

***The PCC is making this review of St Mary's finances available following a request at the Annual Parochial Church Meeting of May 2022. Please note that at this document was written in early 2021, some aspects are now out of date.***

***Marcus Jones, PCC Secretary, July 2022***

## **BUDGET 2021**

### **Purpose of briefing note**

To give the PCC additional information on the draft 2021 Budget (for the General Fund) as circulated in a separate spreadsheet. This briefing will:

- advise that the 2021 Budget, has a forecast deficit of:  
**£38,679**
- show the main components of expenditure and income within the General Fund
- explain the 'Reserve' position in relation to a deficit budget forecast
- present the context of the 2021 Budget in relation to:
  - past years
  - the impact of the Pandemic
  - explain the deficit in relation to the outturn for 2020
- explain the assumptions behind the draft 2021 Budget
- outline the risk implications
- outline the steps the Leadership Team, the PCC and the church fellowship need to take during 2021 to mitigate against the identified risks.

### **Recommendations**

1. The PCC agrees the 2021 Budget
2. The PCC agrees that the proposals for mitigation, as set out in Recommendations R1-5 are necessary and will take steps to implement them

### **The 2021 Budget**

The forecast expenditure for 2021 is: **£263,425**

The forecast income for 2021 is: **£224,746**

The forecast deficit is: **£38,679 (14.6%)**

### **The General Fund**

The General Fund meets the church's day to day operational expenditures from income from various sources:

In addition to the General Fund, the church holds monies against other funds relating to planned works and expenditure. For the purposes of budget setting for the

General Fund, these monies are not taken into account within the forecast expenditure and income.

## **Balances**

The spreadsheet explains the income and expenditures of the General Fund, arriving at a profit/loss figure for the year. Col. F Line 136 shows that the projected outturn for 2020 is a profit of £14,214. This is subject to final accounting checks.

The profit/loss is then added or subtracted from the balance carried forward from the previous year (F138). Thus, the General Fund Total as of 31<sup>st</sup> December 2020 was £606,241 (F141) – although it should be noted that approximately £530,000 (87%) of this total is made up of 'Fixed Assets such as church buildings and fixtures.

Col F Lines 143-145 show:

- Line 143 Fixed Assets – normally buildings and property which cannot be disposed off easily
- Line 144 Current/Liquid Assets – money that can be used for operational purposes,
- Line 145 – Liabilities – forecast costs (eg from utility contracts) that will be incurred during the coming year.

These figures are important to the calculation of the church's 'Reserve' position.

## **The Reserve**

The starting point for calculating the amount of reserve held is to determine the 'unrestricted' funds held by the church. Unrestricted funds derive from income that may be used for any purpose appropriate to the church and are normally related to ongoing operational costs. They include 'designated' funds which have been set aside by the PCC for specific purposes, but which could be redesignated to meet operational needs.

By contrast, 'restricted funds' are monies set aside for a particular purpose because of specific giving for that purpose. They cannot be used to meet other expenses unless the donors give permission.

The items that should be excluded from reserves are:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings (F143 Fixed Assets)
- commitments that constitute a future 'liability' in the accounts. (F145 – Liabilities).

The Charities Commission issues guidance on the prudent level of reserve that charities should seek to retain to ensure ongoing operational costs and liabilities can be met. But each charity can set its own level and the PCC has in the past agreed that the level should be based on:

- Two months' operational expenditures and in addition
- One month's staffing costs

For St Mary's, this is currently around £52000.

The reserve calculation is shown in Col. F, Rows 149 to 158

The liquid asset General Fund Reserve is £110,000 less £20,000 liabilities, i.e., around £90k. Subtracting the 'prudent' reserve requirement of £52k leaves around £38000. This is a measure of the loss that we can incur before threatening our 'prudent' reserve figure.

In addition, the Development Fund is holding a potential surplus of approximately £30,000 after taking account of all committed and intended expenditures in relation to building projects.

Thus, there is potential for this money to be added to the Reserve figure This would be subject to agreement by the PCC at a future date.

### **Consideration of the risks we face**

The forecast Budget 2021 is for a deficit of **£38,679** This deficit, if fully realised, would need to be met by the balances carried forward into 2021.

Without action to address this deficit, the risk is that the level of reserve at the start of 2022, would be reduced to a level below the 'prudent' minimum set out above.

The remainder of this briefing will look at the context, risks and mitigation.

### **2020 and 2021**

There is no doubt that the budgets for 2020 and 2021 have been more complicated than in previous years due to Covid-19 considerations.

On the income side:

- Rental of church premises (for instance the Church Centre) has been significantly limited by lockdowns.
- There has been an obvious reduction in collection plate monies as the church has been closed
- But in compensation here has been a transfer of some giving to bank transfers.
- Income from furlough grant has been paid by the government

On the expenditure side:

- Salary savings of furloughed staff
- Some minor savings in church operational expenses (for instance the cost of producing service sheets)

Some of these impacts will continue into 2021, and they have been taken into account in the proposed budget. But an analysis of what a normal year's budget would look like shows that the Covid-19 closures and restrictions make little difference to the net result for the year – in other words, the prospective deficit in a

normal year would still be around £38000. The extra income that we might gain from lettings and collections would be offset by the withdrawal of furlough grants and higher expenditure on gas and other services.

A comparison of the 2021 forecast deficit (£38,679) with the projected outturn for 2020 (+£14,214) shows a reduction in income between 2020 and 2021 of £31,700 and a rise in expenditure of £21,200, an overall difference of approx. £53,000.

The main components of income loss are in lines 26 (donations -£20,000) and 34 (Pre-School -£13,500). These sum to £33,500 but there are some 'minor offsetting increases which produce the net £31,700 difference.

The main components of the expenditure increase are shown in lines:

86 - Independent Examiner fee +£4,000 (This seems to be an accounting issue rather than a real cost difference because the Examiner's fee is incurred every year.)

104 Pre-School non-staff expenditure +£10,000 (As noted on the spreadsheet, this seems largely to be an accounting matter reflecting how the rental payment is recorded in the spreadsheet.)

113 - Children and Family worker +£9,500 (reflecting the cost being 100% charged to the General Fund. In 2020, some of the cost was met by monies previously designated for that purpose but these are now expended.)

Again, there are some minor offsetting decreases in expenditure that produce the net figure of £21,200.

The accounting matters noted above imply that the outturn for 2020 is probably overstated by around £12k, ie the actual net result was a profit of perhaps £2k rather than £14k.

## **2021 Budget Assumptions**

The forecast position of the 2021 Budget is based on assumptions that are very conservative in the forecast of potential income and very realistic about the level of operational expenditures. Whilst this may overstate a projected deficit it is better to take a cautious approach than one that over-projects income and understates expenditure to produce a reduced deficit or even surplus. Thus,

For income

- Pre-School. In past years income has been greater than expenditure within leading to a surplus for the General Fund. If the Pre-School budget is in deficit it obviously worsens the General Fund. This year, Pre-School numbers are down, and the projections show a small deficit after paying its rent for the Church Centre. This contrasts with 2020 when there was a healthy surplus.
- Rental income. The budget figures are very conservative (but realistic) in their forecast of income from the use of the Church Centre and other areas. It is envisaged that Lockdowns and social distancing will continue to impact rentals negatively in 2021, at least until the autumn, with any recovery not being realised until 2022. The ability to hold groups and meetings via digital

media may contribute to a change in the demand by organisations for physical space.

- Giving. The income derived from the Church Membership Fund and collections has remained fairly static for several years. Covid-19 impacted collection plate income in 2020 but there was a shift to CMF giving and the overall amount of giving for 2020 was similar to previous years. The 2021 Budget assumes levels of giving remain essentially unchanged.
- Grants. The forecast retains a Grant figure of £10,000. This relates to grant payments from the Dorothy Longland Trust which cover the rental cost of Lammas Rd for our Curate. (The rental is a component of the Parish Share.)
- Donations. These vary from year to year and last year saw the church receive a single donation of £20,000. It is not possible to foresee such gifts and so a conservative figure of £1,000 is included in the 2021 Budget.

For expenditure:

- There will be no changes to the level of paid staff in 2021
- The furlough grants in 2021 will broadly match those received in 2020
- All salary costs for the Children's and Family worker post will be attributed to the General Fund (a proportion of the cost was paid out of moneys allocated to that purpose in 2020)
- Utility costs will broadly match 2020
- Minor savings can be made on some administrative expenditures relating to the cost of service sheets and other small items

## **Risks**

The risks of producing a significant deficit budget include:

- Placing too great a level of trust and faith in God to make the budget balance. In essence we should not be forgetting it is our (the PCC's) legal responsibility to ensure good stewardship of the budget and through good leadership and management ensure that the various (and often difficult) issues that need to be addressed are considered.
- Putting the church in a position where the level of our reserves falls short of the prudent threshold set in by the PCC's policy on reserves.
- Ultimately, the prospective inability of the church to meet legitimate costs, particularly in relation to payment of staff.

- Consequent reputational damage, both within ‘church circles’ but also in the wider community.
- Resourcing. As in any church or small organisation, the burden for change often rests on the shoulders of a small group of people, whether Clergy or members of the PCC/Fellowship. There is a danger of fatigue, low morale, and resistance to change if a clear path is not identified.

## **Mitigation**

Clearly, in view of the above, St Mary’s is not in a position where the PCC can continually produce deficit budgets, even when the predicted deficits in previous year have not been realised.

Some members of the PCC have been meeting informally over the past few weeks not only to clarify the figures within the 2021 Budget but also to think about our leadership and management of budget-related issues going forward.

**There are a number of interconnected actions that the PCC may wish to consider as a prerequisite to agreeing the 2021 Budget.**

**Mid/long term Planning.** The Budget Process should sit under and align with the Church’s strategic aims and objectives for the next five years. Within the Church of England this strategic planning principally is through the Mission Action Plan (MAP) process. St Mary’s previous MAP presented the three-fold aim of church reordering, the establishment of Connect Groups and the promotion of discipleship amongst the church fellowship. As the PCC will be aware, the next MAP now needs to be prepared.

Some preliminary discussions on renewing the MAP began in mid-2019 but the programme has not been carried forward. It is vital that this process of developing a new strategy for St Mary’s through a new MAP is restarted at the earliest opportunity. This will enable the Leadership Team and PCC to set out priorities for not just financial resources but also the effective identification and use of the gifts of those making up our membership. This is important in relation to growing our church (both spiritually and in numbers) through, for instance, our Children’s and Families work, our mission/evangelism in the heart of Watford and our connections with other churches and organisations, such as the Watford Town Centre Chaplaincy and New Hope. This leads to the recommendations below.

**R1 – That a working group for the production of a revised MAP be brought together by 31<sup>st</sup> March 2021 with the aim of setting out a timetable and ‘project plan’ for producing a MAP. This timetable should be brought before the PCC for consideration at its May 2021 meeting.**

**Short term strategy.** Whilst the budget is prepared on an annual basis it is good practice to look at the ‘horizon’ over a slightly longer period in order to anticipate any financial difficulties and challenges in 2022. This will be crucial

over the next few months in that priorities will need to be given to actions that will help improve the income/expenditure for the 2021 Budget.

**R2 – a short Strategy be produced for presentation at the April 2021 PCC meeting which will set out priorities for actions relating to the 2021 Budget**

**Communication.** Bringing the fellowship alongside the PCC and the Leadership team in this journey will be vital. Work on the MAP process should involved a 'strategy' for how and when the fellowship is engaged on matters relating to the MAP process and budget but also in relation to enhanced giving, of both monetary giving but perhaps more importantly their time and gifts.

**R3 The working group should develop of a framework for communication and engagement with the church fellowship on matters relating to MAP and the budget.**

**Income.** There is no doubt that a coordinated piece of work needs to be done in relation to enhancing income from a number of sources.

*From the Pre-School* It is anticipated that the numbers of children attending can be increased through a more coordinated strategy on marketing the Pre-School facility, which will result in more funding from Hertfordshire County Council. This can be done without any increase in salary expenditure or significant increase in operating costs. If numbers rise significantly then more staff may be needed to meet the appropriate staff/children thresholds. The Pre-School Committee have started to develop means of promoting the Pre-School to local families.

*From rental income for church premises* There may be opportunities for enhancing the use (and income) from outside organisations. There are a number of rooms and spaces that offer facilities for organisations or individuals that may be arranging meetings or events in Watford. The Church's town centre location means it is geographically well placed in relation to High Street and Clarendon Road businesses.

*From regular giving* The capacity to grow planned giving (and Gift Aid) should be carefully and prayerfully considered, through a more detailed analysis of the range of giving in previous years and the possibility of an 'appeal' regarding planned giving rather than one-off giving. Regular giving may have been affected by separate appeals for specific projects, so it is vital that any appeals in 2021 are related to growth in the General Fund only.

**R4**

- a) **That a working group is set up by 31<sup>st</sup> March 2021 to consider methods of growing income, through the Pre-School, church**

**lettings and planned giving, with a view to enhancing the appeal of St Mary's church for use by outside organisations**

- b) That a coordinated appeal to the church membership for additional monies through regular planned giving be made by 31<sup>st</sup> March 2021**

**The Budget Process**. The overall process for setting the budget has worked well over the past few years with input from key members of the PCC and the Leadership team. It is not a broken process by any means but there are improvements to the budgeting process, the workings of the Finance Committee and the presentation of the various church budgets that can be worked on to improve the understanding of the PCC

**R5 That the Finance Committee:**

- a) Produce a timetable for budget setting in any calendar year**
- b) Establish regular (monthly) meetings of the Finance Committee**
- c) Consider amendments to the budget spreadsheets and the way the budget is reported/presented.**
- d) Bring clarity to the way in which the Pre-school budget is linked to the General Fund budget.**

**Expenditure.**

The process for producing the 2021 Budget has involved consideration of all of the expenditure lines resulting in some increases and decreases (as identified above) when compared to 2020. Savings on expenditure may be identified as the 2021 Budget monitoring process continues a month-by-month basis. Consideration of staffing rests with the Leadership Team and Staffing Committee and discussions related to staffing should form part of the strategy identified in R2 above.

**END**