of predictability or control is arguably the most serious problem with vote 1, rather than the average level of spending or its upward trend.
23. We would judge that training for ministry, especially training for stipendiary ministry, would be rated by most church members as a very high priority relative to most of the other expenditure of the Council. There are also persistent complaints that the training institutions are under-funded. On the other hand there is concern that the increase in the average cost of training is due in part to a shift from the courses to the colleges. Whilst there has been support for giving a greater proportion of ordinands some experience of training in a residential setting, there has been no policy decision to shift the balance of training from courses to colleges (or indeed vice versa) and it is not entirely clear that the shift simply reflects the changing training needs of some of the ordinands involved.
24. Our concern is that this very significant block of Council expenditure should be better planned and controlled within the overriding objective of meeting the Church's future deployment requirements. This would be especially important in the sort of environment sketched out in our second and third scenarios, where the expected growth rate of expenditure under vote 1 is assumed to be cut back. But even in the first scenario, where there is a continuing increase in the total apportionment above the rate of inflation, we see a strong financial case for better planning, simply to reduce the volatility of spending and to make it more predictable.
25. We therefore envisage a situation in which the Council could each year set a financial target for expenditure on ministry training as part of the procedure for setting the annual budget. This tighter financial planning would be in the context of a longer-term projection, which would be part of the Council's financial strategy. Clearly this is not something that the Finance Division or even the Council, could do on its own. It would be a matter for planning in liaison with the Ministry Division, the training institutions and with the House of Bishops, having regard to the financial context.
26. In the second and third scenarios we have assumed that vote 1 would increase by no more than 1% above the overall apportionment. In the absence of a more sophisticated planning mechanism, it seems to us that a cash limit of this kind is warranted given the need for some control and predictability. But we share the view, now often expressed, that it would be much better if the annual plan reflected the accumulated view of bishops and dioceses developed through a process of planning for future, affordable requirements. That might eventually remove the need for an

arbitrary, national cash ceiling, though the new, bottom up, system would need to prove itself first.

27. The well received seminars that the Ministry Division has organised for dioceses with practitioners in 'workforce planning' from the Health Service and other organisations should help to create the capacity for a more intentional process which nevertheless preserves the distinctiveness needed within the Church for what, case by case, will remain a process of spiritual discernment.
28. Further work is needed to establish the framework within which such planning and target setting could be made operational. This must now be set in the new context created by changes in relation to HEFCE funding. Our assumption would be that it would require setting a limit to the number of candidates that could be accepted for college and course training in any one year, subject to some adjustment of the mix within the overall budget. There might well be circumstances in which some candidates, applying relatively late in the year, had to delay the start of their training. It would be for discussion whether there were other means by which the total of spending might be controlled, in terms of its amount or timing. There might, for example, be years when candidates were being accepted straight away for training on a course, although some of those opting for college training were being told that they had to wait.

#### *Vote 2: National Church Responsibilities*

29. Expenditure under this vote covers a great variety of different activities, mostly involving the employment of staff by the Council. Fuller details of the divisions and their costs (in respect of the 2009 budget) are given in Annex C. Each year, as part of the process of budget setting, these costs are reviewed, and in recent years many useful efficiency gains have been secured. The search for further efficiency savings will continue, although the conclusions of the Service Review exercise about present efficiency and effectiveness do not suggest that much by way of further cost reductions can be secured without stopping some of the work now being done. Our concern in this review is rather different. We are looking at the various headings of expenditure with a view to assessing their relative priority.
30. Some activities could be classified as 'essential'. Many of the common services, such as finance, legal, human resources, and communications, are needed if the Council is to retain anything like its present responsibilities. This is regardless of whether the Council provides the services itself or pays for services managed by the Church Commissioners or the Pensions Board. There has to be a secretariat to service the General Synod, the House of Bishops and the Council itself – not to mention the many other committees required by the present constitution. Our main concern has been with the activities, however worthwhile, which do not come in that category.
31. For those activities which might be described as 'valuable' rather than 'essential' we have tried to judge both their value to the church as a whole and the advantage of doing them nationally under the aegis of the Council. We have found the heads of

divisions very helpful in addressing these questions and constructive in their approach to strategic planning.

32. We note the success of some of the recent projects undertaken by teams assembled for a specific purpose, without the need to create more permanent staff posts. It seems to us that such a method of working might be appropriate to more of the work of Council divisions than at present. This could increase their flexibility in responding to issues as they emerge, as well as being a means of operating more efficiently by saving fixed staff costs.
33. Some such projects could make more use of the expertise of church members as (unpaid) consultants. In some cases more external co-funding could be found. In the scenarios for which deep cuts in expenditure under vote 2 are required we would anticipate that a move to this type of working arrangement would need to be implemented across more of the Council's divisions as a matter of some urgency. But time limited project working is not a panacea. It requires significant managing and entails maintaining a cadre of experienced staff who understand how things work in the Church. Inevitably then deep cuts would involve stopping work which is valuable but unaffordable given limited funds and higher priorities.
34. Looking five years ahead, it would be surprising if there were no changes in the range of activities financed under vote 2. New, inescapable, needs will arise for which space will have to be found within the Council's budget by stopping yet further work of a less high priority. Beyond noting the inevitability of expenditure to keep the Church's national website technologically fresh we have not attempted to anticipate what these new activities and needs might be. We have tried, however, to identify some of the activities which we might expect to decrease or to be phased out by 2015. This is not intended as a reflection of the past or present value of these activities, but rather as a view of their relative priority some years ahead.

#### Central Secretariat

35. Much of the work of the secretariat would have to be classified as essential, but there are some areas where reductions might be anticipated. We would expect to see fewer resources devoted to liturgy in the future now that Common Worship is established as the pattern throughout the dioceses and once the national programme of worship development has run its course. We hope it may eventually be possible to devote less time at national level (but not in the dioceses and parishes) to Safeguarding once the review of past cases has been completed and new processes put in place in relation to vulnerable adults. It may also be possible to reduce staff time in support of the Church of England's ecumenical work at national level (as well as its contribution to the ecumenical institutions under vote 3 which has been built into our projections for 2010).

### Mission and Public Affairs

36. The core business of the division, providing briefing and research on a great variety of issues for Bishops, the Council, Synod and the Church and nation at large, is very highly regarded and is unlikely to diminish. The Church needs to retain at the national level a capacity for thinking about and engaging with others on issues of faith and their relevance to society. The method of working might develop in ways that would save some costs. This might, for example, involve working in partnership with other Christian organisations with expertise in social issues. But there will be a continuing need for expertise of a more generalist kind in-house. The Group hoped that the fruits of the division's work could be disseminated more widely within the Church so that the value of this resource could be maximised.
37. In the medium term, however, some other areas of work might be organised quite differently with less staff time required. This could apply, for example, to hospital chaplaincies, urban and rural affairs, and the study of new religious movements.

### Education

38. Church schools are playing a central role in the Church's mission to the nation. The main responsibility for policy and its implementation rests with diocesan Boards of Education, but there must be a continuing need for advice, negotiating with Government and policy co-ordination at national level both from the Council and the National Society. A number of key staff are, rightly, jointly funded by the two bodies.
39. We can imagine, however, that less national resource might be devoted in the future to other areas within the division's remit. This might be the case for lay discipleship, children and youth work and chaplaincies to higher and further education. These include, of course, areas of crucial importance to the Church's mission. The question which we think may need to be addressed is the extent and the form of the staff input to them required at national level and the most effective extent of subsidiarity and partnership working with the dioceses.

### Cathedrals and Church Buildings

40. The Archbishops' Council has already signalled that it wants the staff of the division to have more capacity to engage in campaigning, representing the Church's interests to Government and other national bodies and providing quality information and support to those who sustain the faculty system within dioceses. There is also a need to support the Church's commitment to reducing the carbon footprint of its buildings. Given finite resources, that all inevitably means finding ways of reducing the volume of casework that is referred nationally, of streamlining the handling of the casework that will still need to come and of exploring how the broader lessons learned from casework can be disseminated to help parishes and dioceses.
41. This will all need discussion with staff and members concerned, not least with the Church Buildings Council itself as well as the Cathedral Fabric Commission. We hope that reforms of procedure, now under discussion, will secure significant savings within the division, as well as a refocusing of its work, in the not-too-distant future.

### Ministry

42. Much of the work of the ministry division must be classified as essential: organising selection of clergy, setting standards for and inspecting the delivery of training for ministry and oversight of pay and conditions of service. There may well be possibilities of reorganising some of the other work of the division - as has already recently been done in relation to the Central Readers' Council - in ways that would reduce the staff time required at the national level, for example in relation to disability issues.

### Church House Publishing

43. Clearly the Council will have continuing publishing requirements. How they should best be met and what net cost if any there should be to the Council's budget is currently being reviewed separately by the Council and we have not therefore examined that area ourselves.

### Vote 2 Conclusion

44. We have not attempted to cost all the savings which we imagine might be possible out of vote 2 by 2015. This would require an analysis as detailed as is made each year for the annual budget round, and would be unreal given such a distant time horizon. In Cases 2 and 3, we have shown above the extent of the fall that might be required of vote 2. For the expenditure projected in the final year, this would mean a reduction, as compared with current assumptions, of around £0.9 million in Case 2 and about £1.5 million in Case 3. These figures are based on the assumption of a cash limit for vote 1 as well, as described above.
45. In our overview of the various divisions described above we have identified some areas of work which could be discontinued within the horizon of this review. A very rough calculation suggests that this might eventually result in savings of around £0.5 million a year. The time when these savings might be realised must be uncertain. Where it is possible it would clearly be preferable, both for human and financial reasons, if they could be achieved by natural wastage; the short term cost of making the savings would be increased if early cuts resulted in redundancy payments.
46. In Case 2 or 3, therefore, the Council would have to adopt, in addition to the sort of savings we have identified, further significant reductions in expenditure year on year. Budgets might simply be set for each division and cuts would be made even in areas of expenditure we would regard now as 'essential' to the Council's work. We hope that such measures will not be required. We cannot say that they would be impossible to implement but clearly they would require further planned prioritisation, with the dioceses, to ensure a coordinated approach. They would, arguably, involve a fundamental change in the way that the Council works and would also require a big change in the expectations of Synod, the bishops, the dioceses and the Church generally as to the service that the Council could provide.

*Votes 3, 4 and 5: Grants, Mission Agencies Pension Contributions and CHARM*

47. We have not devoted so much time to these votes in this review; two of them are small and the future of the third, which is more substantial, is bound up with other changes that are being worked on separately. This is not to deny their importance to the Council's overall responsibilities. It has simply been a matter of setting priorities for our own work within the rather tight timetable set for us. We would highlight, however, a few issues which the Council will need at some time to address.
48. The future level of grants to ecumenical institutions has already been discussed by the Council and is currently under review in the preparation of the 2010 Budget. In constructing our scenarios we have assumed that the grant to support ecumenical work will be reduced by the end of 2009.
49. The Council is building up a fund to meet the legal costs of defendants in clergy discipline cases. Contributions have been greater in recent years to build up a greater cushion following the enactment of the Clergy Discipline Measure 2005 and following the Church Commissioners decision to withdraw funding, on a phased basis from 2007, for the 50% of such costs which they previously met. The size of fund needed has yet to be decided in the light of experience.
50. Vote 4, which pays pension contributions for clergy employed by Partnership for World Mission (PWM) mission agencies, is the smallest of the votes. Although we have made an illustrative provision for an increase following next year's triennial review of the Funded Scheme, it is forecast that expenditure will continue to fall as there will be fewer clergy for whom pension contributions are paid. Under an agreement ratified by General Synod in July 2004, the amount payable by the Council in respect of these pension contributions is the lesser of: (a) Vote 4 budgeted expenditure in 2004 (£722,750) indexed in line with RPI and (b) the actual expenditure incurred.
51. A review of clergy retirement housing has recently been completed for the Council and we did not feel it necessary for us to look again at the issues that it addressed. The most important financial issue now outstanding in relation to Vote 5 is the future arrangement for financing the purchase of new housing by the Pensions Board. This has so far depended to a large extent on loans from the Church Commissioners – the interest being partially funded out of vote 5 as part of the subsidy for clergy in retirement who cannot afford to house themselves unaided. The present state of the housing market and the prospect of a period of very low market interest rates make it especially difficult to foresee what type of new arrangements will be in place by say 2015.
52. In addition the Commissioners have indicated that they will also cease making money available for works to CHARM rented properties currently classed as capital improvements when the current financing agreement expires in July 2010. Further discussions will be needed with the Commissioners about the consequence of these changes. We have not at this stage allowed for them in the projections. However, the projections do allow for the increased subsidy arising from the increase in the

maximum purchase limits for the CHARM scheme made in 2007, funded from distributions from the Commissioners' fund until 2010, to come on to the Vote 5 budget from 2011.

53. In the immediate future the draft 2010 budget and projections for 2011-2015 exceed the estimates made at the time of the 2009 budget. This is mainly because of increasing pressure on repair and maintenance costs. There has also been a modest increase in the estimates of the number of properties in the scheme. This emphasises the fact that these costs are difficult to predict and control.

#### *Reserve Levels*

54. Annex B shows the profile of spending assumed year-by-year though the five-year period. As has been emphasised above, this is a highly stylised projection and it is not intended as a forecast. The actual time-path of the apportionment will have to depend on the state of the economy and the financial position of dioceses and parishes. The timing of expenditure is also difficult to predict more than a year ahead. The timing of possible reductions in votes 1 and 2 would have to depend on many different considerations, some involving extensive consultation and some probably determined by when posts become vacant through retirements or resignations.
55. This raises questions about the adequacy of the Council's reserves. The current levels are shown in the table below. Given the uncertainty surrounding our projections we believe that any opportunity should be taken to build up these reserves before 2011 when our projections begin.

Reserve levels (end 2008 figures are approximate and unaudited)						
	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Total
	£m	£m	£m	£m	£m	£m
End 2007	2.467	2.215	0.173	0.151	0.256	5.262
End 2008	1.8	2.4	0.2	0.2	0.1	4.7

56. The Council has some funds at its disposal received from legacies or held in restricted or designated funds. The policy on the use of legacies has recently been set by Council, with the emphasis on funding short-term project work. Decisions are also expected this year on the use of the other funds. Given the uncertainty of the economic outlook at the present time, our view is that the bulk of these funds should, subject to the legal restrictions that apply to some of them, be regarded as available to smooth the profile of the total apportionment and to reduce the risk that we will have to ask for abrupt increases.

*Questions for Discussion*

57. We end this consultation paper with some questions on which we need to reflect and on which we need some response from several constituencies before we can make any recommendations to the Council:
- What rate of increase in the total apportionment, relative to inflation, should we take as a central planning assumption, over the period 2011 to 2015?
  - Is the suggestion that vote 1 (training for ministry) could be planned and controlled desirable and realistic?
  - Have we correctly assessed the scope for stopping work at the centre if it is necessary to reduce expenditure under vote 2?
  - Are there other activities, under any of the votes, which we have not mentioned, where activity at national level could or should be reduced if we look about five years ahead?
58. We would welcome comments on any of the issues raised in this document. They can be sent to the Financial Strategy Review Group to the dedicated email address: [fs.review@c-of-e.org.uk](mailto:fs.review@c-of-e.org.uk) or care of Chris Griffiths (Secretary to the Group) at Church House, Great Smith Street, Westminster, London SW1P 3AZ up until Friday 22 May.

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15 April 2009

Case 1 Apportionment = Net Expenditure

ARCHBISHOPS' COUNCIL Financial Projects 2010-2015	Budget 2009 £	Budget (Apr 09) 2009 £	Draft Budget 2010 £	Projection 2011 £	Projection 2012 £	Projection 2013 £	Projection 2014 £	Projection 2015 £
<b>VOTE 1</b>								
Training for Ministry								
Total Vote 1 Expenditure net of Income	12,553,600	11,580,000	11,800,000	12,092,284	12,404,879	12,736,751	13,210,253	13,711,216
Less Diocesan Contributions	-12,033,600	-12,033,600	-11,800,000	-12,092,284	-12,404,879	-12,736,751	-13,210,253	-13,711,216
Movement (to) / from Reserves OR SAVINGS REQUIRED	520,000	-453,600	0	0	0	0	0	0
Apportionment increase / (decrease)	13.0%	13.0%	-1.9%	2.5%	2.6%	2.7%	3.7%	3.8%
<b>VOTE 2</b>								
National Church Responsibilities								
Total Vote 2 Expenditure net of Income	10,021,784	9,937,927	10,300,258	10,450,855	10,783,342	10,977,250	11,244,609	11,318,577
Less Diocesan Contributions	-10,147,954	-10,147,954	-10,300,258	-10,450,855	-10,783,342	-10,977,250	-11,244,609	-11,318,577
Movement (to) / from Reserves OR SAVINGS REQUIRED	-126,170	-210,027	0	0	0	0	0	0
Apportionment increase / (decrease)	0.9%	0.9%	1.5%	3.2%	3.2%	1.8%	2.4%	0.7%
<b>VOTE 3</b>								
Grants								
Total Vote 3 Expenditure	1,668,200	1,668,200	1,535,448	1,593,378	1,645,017	1,688,043	1,720,602	1,741,542
Diocesan Contributions	-1,668,200	-1,668,200	-1,535,448	-1,593,378	-1,645,017	-1,688,043	-1,720,602	-1,741,542
Movement (to) / from Reserves	0	0	0	0	0	0	0	0
Apportionment increase / (decrease)	4.5%	4.5%	-8.0%	3.8%	3.2%	2.6%	1.9%	1.2%
<b>VOTE 4</b>								
Mission Agency / Clergy Pensions								
Total Vote 4 Expenditure	800,000	780,000	830,228	846,832	863,769	863,160	837,266	812,148
Diocesan Contributions	-800,000	-800,000	-830,228	-846,832	-863,769	-863,160	-837,266	-812,148
Movement (to) / from Reserves	0	0	0	0	0	0	0	0
Apportionment increase / (decrease)	1.1%	1.1%	3.8%	2.0%	2.0%	-0.1%	-3.0%	-3.0%
<b>VOTE 5</b>								
Retired Housing (CHARM)								
Total Vote 5 Expenditure	3,099,000	3,125,684	3,256,000	3,407,000	3,574,000	3,750,000	3,934,000	4,126,000
Diocesan Contributions	-2,949,000	-2,949,000	-3,256,000	-3,407,000	-3,574,000	-3,750,000	-3,934,000	-4,126,000
Movement (to) / from Reserves	150,000	176,684	0	0	0	0	0	0
Apportionment increase / (decrease)	4.8%	4.8%	10.4%	4.6%	4.9%	4.9%	4.9%	4.9%
Total Expenditure (net of Income)	28,142,584	27,091,811	27,721,934	28,390,349	29,271,007	30,015,204	30,946,729	31,709,482
Total Movements (to) / from Reserves OR SAVINGS REQUIRED	543,830	-506,943	0	0	0	0	0	0
<b>OVERALL APPORTIONMENT TO DIOCESES</b>	<b>27,598,754</b>	<b>27,598,754</b>	<b>27,721,934</b>	<b>28,390,349</b>	<b>29,271,007</b>	<b>30,015,204</b>	<b>30,946,729</b>	<b>31,709,482</b>
Overall Apportionment increase / (decrease)	6.5%	6.5%	0.4%	2.4%	3.1%	2.5%	3.1%	2.5%

Average apportionment increase 2011-2015 2.7%  
 Average apportionment increase 2010-2015 2.3%

ARCHBISHOPS' COUNCIL Financial Projects 2010-2015	Budget (Apr 09) Forecast		Projection		Projection		Projection		Projection	
	2009	2009	2010	2011	2012	2013	2014	2015	2014	2015
	£	£	£	£	£	£	£	£	£	£
<b>VOTE 1</b>										
Training for Ministry										
Total Vote 1 Expenditure net of Income	12,553,600	11,580,000	11,800,000	12,092,284	12,404,879	12,736,751	13,210,253	13,711,216		
Less Diocesan Contributions	-12,033,600	-12,033,600	-11,800,000	-12,092,284	-12,404,879	-12,736,751	-13,118,854	-13,512,419		
Movement (to) / from Reserves OR SAVINGS REQUIRED	520,000	-453,600	0	0	0	0	91,399	198,796		
Apportionment increase / (decrease)	13.0%	13.0%	-1.9%	2.5%	2.6%	2.7%	3.0%	3.0%		
<b>VOTE 2</b>										
National Church Responsibilities										
Total Vote 2 Expenditure net of Income	10,021,784	9,937,927	10,300,258	10,450,855	10,783,342	10,977,250	11,244,609	11,318,577		
Less Diocesan Contributions	-10,147,954	-10,147,954	-10,300,258	-10,336,878	-10,354,235	-10,380,783	-10,396,391	-10,415,146		
Movement (to) / from Reserves OR SAVINGS REQUIRED	-126,170	-210,027	0	113,977	429,107	596,467	848,218	903,431		
Apportionment increase / (decrease)	0.9%	0.9%	1.5%	0.4%	0.2%	0.3%	0.2%	0.2%		
<b>VOTE 3</b>										
Grants										
Total Vote 3 Expenditure	1,668,200	1,668,200	1,535,448	1,593,378	1,645,017	1,688,043	1,720,602	1,741,542		
Diocesan Contributions	-1,668,200	-1,668,200	-1,535,448	-1,593,378	-1,645,017	-1,688,043	-1,720,602	-1,741,542		
Movement (to) / from Reserves	0	0	0	0	0	0	0	0		
Apportionment increase / (decrease)	4.5%	4.5%	-8.0%	3.8%	3.2%	2.6%	1.9%	1.2%		
<b>VOTE 4</b>										
Mission Agency / Clergy Pensions										
Total Vote 4 Expenditure	800,000	780,000	830,228	846,832	863,769	863,160	837,266	812,148		
Diocesan Contributions	-800,000	-800,000	-830,228	-846,832	-863,769	-863,160	-837,266	-812,148		
Movement (to) / from Reserves	0	-20,000	0	0	0	0	0	0		
Apportionment increase / (decrease)	1.1%	1.1%	3.8%	2.0%	2.0%	-0.1%	-3.0%	-3.0%		
<b>VOTE 5</b>										
Retired Housing (CHARM)										
Total Vote 5 Expenditure	3,099,000	3,125,684	3,256,000	3,407,000	3,574,000	3,750,000	3,934,000	4,126,000		
Diocesan Contributions	-2,949,000	-2,949,000	-3,256,000	-3,407,000	-3,574,000	-3,750,000	-3,934,000	-4,126,000		
Movement (to) / from Reserves	150,000	176,684	0	0	0	0	0	0		
Apportionment increase / (decrease)	4.8%	4.8%	10.4%	4.6%	4.9%	4.9%	4.9%	4.9%		
Total Expenditure (net of Income)	28,142,584	27,091,811	27,721,934	28,390,349	29,271,007	30,015,204	30,946,729	31,709,482		
Total Movements (to) / from Reserves OR SAVINGS REQUIRED	543,830	-506,943	0	113,977	429,107	596,467	939,617	1,102,228		
<b>OVERALL APPORTIONMENT TO DIOCESES</b>	<b>27,598,754</b>	<b>27,598,754</b>	<b>27,721,934</b>	<b>28,276,372</b>	<b>28,841,900</b>	<b>29,418,738</b>	<b>30,007,112</b>	<b>30,607,255</b>		
<b>Overall Apportionment increase / (decrease)</b>	<b>6.5%</b>	<b>6.5%</b>	<b>0.4%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.0%</b>		

Average apportionment increase 2011-2015 2.0%  
 Average apportionment increase 2010-2015 1.7%

ARCHBISHOPS' COUNCIL Financial Projects 2010-2015	Budget 2009 £	(Apr 09) Forecast 2009 £	Draft Budget 2010 £	Projection 2011 £	Projection 2012 £	Projection 2013 £	Projection 2014 £	Projection 2015 £
<b>VOTE 1</b>								
Training for Ministry								
Total Vote 1 Expenditure net of Income	12,553,600	11,580,000	11,800,000	12,092,284	12,404,879	12,736,751	13,210,253	13,711,216
Less Diocesan Contributions	-12,033,600	-12,033,600	-11,800,000	-12,092,284	-12,394,592	-12,704,456	-13,022,068	-13,347,619
Movement (to) / from Reserves OR SAVINGS REQUIRED	520,000	-453,600	0	0	10,288	32,295	188,185	363,596
Apportionment increase / (decrease)	13.0%	13.0%	-1.9%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>VOTE 2</b>								
National Church Responsibilities								
Total Vote 2 Expenditure net of Income	10,021,784	9,937,927	10,300,258	10,450,855	10,783,342	10,977,250	11,244,609	11,318,577
Less Diocesan Contributions	-10,147,954	-10,147,954	-10,300,258	-10,198,268	-10,082,452	-9,982,567	-9,909,114	-9,837,087
Movement (to) / from Reserves OR SAVINGS REQUIRED	-126,170	-210,027	0	252,586	700,890	994,683	1,335,494	1,481,491
Apportionment increase / (decrease)	0.9%	0.9%	1.5%	-1.0%	-1.1%	-1.0%	-0.7%	-0.7%
<b>VOTE 3</b>								
Grants								
Total Vote 3 Expenditure	1,668,200	1,668,200	1,535,448	1,593,378	1,645,017	1,688,043	1,720,602	1,741,542
Diocesan Contributions	-1,668,200	-1,668,200	-1,535,448	-1,593,378	-1,645,017	-1,688,043	-1,720,602	-1,741,542
Movement (to) / from Reserves	0	0	0	0	0	0	0	0
Apportionment increase / (decrease)	4.5%	4.5%	-8.0%	3.8%	3.2%	2.6%	1.9%	1.2%
<b>VOTE 4</b>								
Mission Agency / Clergy Pensions								
Total Vote 4 Expenditure	800,000	780,000	830,228	846,832	863,769	863,160	837,266	812,148
Diocesan Contributions	-800,000	-800,000	-830,228	-846,832	-863,769	-863,160	-837,266	-812,148
Movement (to) / from Reserves	0	-20,000	0	0	0	0	0	0
Apportionment increase / (decrease)	1.1%	1.1%	3.8%	2.0%	2.0%	-0.1%	-3.0%	-3.0%
<b>VOTE 5</b>								
Retired Housing (CHARM)								
Total Vote 5 Expenditure	3,099,000	3,125,684	3,256,000	3,407,000	3,574,000	3,750,000	3,934,000	4,126,000
Diocesan Contributions	-2,949,000	-2,949,000	-3,256,000	-3,407,000	-3,574,000	-3,750,000	-3,934,000	-4,126,000
Movement (to) / from Reserves	150,000	176,684	0	0	0	0	0	0
Apportionment increase / (decrease)	4.8%	4.8%	10.4%	4.6%	4.9%	4.9%	4.9%	4.9%
Total Expenditure (net of Income)	28,142,584	27,091,811	27,721,934	28,390,349	29,271,007	30,015,204	30,946,729	31,709,482
Total Movements (to) / from Reserves OR SAVINGS REQUIRED	543,830	-506,943	0	252,586	711,178	1,026,978	1,523,679	1,845,087
<b>OVERALL APPORTIONMENT TO DIOCESES</b>	<b>27,598,754</b>	<b>27,598,754</b>	<b>27,721,934</b>	<b>28,137,763</b>	<b>28,559,829</b>	<b>28,988,226</b>	<b>29,423,050</b>	<b>29,864,396</b>
Overall Apportionment increase / (decrease)	6.5%	6.5%	0.4%	1.5%	1.5%	1.5%	1.5%	1.5%

Average apportionment increase 2011-2015 1.5%  
 Average apportionment increase 2010-2015 1.3%

Members of the Finance Strategy Review Group

Andrew Britton	Chair, Archbishops' Council Finance Committee (Chair)
Rt Revd David Urquhart	Bishop of Birmingham
Ven Richard Atkinson	Archdeacon of Leicester
Mrs Katherine McPherson	Archbishops' Council member
Canon Sandra Newton	Chair, Sheffield Diocesan Board of Finance

Staff support:

William Fittall	Secretary General
Simon Florence	Senior Budget Manager
Chris Griffiths	Strategy and Development Unit
Rachel Lindley	Financial Planner
David White	Head of Financial Policy and Planning

List of main assumptions

The key assumptions used within the three scenarios are outlined in the table below:

	Projections					
	2010	2011	2012	2013	2014	2015
<b><u>Vote 1 - main assumptions</u></b>						
Numbers in training (FTEs)						
Colleges	540	540	540	546	566	579
Courses (incl pre-theological education)	731	734	741	741	741	741
Training cost inflation						
Colleges	4.0%	2.8%	2.8%	2.8%	2.8%	2.8%
Courses	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b><u>Vote 2 - main assumptions</u></b>						
RPI inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Annual staff pay award	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Change to DB pension scheme cont'n rate	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual CH rent increase	5.0%	5.0%	5.0%	5.0%	2.0%	2.0%
Annual CH service charge increase	-5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b><u>Vote 3 - main assumptions</u></b> <b><u>(for change in grant levels)</u></b>						
Inter-Anglican budget	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
UK Ecumenical instruments	-36.6%	0.0%	0.0%	0.0%	0.0%	0.0%
WCC/CEC/CUF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Legal Aid Fund	0.0%	10.0%	7.5%	5.0%	2.5%	0.0%
<b><u>Vote 4 - main assumptions</u></b>						
Change to membership numbers	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Change to Clergy Pension contribution rate	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b><u>Vote 5 - main assumptions</u></b>						
Annual rental increases (RPI +1%)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Change to total interest payable	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Change in repairs & admin charge	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

<u>Analysis of Vote 2 expenditure</u>	<u>No of Staff</u>	<u>2009 budget Net</u>
		<u>Cost to AC</u> £
Central Secretariat	24 Full-time 2 Part-time	1,818,418
Ministry Division (inc Crockford)	23 Full-time 6 Part-time	1,491,936
Education	16 Full-time 1 Part-time	671,024
Mission & Public Affairs	17 Full-time 5 Part-time	1,285,577
Cathedral & Church Buildings (inc SAC)	16 Full-time	809,189
Church House Publishing	8 Full-time 4 Part-time	33,433
Communications	10 Full-time	453,643
Financial Policy & Planning	13 Full-time 2 Part-time	433,828
Accounts (inc Payroll)	29 Full-time 2 Part-time	416,794
Internal Audit	8 Full-time	73,860
Legal	14 Full-time 1 Part-time	646,290
Human Resources	7 Full-time 2 Part-time	276,222
Information Technology	16 Full-time	425,224
Office services	5 Full-time	102,878
Records	8 Full-time 1 Part-time	94,960
Accommodation		1,434,718
Contingency		50,000
<b>Total expenditure</b>		<b>10,517,994</b>
General Income		(370,000)
<b>Total Apportionment</b>		<b>10,147,994</b>