GS Misc 913

FINANCIAL PROSPECTS FOR THE CHURCH OF ENGLAND

1. The Church, along with the whole of the national community, faces a period of financial difficulty as the economy moves into recession and asset prices fall. The severity and length of the downturn cannot be predicted, but it is already clear that the current crisis will have a serious and lasting effect, in the parishes, the dioceses and the national institutions.

2. At the July Group of Sessions the Synod will need to spend some time discussing various aspects of church finance, including a review of stewardship policy and practice, thirty years after the 5% giving target was introduced, and proposals for the 2010 budget of the Archbishops' Council. During the year there will also be discussions within the church on impact of the poor performance of global asset markets on the clergy pension scheme.

3. Meanwhile, Synod members may find it helpful to have this note which looks at the present overall state of the Church's finances and surveys the prospects for the coming period. The First Estates Commissioner, Chair of the Pensions Board and I will, of course, respond to any questions which are submitted for the session on Monday afternoon.

Financial overview

4. It may be helpful to begin with a brief summary of the income and expenditure of the church as a whole, whilst recognising that the Church family is wide and dispersed, so any estimates of these figures are necessarily approximate. The most recently available aggregate figures (for 2006) suggest that in round figures the Church of England spends around £1.1 billion per year.

5. Of that around 55% comes from voluntary income (including the £71 million received under Gift Aid), around 23% from investment income from parishes, cathedrals, dioceses and the NCIs (the figure excludes the capital spent by the Church Commissioners on clergy pensions), 14% from fund-raising and trading, around 5% from fees for weddings etc and the remaining 3% from various other sources.

6. The four largest categories of expenditure in 2006 were clergy stipends and working costs (£317m) other mission and ministry costs (£272m), church and other building repair and maintenance (£200m) and clergy pensions in payment (£113m). The budget that the Synod approved last July for the national expenditure of the Church to be incurred by the Archbishops' Council in 2009 was £28.3m.

7. Parish income in 2006 totalled £826m, with just over 70% coming directly or indirectly from individual donors and the remaining 30% from fees, trading income and investment income. Over half a million people support the Church regularly as planned givers using Gift Aid. In 1978 Church members gave on average 1% of their income to the Church. At that point a target was set of increasing that, over a period of years, to 5%. Thirty years on we have got to 3.2%.

8. Those with financial responsibilities at all levels of the Church have inevitably been assessing the likely impact of the state of the markets and the economy on their own budgets and plans. The following sections report what the national bodies have been doing, note various reviews that are underway and give the Archbishops' Council's present assessment of where matters currently stand.

Church Commissioners

9. 2009 is the middle year of the Church Commissioners' triennium following the last actuarial review of their pension liabilities for service up to the end of 1997 and the fund's capacity for other distributions. In 2008 – 2010 they are, in addition to supporting episcopal and cathedral ministry:

   - maintaining in real terms the 2005 – 07 sums available for distribution by the Archbishops' Council for ministry support for low income dioceses and mission development funding. The same applies to 'section 23' grants to cathedrals;

   - distributing the £18.5m (tapering over the three years) that was released by changes to the clergy pension scheme;

   - and making £7.25m available for new opportunities in areas of housing growth and other developments.

10. Because of the heavy smoothing arrangements, which are designed to even out the effect of fat years and lean years of investment returns, the Commissioners believe that they will be able to stick to their spending plans through to the end of 2010. This is despite the expected significant reduction in the value of their assets following the sharp decline in equity and property markets.

11. Nevertheless, 2008 looks set to have been an unprecedentedly lean year as a result of the market crash. When the figures are available for the Commissioners' balance sheet as at 31 December 2008, they are bound to reflect the poor performance of worldwide equity and property markets.

12. The Commissioners' next full actuarial review will be available in spring 2010 and will be based on the value of assets as at the end of 2009. A routine desk-top review will be carried out as at the end of 2008 and the results of this published in their 2008 annual report. A recent desk-top exercise carried out by the

Commissioners' actuaries suggested that, because of the way that they 'smooth' their non-pensions distribution levels the Commissioners may well be able to maintain distributions in cash terms into 2011 - 13, even if there are some further falls in the markets.

13. But this cannot be guaranteed. Given the current volatility of the markets, all predictions need to carry a health warning at this stage. And even if distributions can be maintained in cash terms, there will be some difficult decisions to be made given the likelihood of real terms reductions.

14. What is beyond a doubt is that even if, over the next few years, the Commissioners are able somewhat to cushion the impact of the downturn, they cannot go on doing that indefinitely. The longer and deeper the recession proves, the greater the impact will be on what the Commissioners have available to distribute after meeting their liabilities for clergy pensions earned before 1998.

The Pensions Board

15. The next actuarial review of the funded clergy pension scheme will also be carried out on the valuation of that fund as at 31 December 2009. In the normal course of events the Pensions Board would, in the summer of 2010, decide any change in the contribution rate that dioceses and other funding bodies have to pay. That would come into effect in April 2011.

16. After its meeting on 27 November 2008 the Pensions Board issued a statement indicating that they were closely monitoring the present situation given the scale in the recent fall in equity values and would be reviewing the position again by not later than this June, on the basis of updated assessments by the actuary.

17. At this stage, therefore, it remains to be seen whether the Board will conclude, as it did in 2006, that some interim increase in the contribution rate is needed earlier than April 2011. In that event, the Board has signalled that any such increase would not take effect before 1 January 2010.

18. Given the possibility that funding bodies could, once again, be faced with a significant increase in the contribution rate, the Archbishops have asked the Clergy Pensions Task Group (the First Estates Commissioner, the Chair of the Pensions Board and myself) to reconvene in order to consider possible options and manage the necessary consultation process. The Group has its first two meetings this month and will report later this year.

Archbishops' Council

19. In drawing up its budget for 2010, which will come to the Synod for approval this July, the Archbishops' Council will need to make a realistic assessment of what dioceses can reasonably afford to pay by way of apportionment in the present situation.

20. The backdrop is made the more difficult because the welcome buoyancy in the number of ordinands starting training over recent years has necessitated significant increases in expenditure on Vote 1. Budgeted net expenditure on ordination training in 2009 is 17.9% up on the sum paid by dioceses in apportionment in 2008. We managed to phase the impact by budgeting to use reserves this year, but reserves can only be spent once. In the new context the Council will face some difficult choices in preparing the budget to present to the Synod this July.

21. In any event, the Council has decided that it should review its spending priorities over a rather longer period than is possible within an individual budget round. The Council agreed the scope of such a review in November and I am now chairing a group consisting of the Ven Richard Atkinson (Archdeacon of Leicester), Katherine McPherson (Archbishops' Council), Sandra Newton (Chair of Sheffield DBF) and the Rt Revd David Urquhart (Bishop of Birmingham) to offer advice on the Council's spending priorities for 2010 – 2015. Our aim is to produce a report which the Synod will be able to consider in July.

Current Indicators

22. The Archbishops' Council agreed at its meeting in November that it needed a monitoring report on the state of finances across the Church at each of its meetings, while the present economic crisis persisted. On 20 January the Council noted that, overall, the picture was a mixed one.

23. The positives are that:

- diocesan balances on the clergy stipends accounts managed by the Church Commissioners were healthier at the end of 2008 than 2007;

- all dioceses had paid their 2008 apportionment in full to the Archbishops' Council by 9 January 2009;

- a Christmas survey by the Church Times of over 500 Christians suggested that a third of Church members expected to increase their giving in 2009 and only one in twenty to reduce it. In addition several giving campaign in one diocese in October/November produced pledge-giving increases of around 35% which is in line with the norm for such programmes.

24. As against that current causes for concern are:

- indications that some dioceses are beginning to find it tougher to collect parish share. At a recent meeting of the Finance Committee the picture varied a good deal across dioceses, with no overall cause for alarm but some worrying indications in some places;

- prospects for investment income this year are sharply reduced. With over £1billion invested in the CCLA Church of England deposit fund by parishes and dioceses, every 1% change in the interest rate has an impact of £10m across the Church. At 9 January 2009 the rate was 2.78% compared with the 6.1% return for depositors in the year to September 2008. There may also be some reduction in investment income from equity-based investments such as holdings in the Church of England Investment Fund;

- the ability to sell property at acceptable prices (or indeed at all) has been sharply reduced. This has in some case meant that cash flow plans that were constructed on a particular set of assumptions about the proceeds of sales have had to be revised.

25. The prospect for giving by church members in the current economic situation is difficult to judge, but it is commonly argued that regular giving to membership organisations is less at risk than other charitable donations. In addition, the fact that a high proportion of giving to the Church – probably around three-quarters – is done by standing order rather than by envelope creates some degree of resilience.

26. Nevertheless, the Church's reliance on giving was much less when the economy was last in recession in the early 1990s and far less when the country last faced a recession of this potential severity. With unemployment set to rise sharply and interest rates for those living on savings now at very low levels, pressure on Church incomes seems inevitable. It must be hoped that those in more secure employment and those whose incomes are better maintained will recognise the increased need for them to support the Church at the present time.

Andrew Britton
Chair of the Finance Committee of the Archbishops' Council
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