

 <p>DIOCESE OF EXETER THE CHURCH OF ENGLAND IN DEVON</p>		<p>Paper S/14/22</p>
<p>Report To:</p>	<p>Diocesan Synod</p>	
<p>Date:</p>	<p>15 October 2022</p>	
<p>Report By:</p>	<p>Director of Finance</p>	
<p>Title:</p>	<p>2023 Budget and Common Fund and Consideration of the Indicative budget for 2024 and 2025</p>	
<p>Background Papers:</p>	<ul style="list-style-type: none"> • Our Vision and Strategy (Diocesan Synod, 15 June 2019 – paper S/13/2019) • Budget Strategy 2023 (Bishop’s Diocesan Council, 16 May 2022 – paper BDC/21/22) 	
<p>Strategic Links:</p>	<ul style="list-style-type: none"> • Our Vision and Strategy • Net Zero Carbon Route Map • Schools Strategy 	

EXECUTIVE SUMMARY

Principle

The 2023 budget is driven and shaped by the diocesan Vision & Strategy.

Process

Following consultation with the Budget Strategy Group, a Budget Strategy paper was presented to BDC on 16 May 2022 setting out the issues and options and raising questions for BDC to answer. The Director of Finance then compiled a budget in consultation with department heads, which was presented to BDC in a paper entitled ‘2023 Budget and Common Fund and Consideration of the Indicative Budgets for 2024 and 2025’ on 22 September 2022. Given the prevailing economic uncertainty and following presentation of the paper and discussion in break out groups, members of BDC were asked to vote for one of three increases in the Common Fund request; +5%, +7% and +10%. There was a clear majority in favour of an increase of 7% and that has been incorporated into this budget recommended by BDC to Diocesan Synod.

BDC members were also asked to vote on whether, or not, the budget presented to this Diocesan Synod should incorporate a provision of £600,000 for the cost of meeting the revised Energy Performance Certificate requirements applying to let property, or whether this should be brought Diocesan Synod in March 2023 when a project plan had been completed. There was a clear majority in favour of incorporating this provision in the 2023 budget and the budget presented in this paper includes this provision.

Key Assumptions for 2023 Budget

The key assumptions underpinning the 2023 budget figures are:

- An 8.2% decline in the number of participants for 2023;
- A reduction in Mission Community stipendiary post holders to 168.0 (currently 168.1) for 2023;
- Common Fund (Band A equivalent) increase of 7%;
- A Common Fund collection shortfall of 4%;
- A provision for an increase in clergy stipends and EDBF staff salaries of 5%;
- General Inflation, only where necessary, of 10%; and
- No real increase in expenditure, unless linked to a contract, or known price increase.

Key Assumptions for the 2024 and 2025 indicative budget figures

- No further decline in the number of participants;
- A reduction in Mission Community stipendiary post holders to 165 (currently 168.1) by 2024 and 162 by 2025;
- Common Fund increase of 5% in 2024 and 2% in 2025 (inflation only);
- A Common Fund collection shortfall of 4%;
- A provision for an increase in clergy stipends and EDBF staff salaries of 5% in 2024 and 2% in 2025 (inflation only);
- General Inflation, only where necessary, of 5% in 2024 and 2% in 2025; and
- No real increase in expenditure, unless linked to a contract, or known price increase.

Conclusion

The decline in participant numbers of 14.6% between 2020 and 2022, as a consequence of the pandemic, has been substantial and well in excess of the decline of 1.7% per annum experienced in pre-pandemic years. EDBF does have the resources available to accommodate the deficit in the short term, to allow time to see the extent of the recovery post pandemic and the outcomes from the refreshed

Diocesan Vision and Strategy. Continuing annual deficits, however, are not sustainable and, if forecast, will need to be tackled with a combination of increased Common Fund contributions and cost savings.

Budget Summary 2023 – 2025

Year ending 31 December	2023 £000	2024 £000	2025 £000
Income & Expenditure			
Income	13,869	14,371	14,487
Expenditure	16,122	16,308	16,338
Surplus/(shortfall)	(2,253)	(1,937)	(1,851)

Approval sought

At the meeting held on 22 September 2022, BDC recommended:

- (1) The Common Fund request per declared participant (Band A) for 2023 is increased by 7% (over the 2022 figure);
- (2) The use of a 4% figure for the Common Fund shortfall for 2023;
- (3) The provision for 209.5 full time equivalent stipendiary clergy posts in the budget for 2023 (to include archdeacons, Mission Community clergy and curates);
- (4) The stipend that should be paid from 1 April 2023 to those clergy holding incumbent status posts be £28,820; and
- (5) The attached budget for 2023 and indicative budgets for 2024 and 2025 (Appendix 2) to Diocesan Synod for approval.

Recommendation

The Diocesan Synod is asked to approve the 2023 budget and Common Fund request and to note the indicative budgets for 2024 and 2025 (Appendix 2).

MAIN REPORT

1 Purpose

- 1.1 The purpose of this paper is to seek Diocesan Synod approval of the budget for 2023 for the Exeter Diocesan Board of Finance (EDBF), which was recommended for approval by the Bishop's Diocesan Council (BDC) at its meeting held on 22 September 2022, and also to give consideration to an indicative finance plan for 2024 and 2025.

2 Vision & Strategy

- 2.1 The Diocesan Vision and Strategy was debated and approved at the Diocesan Synod meeting held on 12 March 2016 and refined at the meeting held on 15 June 2019.

2.2 Mission Communities – The Next Steps

Over the last year BDC has been looking at the Vision & Strategy, most recently at the meeting held on 5 February 2022. As a diocese, it is time to take stock so that we emerge from this extraordinary period with a clear sense of direction and a realistic plan for how to get there. We need to move forward in a way that is both creative and sustainable. Now is the time to renew our trust in the leading of God.

2.3 Our Vision

'I am the vine; you are the branches. Those who abide in me and I in them bear much fruit.' John 15.5

As God's pilgrim people, we seek to share in the mission of God as revealed in the life, death and resurrection of Jesus Christ by:

Growing in prayer

We want to abide in Christ and live our lives close to God. This means taking risks as we become more honest with ourselves and more honest with God. Prayer opens up deep places within us to God's grace, which is why it is such a life-giving activity. Going deeper in prayer is essential if we are to witness to God's Kingdom and grow into the people God is calling us to be.

Making new disciples

A disciple is someone who follows Jesus Christ. With Christ as our companion and guide, we can travel through life differently and invite others to share in the adventure. We want to be more faithful in our discipleship and allow God to shape our priorities and values. The gospel is good news but, if we are to bring more people to Christ, we need to find new ways of telling the story, of explaining our faith and giving a reason for the hope that is in us.

Serving the people of Devon with joy

We want to be ambassadors for Christ, making a difference in the world and witnessing to God's love and justice, especially in the communities where we live and, in our schools, and workplaces. Working in partnership with others who are transforming lives, we seek to address the global issues confronting our generation so that all may flourish.

- 2.4 We seek to fulfil our calling to love God and serve the people of Devon through our network of Mission Communities. These are diverse, vibrant and sustainable groupings of parishes across the Diocese which are mission-oriented, community-focused and locally rooted. At the heart of this network are our parish churches, which for centuries have been places of prayer, pastoral care, evangelism and community service in Devon. Increasingly today, they are complemented by chaplaincies, social action projects and varied and creative new expressions of worship, the result of which is an exciting mixed ecology. Together, they speak of God's compassion and love, and ensure a Christian presence in every community across the county.

3 Structure for 2023 Budget

- 3.1 BDC established a Budget Strategy Group in early 2020 to work with the Chair of the Board of Finance, the Diocesan Secretary and the Director of Finance to consider the assumptions underpinning the Finance Plan and help shape the strategy used for setting the budget. This group has continued to meet (via Zoom) in 2022 to help shape the 2023 Budget Strategy, which was approved by BDC on 16 May 2022.
- 3.2 The main assumption underpinning the budget will be around the Common Fund request for 2023. This year, for the first time since 2019, all parishes were once again asked to provide their participant number. Parishes were also given an opportunity to amend the 2021 figure where the pre-pandemic numbers had previously just been rolled forward. The revised 2021 participant

number is now therefore 6.4% lower than in 2020 (previously 4.1%). The reduction in the 2022 participant number is a further 8.2%, which gives a fall over the last two years of 14.6% and these numbers will be used in the 2023 Common Fund calculation (see section 5, below).

- 3.3 This report shows in Appendix 1 how it is proposed that each budget is allocated for 2023 (along with a comparison figure for 2022). Any proposed changes to the budget for 2023 are outlined in Section 8, below.
- 3.4 This paper also includes the indicative budget figures for 2024 and 2025 (in Appendix 2). These indicative figures are produced using the assumptions set out in the Executive Summary.

4 Key Assumptions

- 4.1 BDC endorsed the key assumptions to be included in the budget at the meeting held on 16 May 2022. These are incorporated into the key assumptions underlying the 2023 budget, which are summarised below:
- An increase in the Common Fund request per participant of 7% – see section 5, below;
 - A shortfall in Common Fund received of 4%;
 - The budget to provide for 168.0 full time equivalent Mission Community stipendiary posts (equivalent to 152.9 FTE stipends, after allowing for vacancies);
 - There will be an increase in the clergy stipends from April 2023 of 5%, in line with the anticipated increase in the clergy stipend benchmark; and
 - There will be a provision of 5% for an increase for lay staff salaries from July 2023.

5 Common Fund Request 2023

- 5.1 The original sum requested from parishes in Common Fund contributions for 2022 was £8,984,634. As in 2022 a principal assumption for the 2023 budget is once again around the level of Common Fund that can reasonably be requested. This is the starting point for the budget process and drives the sums that can then be spent across all diocesan budgets in delivering and supporting the diocesan mission.
- 5.2 It should be noted that the request in 2022 was the lowest in real terms since 2011. During this same period Consumer Prices Index (CPI) inflation has been 14.2%, the number of declared participants has reduced by 11.7% and clergy numbers by 3.7%.

5.3 The table below shows the Common Fund collection rates for previous years:

Year	Amount Requested £000	Amount Received (up to 28/02*) £000	Percentage Collection (up to 28/02*) %	Final Amount Received £000	Percentage Collection %
2009	8,790	8,135	92.55	8,224	93.56
2010	8,882	8,108	91.28	8,177	92.06
2011	8,693	7,947	91.41	8,034	92.41
2012	9,050	8,374	92.53	8,458	93.46
2013	9,153	8,511	92.98	8,622	94.19
2014	9,155	8,614	94.10	8,666	94.64
2015	9,247	8,673	93.79	8,734	94.46
2016	9,175	8,564	93.34	8,640	94.17
2017	9,169	8,544	93.19	8,741	95.33
2018	9,323	8,922	95.70	8,966	96.17
2019	9,377	8,964	95.59	8,995	95.92
2020	9,174	8,302	90.49	8,350	91.02
2021	8,997	8,218	91.34	8,312	92.39
2022	8,959				

*Please note that the 28/02 date is the one used each year as the cut off against which contributions are taken back to the previous year's accounts.

- 5.4 The year-to-date position (at 31 August 2022) on the collection of the 2022 contributions is currently 5.20% better than at the same stage last year and is 1.05% better than in 2019. The position compared to 2019 is encouraging and suggests some recovery from the effects of the pandemic.
- 5.5 Diocesan Synod approved a shortfall budget of 4% for 2022, with the hope that the collection rate would return to a more normal level this year. The current projection suggests the actual shortfall in 2022 could be around 5%.
- 5.6 It is clear from conversations with parishes that those with membership of the Parish Giving Scheme (PGS) and/or a higher percentage of regular monthly givers are faring significantly better than those parishes that rely on fund raising and cash collections at services. The Mission Resources team will continue to provide support to parishes with generosity and giving and to continue promoting the PGS and regular giving. EDBF has also recently successfully applied for funding from the Giving Advisers Fund to enable us to

recruit an additional member of the stewardship team. This funding is for a 5-year period, with 100% of costs covered in year 1, 80% in year 2, etc. The new person will start in post in October 2022.

- 5.7 One of the key assumptions is around the number of participants and therefore the Common Fund request. BDC confirmed that the finance plan assumption should be adjusted to reflect the consistent annual fall seen in participant numbers over the last few years. The average fall has been 1.7% per annum. As stated in section 3.2, above, parishes were given the opportunity to provide an updated figure for 2021 and whilst the majority accepted the current figure could continue to be used, many also provided an alternative figure.
- 5.8 The following are the annual participant numbers that will be used in the calculation of the Common Fund request for 2023:
- 2020 = **18,206**
 - 2021 = **17,048** (reduction of 6.4%)
 - 2022 = **15,644** (reduction of 8.2%)

The above figures are after deducting those who are new to faith (in year one only each time), those who are unable to attend, the larger churches allowance and under-graduate students. For 2022 this reduced the figure from 17,552 to 15,644 (Unable to attend = 1,137; New/returning to faith = 458; Larger churches allowance = 175 and Under-graduate students = 137).

- 5.9 The result of the falling number of participants, even at the previous average, was leading to a reduced total Common Fund request each year (see the table at section 5.3). It should be noted that this will lead to some serious challenges if this reduction in participant numbers continues.

Request per participant

- 5.10 One of the key elements within the Common Fund calculation is the amount per participant, as this makes up the bulk of the amount requested from each parish.
- 5.11 The original figure requested per participant from a parish in band A for 2022 was **£620.24** per annum. There is then a 5% 'discount' applied for each socio-economic band below band A, e.g., the calculation for a parish in band B is $£620.24 \times 95\% = £589.23$, and so on. Socio-economic bands for parishes are derived from the index of multiple deprivation provided by the government, as mapped onto parishes by the Statistics Unit at Church House (Westminster).

- 5.12 At its meeting on 22 September 2022, BDC was asked to consider which of three inflationary increases should be applied to the 2023 Common Fund request. With the current higher level of CPI inflation (10.1% at July 2022), the three rates considered for 2023 were:
- At 5% the amount to be requested per participant from a parish in Band A for 2023 would be £620.24 x 5% = **£651.25**.
 - At 7% the amount to be requested per participant from a parish in Band A for 2023 would be £620.24 x 7% = **£663.66**.
 - At 10% the amount to be requested per participant from a parish in Band A for 2023 would be £620.24 x 10% = **£682.26**.
- 5.13 BDC spent time in Zoom break out rooms to discuss the different options, before coming back to vote formally on the rate to be included in the 2023 budget and recommended to Diocesan Synod. Of those present, 65% supported an increase of 7%, with 30% supporting 5% and 5% supporting a 10% increase. Following this initial vote, 90% then supported the inclusion of 7% as the Common Fund assumption in the budget for 2023.
- 5.14 Using the new lower number of participants and a 7% increase in the request per participant for 2023, before applying the inflationary cap, the calculation would be £9,272,320 (compared to £9,189,173 for 2022).
- 5.15 An annual cap was introduced in 2020 on the maximum increase in the Common Fund request to a parish from one year to the next, set at CPI +5%. If it is not possible to apply the full calculated increase because of the above cap, then the additional element will be held over until it can be applied in a future year to the parish in question. The CPI figure (for July 2022) is 10.1%, so the cap for 2023 will be set at 15.1%. This is projected to reduce the above request by £190,000 to **£9,081,841** (2022: £8,984,634). This figure would be £163k lower if the increase were 5% and £244k higher at 10%.

Common Fund Shortfall

- 5.16 The level of assumed shortfall in the Common Fund received is also a key assumption and, as can be seen in the table at section 5.3, above, this had deteriorated until 2012, when a gradual improvement began to show. This had then fallen back again, although there was a sustained improvement since 2017, so that the shortfall, prior to the pandemic, was around the 4% mark.
- 5.17 There were bigger shortfalls in 2020 (9%) and 2021 (7.6%), but the current estimate for 2022 is that the shortfall now expected to be around 5%, which is

close to the pre-pandemic level of 4%. It is therefore felt reasonable to continue with a 4% shortfall assumption in 2023.

Parish Giving Scheme

- 5.18 The Parish Giving Scheme (PGS) was formally launched across the diocese in the autumn of 2014 (following the pilot), with the main launch event being held in March 2015. As at 1 August 2022, 258 (2020: 249) parishes across the diocese are receiving funds (with the associated gift aid) on a monthly basis – which is 53% of parishes. In the previous 12 months, £2.9m (2021: £2.8m) has been donated to churches in our diocese – with this figure increasing each month, as more parishes/people join. The PGS continues to grow nationally and is proving to be a fantastic scheme, with 34 (2020: 31) dioceses now being members. The total annual amount gifted to churches through the scheme in 2021¹ was £66m (2020: £57m), so this continues to be a real success story within the Church of England.

The ‘parishes’ with the most individual donors within our diocese are shown in the table below:

Parish	Number of donors
Tiverton, St George & St Paul	90
Littleham-cum-Exmouth	83
Torquay, St Matthias	75
Tavistock	62
Wembury	62
Exeter Cathedral	60

- 5.19 One of the key benefits with the PGS is the option for donors to allow their gift to increase in line with inflation each year. Each donor is given 28 days’ notice of the increase each year and with the higher levels of inflation, this is being closely monitored by the PGS team. To date 96.7% of people have been accepting the higher increases, which is hugely encouraging and shows the generosity of those people who are donating to their parishes through PGS.

6 Income Budgets for 2023

Asset Management Strategy

- 6.1 The Assets Group continues to review the Board of Finance’s asset mix and a strategy has been drawn up to increase the income generated by the Diocese’s assets (housing, glebe and investments). A detailed assessment was undertaken, and a number of properties no longer required for clergy housing were identified for sale and the first two tranches have now been sold. The

¹ Data from 2021 PGS Annual Accounts

original intention was that these proceeds would then be re-invested with CCLA in order to achieve a higher level of income. A review of the glebe holdings has also been undertaken and parcels of glebe land have also been identified for sale. Following a subsequent detailed review of the cashflow position, it has been possible to place the majority of the surplus funds within the CCLA Investment Fund.

Investment Income

- 6.2 Income from the investments held with CCLA has remained fairly consistent over recent years, despite the economic and market conditions. It should be noted that EDBF no longer has any investments held with M&G. EDBF now only has investments placed in the CCLA Investment Fund, which is the global multi-asset fund. CCLA has confirmed that income from the Investment Fund is likely to increase by 2% in 2023. An assessment has been undertaken, with support from CCLA, to assess the level of income that our portfolio can be expected to deliver in 2023. The budget for 2023 will therefore be **£1,071k** (2022: £1,065k).

Glebe Income

- 6.3 There are two elements to the glebe income received – income from the glebe land and from the lease of the commercial properties (purchased with the proceeds from previous sales of glebe land). The income received from glebe is reviewed each year to accommodate the impact of rent reviews undertaken in the previous 12 months. As a result, the net budget expectation for 2023 will reduce slightly, following an increase in some costs, to **£316k** (2022: £332k).

Feed in Tariff Income

- 6.4 In 2012 photovoltaic cells were fitted to 32 parsonages. These are now generating income of £35k per annum in feed-in and export tariffs. After allowing for depreciation and loan interest charges, the net income received is £19k.
- 6.5 The 2023 budget for income from investments, glebe and feed-in/export tariff is **£1,407k** (2022: £1,412k).

Grants from the Archbishops' Council

- 6.6 EDBF has yet to receive confirmation of the level of grant funding support that will be received in 2023. The Archbishops' Council has been re-shaping this funding to focus more on providing strategic development funding and less on providing pure financial support. At this stage we have assumed that the grant will remain unchanged, so the Lowest Income Communities Grant figure for 2023 will be **£1,190k** (2022: £1,190k).

6.7 In 2018 the Diocese was successful with its application for Strategic Development Funding (SDF) for the church planting project in three outer estates in Plymouth (Plymouth Partnership in Mission). This draws down funding of approximately £1.7m over the six years (now extended from 5 years), against the total project cost of £2.2m.

In 2019 the Diocese was also successful in securing SDF funding for a new resource church at St Matthew’s in Exeter. The Exeter project will draw down further funding of approximately £1.3m over the five years, against the total project cost of £2.7m.

A further successful application was made in November 2020 for SDF support for a new Resource church in Torbay, known as Bay Church, which launched at Easter 2022. This will draw down funding of £1.5m over 5 years, against total project costs of £3m. All EDBF funding is being provided from within existing resources.

6.8 Strategic Ministry Funding (SMF)

In 2019 a new funding stream was introduced to support dioceses with the engagement of additional (stipendiary) curates in training. There has been a national drive to significantly increase the number of curates in training, in order to ensure that there are sufficient suitably trained people available to address the significant number of clergy retirements in the next 5 – 10 years. The target was to increase the numbers entering training by 50%. It had not been possible to include provision in the budget for additional stipendiary curates, so this new funding stream is to be welcomed.

The following information shows the potential clergy retirements in the next 5 and 10 years:

	Clergy reaching the age of 70 in the next 5 years	Clergy reaching the age of 70 in the next 10 years
Stipendiary	23	64
Part Stipendiary	4	8
Self-Supporting	14	36
Incumbents	24	67

Best estimates suggest that 30% of incumbents are likely to retire in the next five years and 75% within 10 years.

The Diocese of Exeter applied for funding to place an additional three stipendiary curates from September 2020 and was successful in being

awarded 90% of the direct cost of a curate (including the provision of housing). This funding will be received for the 3½ years of these curacies. The Diocese of Exeter has to find the remaining 10%. The assumed cost figure is £47,330 per curate, so the Diocese of Exeter will receive total SMF funding of £447,268.

A subsequent application for support for an additional four stipendiary curates in 2021 was also successful. The additional 3½ year funding associated with this award is £596,358, giving a total award of over £1m. The diocesan contribution is therefore £100,000 over the period of 4½ years covered by this funding.

An opportunity arose in the spring of 2022 to apply for 2 additional curates for 2022 and this application was successful. A further application will be made for funding for 2023.

Rental income from clergy housing

- 6.9 The income received from renting out vacant clergy housing is still performing strongly. A number of properties were sold in 2020 and 2021 and a further 9 are likely to be sold in 2021. The next stage of the review has identified a further 11 properties that are considered surplus and these sales will be progressed in 2023. However, the level of rental income currently being achieved means that the budget can be increased at the current time. The net budget for 2023 will therefore be **£900k** (2022: £850k). It should be noted that this figure is after allowing for the maintenance costs of approximately £250k per annum associated with these properties.
- 6.10 There are current government proposals to change the rules for Energy Performance Certificates (EPCs) for tenanted housing. Whilst the details have yet to be finally confirmed, it is expected that a property will need to reach at least Level C by 31 December 2025 for new tenancies and 31 December 2028 for existing tenancies. EDBF receives gross income in excess of £1m a year from renting out vacant clergy housing, some of which will be in jeopardy unless EDBF complies with the new rules. It is estimated that this will cost circa £2.6m. See section 7.22 for more detail on the potential cost of complying with the new EPC requirements.

With the Mission Communities – Next Steps review currently taking place, our housing property stock will be further assessed to determine which properties may no longer be required to house clergy and could therefore be sold. A process will be undertaken to assess the level of return achieved from the rental income on these properties, with only those returning less than can be

achieved through CCLA investments ultimately being sold. It should be noted that any surplus properties retained after this assessment has been undertaken will need to be treated as “Investment Properties”, requiring an annual valuation to be undertaken.

Parochial fees

- 6.11 Following approval at General Synod, major changes and increases to the statutory fees were introduced from 1 January 2013. It has taken a while for the new system to settle down – with the significant increase in the fees being offset to some degree by a fall in the number of funerals and weddings taking place in church. The budget was reduced to **£600k** for 2021 and 2022, and this is felt to again be an appropriate target for 2023 (2022: £600k).

Benefact Trust Grant (previously Allchurches Trust)

- 6.12 In 2019, the Allchurches Trust reviewed the grants that it makes to dioceses from the profits made by Ecclesiastical and this led to a greater percentage of the money available being allocated for bidding. From this year EDBF now has to apply for the funding and an application has been submitted requesting a similar level of funding to 2022. The outcome of this application will not be known until later in the year. The 2023 budget is therefore assumed to be at a similar level of **£147k** (2022: £147k).

7 Expenditure budgets for 2023

Clergy numbers and stipends

- 7.1 There are a number of elements within the calculation of the stipendiary clergy budget:
- EDBF does not pay the bishops’ stipends, or the housing costs of the Diocesan Bishop; these costs are covered by the Church Commissioners;
 - There are four Archdeacons posts in addition to the number of posts shown in the table at Section 7.9.
- 7.2 The sections that follow provide information on how the current numbers have been arrived at.

Stipendiary Clergy numbers

- 7.3 For a number of years, the diocesan budget has assumed a reduction in Mission Community (MC) stipendiary clergy from the current level of 168 FTE stipendiary MC posts (including vacancies) to 130 by the end of 2031. Bishop’s Staff has discussed how to achieve such a reduction in stipendiary posts across the Diocese in a way which is both fair and missional, taking into account the

variety of the rural and urban contexts we serve, and the realisation that Plymouth has been under-resourced in recent years.

7.4 As a first step, Bishop's Staff and the Bishop's Strategy Group has previously agreed a reduction to 165 FTE stipendiary MC posts (including vacancies) by the end of 2024, with the following allocation for each Archdeaconry:

Barnstaple:	30.0
Exeter:	56.5 (including Cranbrook)
Plymouth:	39.0 (including Sherford)
Totnes:	39.5
TOTAL:	165.0

7.5 Within each Archdeaconry, any increase in stipendiary provision in one MC will need to be balanced by a decrease in another MC. Requests for an increase in the total allocation for an Archdeaconry would need to be decided by Bishop's Staff, before ultimately being approved by Bishop's Diocesan Council through the annual budget setting process. In 2023-4, by which time the progress of our current growth initiatives will be clear, further discussion will need to take place about whether to implement further reductions below 165 posts.

7.6 To agree this target of 165 posts by the end of 2024, five weighted factors (population 30%; participants 30%; number of church buildings 15%; area 10%; deprivation 15%) were applied to a total of 155 posts (the midway point between our current level of c.175 posts and 130 posts by 2031). This was then adjusted upward in Exeter and Plymouth Archdeaconries in the light of a) the under-resourcing in Plymouth and b) specific missional needs in urban areas, including large-scale new housing areas, such as Cranbrook and Sherford.

7.7 In addition to the above posts, there are four archdeacons, and it should also be noted that the above figures do not include the Bishops, Bishop's Chaplain or the Dean of the Cathedral. The table at section 7.9 below does not include Self-Supporting Ministers.

7.8 As well as the stipendiary clergy posts, the ministry teams in parishes also include:

- Self-Supporting ministers (54)
- Readers (110)
- Clergy holding Licence under seal (38)
- Lay Leaders

7.9 The 2023 clergy budget will include the following posts:

Post title	FTE Stipendiary clergy posts, including vacancies, in 2023 budget	FTE Stipendiary clergy posts, including vacancies, in 2022 budget	Reason for change
Mission Community ministry	168.0	168.1	Small reduction in line with Finance Plan and agreed Deployment Plan
Title posts (curates)	41.5	35.0	Increase following successful application for Strategic Ministry Funding
TOTAL number of posts paid from the stipend budget	209.5	203.1	

7.10 The assumed vacancy factor is 9%, meaning that there will be an average of **152.9 FTE clergy in Mission Community ministry posts** and receiving a stipend.

7.11 It should be noted that the reduction in the FTE number of stipendiary clergy in recent years has been at a much lower rate than the decline seen in the number of people in the worshipping communities. This will become unsustainable in the medium term if the number of people in our worshipping communities does not increase.

Stipend increase 2023

7.12 At Diocesan Synod in October 2012, it was agreed that EDBF would pay stipends at the Regional Stipends Benchmark (RSB). However, this measure was discontinued by the Archbishops' Council a number of years' ago, although the National Stipends' Benchmark (NSB) is still published. The stipend paid by EDBF now therefore rises by the same percentage increase in the NSB each year.

7.13 The National Stipend Benchmark (NSB) for April 2023 has yet to be formally published, although we believe it is going to be 5%. A provision covering an increase of 5% has been included in the budget for 2023.

7.14 Following the above methodology for the 2023 budget, will give a stipend within the Diocese of Exeter of **£28,820** (2022: £27,445) from 1 April 2023.

Clergy national insurance

7.15 The government's "mini-budget" held on 23 September 2022, made changes to national insurance. The assessed impact of these is to reduce the clergy national insurance budget for 2023 by £38k. This has been included as a late adjustment, post BDC.

Clergy pension contributions

7.16 The Clergy Pension Scheme is formally valued every three years and the contribution rates determined at that point. The most recent valuation was at 31 December 2021 and this showed that the scheme had a surplus of £580m.

The Pensions Board has been working with the Pensions Regulator to agree a new funding methodology, known as Asset Led Funding (ALF). This change is the main factor behind the fund now being in surplus. As a result of the change, no deficit contributions are now being made.

The Pensions Board now needs to determine the future service contribution rate. The prudent level has been identified as being 38.8%, but the Pensions Board is proposing a figure of 28%, by applying some of the existing surplus.

Apprenticeship Levy

7.17 The apprenticeship levy of 0.5% is applicable to the clergy payroll, as all stipends are paid centrally (thereby exceeding the threshold). A contribution of £28k (2022: £30k) per annum is required.

Lay staff levels, salaries and related issues

7.18 The proposed lay staff budget for 2023 is 0.5% higher than in 2022. The following principles have been applied:

- All existing posts have been included, with the hours updated to reflect any changes made since October 2021;
- Provision for a cost of living pay award of 5% from 1 July 2023 (£66k).
The full year impact of this award in 2024 will be £132k;

- Reduction in employer's national insurance (£17k)
- Reduction in staff provision within the Growing the Rural Church Project, following changes in 2022 (£45k).

The government's "mini-budget" held on 23 September, made changes to national insurance. The assessed impact of these is to reduce the lay staff national insurance budget for 2023 by £17k. This has been included as a late adjustment, post BDC.

An analysis of the year-on-year Diocesan-wide and Central Support Costs is shown in Appendix 3.

Net Zero Carbon

- 7.19 General Synod passed a motion in February 2020, calling upon all parts of the Church of England to achieve year-on-year reductions in carbon emissions and urgently examine what would be required to reach net zero emissions by 2030. The Church of England Routemap to Net Zero Carbon by 2030 was then presented to and agreed by General Synod in July 2022.

An Environmental Working Group was set-up within the Diocese of Exeter to examine the scope of this challenge and a separate paper will be presented to the October 2022 Diocesan Synod meeting, providing an update on the progress made so far. A more substantial paper on the baseline position and the scale of the investment likely to be required will be presented to the March 2023 Diocesan Synod meeting. There are significant cost implications associated with delivering a net zero carbon position by 2030, and detailed work is now just starting to assess the scale of this. Diocesan Synod previously agreed to the appointment of a part time Net Zero Carbon Officer to lead our work in this area and Sophie Phillips started in June 2022.

Clergy housing

- 7.20 The standard and level of work undertaken is determined by a detailed policy which is regularly reviewed and is the responsibility of the Parsonages Committee. The budget is based on the information provided by the Director of Property on the expectations for 2023, as best we can predict them at this time. It is anticipated that a normal programme of works will be undertaken in 2023.

- 7.21 The clergy housing budgets are reviewed in detail each year with the Director of Property and the following changes are proposed for 2023:
- Increase of £50k in Council Tax charges;
 - Increase of £320k in the level of resources required to complete the Quinquennial works identified for clergy housing, plus the assumed number of in-going schemes. This increase is the result of price inflation in the tender prices being received, along with a reduction in the number of contractors tendering for work;
 - Increase of £45k in the level of resources required to deal with responsive repairs. The reason for the increase is as above;
 - Swap of staffing resources of £65k between schools and clergy housing, which includes some allowance for initial EPC planning work;
 - Adjustment for Strategic Ministry Funding for curates housing of £88k (not previously shown); and
 - Increase in insurance costs of £20k.

Energy Performance Certificates – Legislative changes

- 7.22 Energy Performance Certificates (EPCs) and associated reports are required prior to marketing a house for sale or rent. The EPC assessment tool has changed over the years and is due potentially its most extensive change at the end of 2022. To date EPC assessments have been made solely on the criteria of cost. The new legislation is intended to introduce criteria of sustainability, so will provide more favourable scoring to electric forms of heating.
- 7.23 Currently there is a requirement for most domestic properties that are rented to achieve Level E. However, the Minimum Energy Performance of Buildings (No. 2) Bill is at its second reading in the House of Commons and is likely to become law. If it does become law, then all new tenancies will require an EPC of at least Level C by 31 December 2025 and by 31 December 2028 for existing tenancies.
- 7.24 The DBF currently has 315 houses that are available for housing clergy. These are rented out on a medium or short-term basis when not immediately required for housing clergy, or during the vacancy period. Of these only about a quarter have an EPC rating of Level C or better.
- 7.25 As the DBF receives in excess of £1m per annum from renting out vacant clergy housing, BDC needs to decide whether to forgo the income from 2025

on those properties not meeting the EPC Level C requirement, or to invest the funds necessary to achieve Level C.

- 7.26 The Director of Property is currently preparing a detailed paper for the Parsonages Committee and the Assets Group, looking at the potential costs of improving the energy performance in our properties, so that they meet EPC Level C or better. The total amount expected to be required is £2.6m, with a proportion being capitalizable in line with our existing accounting policies. The amount required for 2023 is estimated at £600,000. It will also be necessary to recruit an additional surveyor for the duration of this work. This investment will help towards achieving the Net Zero Carbon target for 2030. BDC agreed to include this funding in the clergy housing budget for 2023. It is likely that it will be possible to capitalise a proportion of this expenditure, as certain works are likely to increase the value of the properties. Whilst it will still be necessary to find the cash for the work, any works that can be capitalised will reduce the expenditure shown within the Statement of Financial Activities within the Annual Accounts.
- 7.27 Once the legislation has been introduced, a more detailed plan will be prepared. There are likely to be further funding requirements associated with this work of approximately £2m and BDC will need to determine its strategy. A further paper will be brought to the January 2023 BDC meeting.

Additional income opportunities (EDPS)

- 7.28 Within the budget there are a number of areas where income is being generated through the selling of services to church schools, the cathedral and other dioceses. It should be noted the level of income arising from the provision of surveying services to church schools is expected to significantly reduce in 2023, following changes in the level of funding made available by the Department for Education to schools in our diocese and the consequent reduction in the number of surveyors in the team. The anticipated level of income for 2023 is set out in the following table.

Service Area	Income £000	Expenditure £000
Property (Schools)	81	64
Education (Schools)	48	47
Safeguarding (Cathedral)	14	13

Service Area	Income £000	Expenditure £000
Digital Mapping	3	3
Total (projected)	147	127

Inflation

7.29 The July CPI inflation figure was 10.1%. A full review has been undertaken with each budget manager and inflation has only been added to those budgets where there is a clear need, i.e., those where expenditure is subject to an external price rise, or part of contract expectations. The general aim across most general expenditure budgets will be for budget holders to manage the inflationary increase within existing resources as much as possible.

Where will the money be spent?

7.30 Attached in Appendix 1 is a summary showing the areas to which the budget will be allocated.

8 Summary of main changes to budget

8.1 The proposed expenditure budget for 2023 is £991k higher than 2022. This equates to an increase of 6.8% (against an estimated inflationary level of 10%). The key elements contributing to this increase are as follows:

- Increase in stipend/NI levels £500k
- Reduction in clergy employer's NI (£38k)
- Reduction in lay staff NI (£17k)
- Increase cost of maintaining/improving clergy housing £585k
- NatWest bank loan charges £50k
- Increase in cost of current ordination training grants £30k
- Net Zero Carbon energy audits £20k
- Costs of looking after redundant churches £25k
- Ministry training contracts £20k
- Increased frequency of DBS re-checks £10k
- Increase in lay staff salary costs £70k
- Reduction in activity of Growing the Rural Church (£150k)
- Reduction in Resourcing Ministerial Education grants (£88k)
- Reduction in EDPS rechargeable costs (£77k)
- Other miscellaneous adjustments £51k

8.2 With the addition of the £600k funding for the EPC upgrade work, the overall increase in the expenditure budget is £1,591K (10.9%).

9 Budget summary

9.1 The expenditure budget anticipated within the updated Finance Plan for 2023 (as agreed at the BDC meeting held on 16 May 2022) is £15.205 million. The income budget expectation was £13.965 million. On this basis the Finance Plan for 2023 therefore assumed a contribution from reserves of £1.240 million. This plan did not include any provision for the EPC upgrade work.

9.2 The proposed expenditure budget for 2023 is **£16.122 million**. This is therefore £917k higher than the Finance Plan previously assumed.

9.3 The proposed income budget is **£13.869 million** before any contribution from reserves is taken into account, is £96k lower than the Finance Plan assumption.

9.4 As a result of the above, the revised contribution required from reserves will be **£2.253 million** in 2023, which is **£1.013 million** more than in the Finance Plan.

9.5 Appendix 2 shows the summary budget.

10 Risk Factors

10.1 When setting a budget for the following year, there are always going to be a series of factors that can affect/change the original assumptions used. Some of these will usually be within our control, but on many occasions they will not. As we emerge from the Covid-19 pandemic, we now face the cost-of-living crisis, so we are far from getting back to anything close to the previous more inert environment. The following sections detail the main financial risks, which are then further considered in the Contingency Planning section.

Common Fund Shortfall

10.2 As discussed earlier in this report, Common Fund contributions account for approximately 65% of our income in any year. In 2021, 257 (2020: 182) PCCs/DCCs had a surplus and 242 (2020: 325) a deficit. Unrestricted reserves were £32m (2020: £32m), with a further £18m (2020: £17m) in restricted reserves.

This shows that many parishes performed much better in 2021 and the level of unrestricted reserves remained at the same level, with an increase of £1m in restricted reserves. It should be noted that these reserves are not evenly distributed, with some parish in a more fortunate position than others.

The more recent cost-of-living crisis is likely to have some effect on the level of personal giving to parishes, but it is too early to quantify this. It is hoped that the positive momentum seen in 2022 will continue.

At this stage there is a **MEDIUM** likelihood of a shortfall in excess of the 2023 target of 4%.

Participant Numbers

- 10.3 There has been a consistent fall in participant numbers of 1.7% per annum, which leads to a reduced Common Fund request and therefore a reduction in contributions that can be requested from parishes to support the provision of clergy and diocesan services. As a direct result of the pandemic, this accelerated to 6.4% in 2021 and 8.2% in 2022.

BDC will need to determine at what point further action to reduce expenditure must be taken to ensure a viable long term finance plan in the event that growth is not forthcoming.

Having seen the significant falls in 2021 and 2022, there is now a **LOWER** likelihood that the participant numbers will fall further in 2024 and 2025.

Investment performance

- 10.4 An economic crash would clearly affect the whole of EDBF's budget, but this would certainly impact the £1.5m of income that EDBF receives each year from its investments and glebe properties. CCLA is currently projecting that returns from the Investment Fund will increase in 2023 by 2%.

The stock markets recovered well after the initial falls early in the pandemic, particularly where the investments are in global markets (as opposed to UK only). 2022 has again seen falls in stock markets, following the Russian invasion of Ukraine and the impact of the cost-of-living crisis, with the CCLA Investment Fund falling by 4.86% in Quarter 1 and a further 5.61% in Quarter 2. So far dividend payments have been unaffected. The risk is always higher

where sale of investments is required, which is not part of EDBF's current strategy (see Contingency Planning).

At this stage the economic future remains uncertain, although no major crash is currently envisaged, so this is a **MEDIUM** risk.

Housing market crash

- 10.5 The recent Asset Management Strategy work has led to the sale of a number of surplus clergy houses, where these were generating a lower return. An initial 14 properties have been sold in the period 2020 to mid-2022, with a further 4 identified in 2022. Since the summer of 2020 the property market has performed very strongly in the South West. Market analysts do expect there to be a slow-down in the market, but no significant fall in market values is currently being predicted.

Work is on-going with the Archdeacons to identify further properties that are no longer required for clergy housing and can therefore be sold. The aim is to re-invest the proceeds in the CCLA Investment Fund, but some of these proceeds may be required to support the budget for 2023 and to address any shortfall in 2022.

At this stage the housing market remains strong, and no major crash is currently envisaged, so this is a **LOWER** risk.

Cashflow position

- 10.6 EDBF is in the fortunate position of having recently sold a number of surplus properties, so the current cash position is therefore temporarily healthy. In addition, £2m of loan funding has been secured and drawn down from the NatWest bank. On 31 August there was approximately £2m in the main bank account, with a further £2m in the CCLA deposit account, although the operational funding position is expected to reduce by the end of December 2022 and again in 2023.

EDBF therefore has sufficient cash funds to cover any shortfall arising in 2022 and also to cover the shortfall in 2023, but this situation cannot continue beyond 2024.

11 Contingency Planning

11.1 Whilst the post-pandemic position is becoming clearer in terms of operations, the recent cost-of-living increases are now placing significant pressure on many of our budgets. This will also place a level of uncertainty around the level of Common Fund contributions in 2023. The response from parishes varies considerably, with many continuing to make the requested level of contributions, but with some struggling.

11.2 The following action will therefore be taken in respect of the budget for 2023:

- Full review of the clergy deployment model for the period beyond 2024 to plan for varying levels of reduction in numbers, should this be required;
- Full review of clergy housing to determine the long-term strategy for housing and to identify those properties that are no longer required and could be sold;
- Consideration of the Total Return options, to possibly fund the significant work identified on compliance with the EPC changes and also to deliver Net Zero Carbon by 2030; and
- Full review of all restricted reserves to see what opportunity there is for releasing funds to support the 2023 budget.

12 Mission & Growth Fund

12.1 A sum of £200,000 was set aside in early 2020 from restricted reserves to establish a second tranche of Mission & Growth funding, which parishes and Mission Communities could apply to for specific growth initiatives. Applications were invited in early 2022 and the first round of awards from this funding have now been made, with priority given to applications for support with work with families, children and young people, in line with the diocesan priorities. This first round allocated £87k of the total sum available and a second round of applications will be invited in 2023.

13 Reserves Policy

13.1 The Charity Commission no longer recommends the level of reserves that a charitable organisation should hold, with each charity now required to determine the appropriate level, based on its own needs. The previous recommendation was in the range 25 – 30% of the annual expenditure budget and this is felt to be appropriate for the Diocese.

13.2 The level of unrestricted reserves (at 31 December 2021) is currently in excess of this range at £9.8m (68%). This follows the sale of a number of surplus properties in 2020 and 2021.

13.3 The budget for 2023 shows a projected deficit of **£2.253 million**, which will need to be funded from unrestricted reserves.

14 Approval sought

At the meeting held on 22 September 2022, BDC recommended:

- (1) The Common Fund request per declared participant (Band A) for 2023 is increased by 7% (over the 2022 figure);
- (2) The use of a 4% figure for the Common Fund shortfall for 2023;
- (3) The provision for 209.5 full time equivalent stipendiary clergy posts in the budget for 2023 (to include archdeacons, Mission Community clergy and curates);
- (4) The stipend that should be paid from 1 April 2023 to those clergy holding incumbent status posts be £28,820; and
- (5) The attached budget for 2023 and indicative budgets for 2024 and 2025 (Appendix 2) to Diocesan Synod for approval.

15 Recommendation

The Diocesan Synod is asked to approve the 2023 budget and Common Fund request and to note the indicative budgets for 2024 and 2025 (Appendix 2).

To seek clarification on any aspect of this report in advance of the meeting please contact:

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Where will the money be spent?

APPENDIX 1

Clergy and related budgets		
Budget area	2023 budget £000	2022 budget £000
Stipend (less recharges/income)	5,550	5,152
Clergy national insurance	413	399
Clergy pension	1,456	1,309
Apprenticeship levy	28	30
Clergy housing costs	1,916	1,482
EPC upgrade works	600	-
Council tax	627	574
Water rates	177	168
Archdeacons' offices	92	95
University chaplains	57	67
Grants and removals	239	231
Clergy Human Resources	62	53
Administration and other costs	118	132
Cranbrook	25	25
Total	11,360	9,717

Mission & Ministry		
Budget area	2023 budget £000	2022 budget £000
Vocations	22	22
Ministry selection and training	253	218
IME 4-7	89	85
National Pooling (married ordinands)	45	44
Reader training	137	131
Clergy leadership programme	92	90
Clergy conference provision	30	30
Lay training/education	53	51
Pastoral care	61	73
Wedding ministry	3	-
Ecumenical relations	6	8
County show	2	2

Mission & Ministry		
Budget area	2023 budget £000	2022 budget £000
Ministry among deaf people	6	6
International links	12	12
Mustard seed grants	5	5
Mission development and support	52	53
Mission resources (stewardship) support	103	102
Children and youth advisers	77	76
Ministerial Development Reviews	4	4
Evangelism/Mission Enabler	90	66
Lay Discipleship	73	70
Anna Chaplaincies	10	10
Administration and other costs	67	60
Total	1,292	1,219

Education and Educational Chaplaincy		
Budget area	2023 budget £000	2022 budget £000
Strategic Overview	65	85
School improvement, including governance	135	114
Admissions and governor/clerking administration	27	101
Business Growth & Development	-	40
Growing Faith, including school chaplaincy	41	22
RE, Collective Worship & SIAMS	82	-
Academisation	38	-
Administration and other costs	42	37
Total	430	399

Church School Buildings		
Budget area	2023 budget £000	2022 budget £000
Total	95	113

Social Justice & Creation Care		
Budget area	2023 budget £000	2022 budget £000
Creation Care	8	9
Church Engagement	11	7
Biodiversity	7	15
Net Zero Carbon	55	26
Social Justice	20	14
Administration and other costs	10	25
Total	111	96

Central & Support Services		
Budget area	2023 budget £000	2022 budget £000
Safeguarding	132	126
Finance	221	194
Financing costs	55	3
Communications/website	124	114
Diocesan Advisory Committee	87	84
Pastoral Admin Committee	42	28
Church Building Strategy Committee	21	17
Redundant Church buildings	24	-
People Team	90	86
Disclosure and barring service	36	26
Diocesan database	15	19
Digital mapping	27	26
Supporting Bishop's Diocesan Council	30	28
Supporting Assets Group	11	11
Supporting Diocesan Synod	18	18
Supporting General Synod	13	11
New housing areas	17	17
Acting as Custodian Trustee	17	13
Board of Finance costs	92	92
Liaison with national church	9	8
Diocesan Chancellor and Registrar	115	103
Governance and management	146	144
Administration and other costs	133	134
Total	1,475	1,302

Central Church costs		
Budget area	2023 budget £000	2022 budget £000
Training of ordinands	346	346
Other payments to the central church	386	415

Please note that in all of the above tables where administrative staff work directly for a service, their time is charged to that service. *'Administration and other costs'* include each service's share of the overhead cost associated with the offices (e.g., IT costs, heat & light, etc.) and the costs for those smaller value services not shown elsewhere.