

Expenditure **in the Diocese of Oxford** **and how it is managed**

*A message from the Chairman of the Board of Finance
and the Director of Finance*

The paper that follows has been prepared in response to enquiries and we hope it will be useful to Treasurers who are asked by parishioners “how things work in Oxford”. We want to be accessible, but with a limited number of staff (always thinking of controlling costs), it is good to be able to do things “in bulk” when possible, with briefings and consultations. Nevertheless, the staff at Church House will also do their best to respond to individual needs as promptly as they can, so don’t be afraid to ask.

We appreciate the enormous amount of work done in our parishes to support the work and mission of the Church, and we know what a particular range of tasks treasurers regularly take on. So thank you all.

Nigel Wearne

Brian Newey

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1. Broad categories of expenditure – where the money goes

The cost of parochial clergy – the greatest cost item by far.

This includes their stipends, pension contributions and National Insurance, the cost of maintaining their houses, Council Tax, etc., and the direct administrative and training support they need from the diocese regularly or from time to time. Dioceses now receive minimal direct support for this from the Church Commissioners, except that the Commissioners largely pay for our bishops and their expenses of office, and provide the house for the Diocesan Bishop.

‘Mission in the Diocese’ forms the next largest heading. This includes:

- Provision for leading, managing and training youth workers and those who work with children in our churches
- Parish Development Advisers for each Archdeaconry (i.e. Oxford, Berkshire and Buckingham) to assist parishes and groups of parishes when they want to do new things, change the way they work, or overcome specific problems
- Directors of Ordinands who help the large number of men and women in our diocese who feel called to ministry to discover what their vocation might be and to prepare them for selection
- Staff who provide training through the Oxford Ministry Course to some ordinands and many categories of lay minister
- Maintenance grants to ordinands and their families during training. Training normally begins in the autumn following selection, and this sometimes causes unpredictable increases (or decreases) in the budgeted level of grants which is initially based on experience from the recent past.
- Support to 283 church schools in our three counties through the Diocesan Board of Education (some of this work being done on a fee-charging basis)
- Limited support for social justice work in the diocese, which (it is worth noting) engages the support of a large number of expert volunteers from the medical, legal, social services and other professions
- Communications including the Door newspaper.

Administration and Finance

- In this large diocese we gain considerable economies of scale. The cost has been progressively reduced from 5% of expenditure and now runs at about 4%.

Support for the services provided by the national Church

- Each diocese in the Church of England contributes to national Church expenditure according to a formula based on its membership and income. As a diocese well-endowed with income from our Glebe and other investments, and because our population is comparatively wealthy and fully employed, the Oxford contribution (and that of several similarly placed dioceses) is gradually increasing relative to the church at large. This has been accepted by Synod as a measure of mutual support that eases the load on those parts of the church in much greater need.
- The national Church gives a good account of its expenditure to the dioceses. For three years from 2002 – 04 it applied an absolute standstill budget, achieved by reorganisation which curtailed some activities and removed fifty posts. Currently a series of service reviews of all central Church departments is in progress to check the usefulness of what they do, look at possible alternatives, and vet cost-effectiveness. Significant rationalisations are in progress in Accounts and Common Services. We judge that appropriate management controls are in place.

2. How this expenditure is decided – policy and assumptions

The expenditure of the Diocese conforms broadly to the Strategy defined in *Sharing Life*. This has been widely disseminated. Its overriding objective is to create a lively Christian presence in every part of the Diocese of Oxford.

“Standard Assumptions” about costs to be budgeted

- A number of assumptions are agreed by Synod which may run on from year to year until changed. However these are always drawn to the attention of Bishop’s Council and Diocesan Synod when budgets are being proposed and considered, and may be challenged. They include: (i) the expectation that the number of clergy will be in line with the diocesan pastoral plan (see immediately below), making allowance for the typical vacancy pattern that results from retirements and appointments to new posts; (ii) assumptions about stipend and salary increases for clergy and diocesan staff; (iii) appropriate increases in Council Tax and water charges; (iv) house maintenance costs increased in line with an appropriate building industry index (currently about 4.5% to 5% a year); (v) an allowance for general cost increases which has been 2% for a number of years; and (vi) a general expectation that the cost of ‘new work’ will be covered by other savings.
- All central diocesan staff posts are automatically reviewed each time a member of staff retires or moves, to determine whether the work is still required, should continue to be done in the same way, or could be covered more effectively by alternative means.

Clergy numbers – how this key element in the strategy is determined

- The **number** of clergy who are paid stipends is initially based on a national system of sharing, so that parishes in every part of the country may benefit from ministry appropriate to their population, number of church members, and (particularly relevant in rural areas) the number of churches to be served. The Oxford diocese has been reducing its clergy numbers to keep in line with national trends and to ensure that we stay within 5% above or below the allocation as required. In accordance with *Sharing Life* there is considerable local input to decisions about the deployment of clergy and other ministers by means of Deanery Pastoral Plans.

How clergy stipends are determined

- Dioceses are consulted each year about the level of a ‘national minimum stipend’ to be paid. We consider it desirable that the national minimum should rise sufficiently to keep ahead of retail price inflation (RPI) and not fall too far below the level of increase in average wages.
- By reference to the national minimum, dioceses are encouraged to pay their clergy a stipend that is regionally adjusted to reflect the local cost of living. Clergy in charge of a parish are normally paid at the national minimum × 1.1 (regionally adjusted). (Note: because clergy work locally and are provided with housing, the regional adjustment excludes housing and transport costs).

The cost of Clergy Pensions

- Since 1998 dioceses have made contributions to the defined benefit pension scheme of the clergy, in respect of all their service from 1st January that year. There is periodic consultation throughout the church about these contributions, but once the Fund Trustees have set a contribution rate it is incumbent on the dioceses to pay it. National Insurance contributions for clergy and other staff are of course levied at a level over which we have no influence at all.

Other budget proposals – including new work

- These may originate with the Senior Staff (that is the Bishops and Archdeacons) as part of a strategic change, or from one of the Boards or Councils working in conjunction with the appropriate Church House department. Before being formally presented as part of an annual budget such proposals are scrutinised by the Senior Staff and by the Planning and Budget Sub-Committee of Bishop’s Council.

3. Setting an annual budget and proposing a Share increase

The first draft budget for the following year – presented in the spring to Bishop’s Council and then to Synod

- Responding to emerging results during any year and preparing the budget for the following year are closely linked processes.
- The draft spring budget for the following year obviously shows many similarities to that of the current year, and often shares common “standard assumptions”. However it also reflects actual performance against budget in the latter part of the preceding year. These are carefully analysed to differentiate temporary events or circumstances that will not be repeated from clear trends which must be budgeted for, and any novel objectives and elements of work for which approval will be sought by the laid down means.
- The draft budget will have been considered by the Planning and Budget Sub-Committee and by the Senior Staff before being presented to Bishop’s Council for review and recommendation for adoption by Synod.
- At the same time as the budget is presented, Synod will receive a Parish Share proposal for the following year. Because of inflation this usually means an increase for the diocese as a whole. The impact of this increase *varies from deanery to deanery* according to two principal factors: *their church membership* (and whether it has increased or decreased relative to all the other deaneries) and *the income of their population* (taken from Inland Revenue statistics which each year show noticeable relative movements between the different deaneries). In addition, indicative Share increases are given as projections for the three years following the budget year.
- Deaneries are advised in as timely a way as possible of what their precise Share increase will be so that they can work out their own allocations to parishes according to their locally agreed formulae.

Setting a firm budget – updating in the light of emerging results in the current year

- Results are monitored monthly, but the half-year results to 30th June are particularly important. Based on these, a firm budget for the following year is presented to Bishop’s Council in late October, and with Council’s approval, to Synod in November. If it approves the budget, Synod then formally gives authority for the following year’s expenditure proposed in the budget, individually for each expenditure heading.

The status of longer-term projections for budgeted levels of expenditure and Parish Share increases

- These are based on factors that are known or confidently anticipated. Important elements include (i) projected clergy numbers based on national indications of availability and on detailed local planning; (ii) expected trends in such cost items as building maintenance, Council Tax, etc; (iii) any known changes in Church Commissioners’ contributions, or other national factors including pension costs; (iv) specific new work, and any savings created to fund it; (v) particular cost savings that are identified; (vi) along with perceived spending needs, a realistic view of the level of Parish Share likely to be affordable by our congregations
- We judge that it is very important to give to deaneries and parishes the best possible indications of probable Parish Share increases. It is likely that the Share will continue to rise at an above-inflation rate, but every effort is being made to minimise this. ***The diocese sets an increase which is an average overall – but the increase will always vary from deanery to deanery for the reasons quoted above.***
- Despite the care taken in preparing budgets and projections for later years, there are inevitably surprise factors which cause changes, and projections for the later years must always be treated with a degree of caution.

4. Monitoring and control of expenditure

Scrutiny of monthly results

- Processes have been set up to provide a monthly financial report covering the activities of Church House departments, and for the Archdeacons in respect of all budgeted expenditure on parish ministry.
- The reports are scrutinised by the heads of department and reviewed with their staff to identify any untoward or unexpected costs and to determine corrective action if necessary. Under-spending can be as much worthy of correcting as over-spending if it would store up trouble for the future.
- It is as important to monitor income levels as expenditure.
- Finance Staff work with departmental staff and with the Archdeacons in interpret the data and manage outcomes.
- The Diocesan Secretary also carries out regular reviews of emerging results for central departments and gives attention to their performance and efficiency.

Quarterly reporting to the Planning and Budget Sub-Committee, Senior Staff, and Bishop's Council

- Quarterly results give a better perspective on how closely performance is matching the budget in terms of activity levels, costs, and income, and whether variations are becoming trends.
- Corrective action to control higher than planned expenditure is directed where appropriate.
- Some excess expenditure might not be appropriate or susceptible to curbing directly, for example higher than expected Council Tax on vicarages, or a lower than expected level of clergy vacancies because fewer clergy than usual have moved to other posts. In such cases alternative savings may be identified and pursued, or items of expenditure deferred.
- An important issue is for parishes to be confident that spending within the diocese is scrutinised, and where possible controlled, and doesn't "just happen".

The half-year results and preparation of a firm budget proposal for Bishop's Council and Synod

- This was covered in section 3. Key judgments are made by the Archdeacons in their areas, the heads of Church House departments, the Director of Finance, the Diocesan Secretary, the Senior Staff as a group, and the Planning and Budget Sub-Committee (who all work interactively) to produce the soundest possible budget for Bishop's Council and Synod.
- It is not expected that any change should be made at this stage to the Parish Share increase already proposed for the following year. The increase would normally have been advised to deaneries before the half-year results are known, so that they can give timely advice to parishes. Any late change would run counter to the diocesan policy of predictability and transparency.

Monitoring of Parish Share income

- The payments made by parishes are reviewed each month
- At the end of March, June and November deaneries whose parishes have paid their Share in full are appropriately credited with any of the three 1% rebates (which are actually paid at the year end).

End of year results, preparation of the Annual Report and Accounts, and external audit

- This forms the final verdict on the financial controls and expenditure budget – and allows all concerned to take stock of the year's events.
- Lessons learned are recorded and applied in preparing budgets for subsequent years.
- The audit is most carefully carried out, and reveals evidence of the effectiveness (or otherwise) of internal management procedures. The 2005 audit went particularly smoothly, and the latest accountancy regulations were fully applied in advance of regulatory requirement.
- A Diocesan Audit Committee oversees compliance with statutory requirements, and also reviews the practice of risk assessment in the Diocese, paying particular attention to the most major risks.

5. Other ways to gain information on Diocesan Finance

The Diocesan Website

- Regular postings are made to the Finance section of the diocesan website which is accessible at www.oxford.anglican.org/finance which currently includes:
- Synod statements by the Chairman regarding budgets, projections and Parish Share.
- Clergy costings and Electoral Roll numbers for each deanery.
- Share allocation from Diocese to Deaneries showing all the variables that go into its calculation (from 2005 onwards).
- The Parish Treasurers' Manual, with sample sets of PCC accounts that can be downloaded as Excel files, which conform to SORP 2005 standards.
- Presentations given at the annual Financial Consultations on the work of the Glebe and Buildings Department, STEM (the Department for Stewardship, Training, Evangelisation and Ministry), etc, and the summary financial information which has been presented and discussed each year.
- There is also a ***PCC and Deanery Treasurers' Discussion Forum*** at www.odbf.co.uk/discussions where information might be found on such topics as: software for treasurers, charitable giving, applying to trusts for funding, Gift Aid on ticket sales, definition of repairs and maintenance of church buildings for PCC accounts, and much more.

The Annual Financial Consultations

- These take place on Saturday mornings in September and October, usually at three locations in the diocese, and are designed to be reasonably accessible to people from all over Oxon, Berks and Bucks.
- They always cover the current financial scene and the expected financial outlook, and periodically give an account of the work of individual departments, or cover other subjects of topical interest in church finance.
- They are open to Parish Treasurers, Churchwardens, Clergy, or any other interested people.
- NO ONE IS 'GOT AT'. The consultations get a high rating from participants for clarity, transparency and frankness.
- They have recently included an additional one-hour lunchtime slot specifically for Treasurers who have indicated a need for detailed briefing on particular issues, including current accountancy changes.
- An invitation is sent to every parish (by e-mail where possible). Do look out, and in early August ask for details if you have not received your own invitation from the person in your parish who was mailed. (Ring 01865 208206 to speak to Beverley Jane, PA to the Director of Finance).