

New Cranmer budget sub-committee report - May 2009

Introduction

We have examined the Budget Overview 2009-2011 and Detailed Budget Pack 2009-2011 distributed to Synod members. The following is a summary of our observations.

Key Messages

- Those involved in preparing the budget (including the General Manager Business Services, Finance Committee and Archbishop in Council) should be congratulated for the work they have done in making \$1.87 million in cuts this financial year and a further \$1.25 million next financial year. Our more detailed comments on the budget are made in the context that a lot of good work has been done so far, but that this should only be the start of a more fundamental rethink in relation to the strategic direction for the diocese.
- The budget has been prepared before formulating any coherent strategy for the diocese and therefore assumes at the moment that the status quo should be maintained. We are concerned that until a strategy to use diocesan funds to grow the church is developed and implemented, the financial situation will continue to lurch from crisis to crisis.
- The losses forecast for 2008-2011 total \$4.64 million (\$6.06 million if you include depreciation). The diocese's investments are now only \$21 million.
- We believe that diocesan assessment is already too high and places a significant burden on small and large churches alike. Not tackling this issue risks disengagement from parishioners, particularly those under 40.
- There is a significant risk that the estimated deficits this financial year and next financial year (\$1.6 million and \$830k respectively) could be optimistic given the uncertainty of the impact of the global financial crisis and the decline in numbers and giving which will affect assessment income.
- We recommend that the diocese obtain advice on the long term annual growth rate of its funds and budget accordingly (therefore saving when returns are above average).
- Those involved in preparing the budget should also be congratulated with improvements that they have made in simplifying budget information. We believe that more improvements could be made in making budget papers more transparent, in particular in relation to the accounts relating to Business Services, bishops and archbishop.
- We believe that Synod should continue to approve budgets.

We need a strategy for growth

The budget papers, in discussion relating to changes made to Business Services, states that:

Planned changes also anticipate a significant effort in 2010 to better define the strategy of the Diocese, building on some of the initial work already underway (Part A, page 22).

It is vital that the Archbishop in Council and other committees work to develop a strategy for the diocese and match expenditure to that strategy. We would expect that in the medium to long term this would result in a significant change in priorities.

Our church is older than the general population and without a strategy we run the risk of a further significant decline in numbers. In such an environment, our budget situation is likely to lurch from crisis to crisis.

There are now approximately 20,000 people attending Anglican churches in Melbourne. However the structure of the diocese was set up at a time when the diocese was considerably larger and we feel that not enough consideration has been given to what sort of head office we need now.

The losses forecast for 2008-2011 total \$4.64 million (\$6.06 million if you include depreciation). Given that the diocese's investments are now only \$21 million – there is an urgent need for a complete strategic rethink.

In addition, we believe that the great work that has already been done in making the diocese's financial reports more readable should continue. A number of us read financial reports of major companies every day and find them far easier to read and understand than these budget papers – even with the improvements made. The more effort that can be made to provide transparent financial reports - the better we can debate in a constructive environment strategic priorities and accountabilities.

Detailed comments on the budget - Income

In this financial year 46.4% of income for the diocese will be made up of parish assessments (Part A, page 7). The income forecast for parish assessments in the budget has been reduced by 4% in 2009 and a further 5% in 2010 with a 2% recovery in 2011 (Part A, page 8). We consider given the high proportion of retirees in the diocese and the continued decline in numbers that these assumptions are unduly optimistic. It is likely that the provision of bad and doubtful debts of \$300,000 (Part A, page 4) is a reflection of the concern by the diocese that some parish assessments will not be paid.

We believe that in any event the level of parish assessments is too high and should be reconsidered in the light of developing a strategy for the diocese. The current level of parish assessments is a burden on churches – whether small or large. In addition there is little “brand loyalty” among young Christians and there is a significant risk that the

burden of parish assessments will lead to an increase in disengagement by those younger Anglicans we desperately need for the survival of the organisation.

The other major source of income is from investments. The investment pool is approximately \$21m, down from approximately \$35m in 2007 (Part A, page 7). The diocese expects that the majority of these investments will grow by 10.25% in 2010 and 15.56% in 2011 (Part A, page 28). There is a risk that we do not know when financial markets will recover and therefore these growth figures may prove optimistic.

However of more concern is the fact that there does not appear to be an assessment of what is the likely long term growth of diocesan funds. We recommend that the diocese should obtain advice on the long term annual growth rate of its funds and budget accordingly (therefore saving when returns are above average). We are concerned that in the past there has been a tendency to over spend when times are good and we do not want this to be repeated when there is a recovery in financial markets.

There is a recommendation that borrowing for the \$1.6m deficit this financial year will be repaid from the disposal of the car fleet (Part A, page 2).¹ The market for second hand cars at the moment is in the doldrums; therefore this assumption may also be optimistic.

Detailed comments on the budget - Expenditure

There has been a serious attempt to reduce expenditure, which is to be commended. However as already noted these cuts appear to be made in the absence of developing a strategy for the diocese. It is understandable therefore that there has been an attempt to cut across the board and not ask the broader question of what ministries the diocese should offer – which may in the medium to long term hinder church growth. The following are some observations about the budget that highlight in our view the absence of a strategy for the diocese:

- There has been a significant cut in grants to parishes (from \$688,163 in 2008 to \$228,700 in 2009 and 2010 – see Part B, page 2). We are told that this is a result in a decline in grants from the ADF (see Part A, page 12). However it would appear that no consideration was given to cutting other areas in the diocese to fund parish grants. In addition there is little information on the process as to how these grants are allocated to promote church growth and how successful these grants have been in the past.
- No cuts have been made to the General and Special Assessment to General Synod (Part B, page 4). We are told that part of the Special Assessment “funds the attendance of representatives (including some from the Melbourne Diocese) to meetings of the World Council of Churches and the Council of Churches of East Asia” (Part A, page 13). Query whether we need to negotiate with the General Synod to make similar cuts to its budget and whether there should be reduced expectations in relation to representation of other international bodies?

¹ It is not clear how the \$2.18 million deficit in 2008 was funded

- Anglican Media continues to run at a deficit of \$123,966 – which amounts to approximately \$6.20 for every attending Anglican.² Query how much a diocese our size should spend on media and whether this subsidy is sustainable in the long term.
- Parishes are being asked to fund 33% of curate superannuation from 2010 (Part A, page 16). This is another cut in support of ministry and is a further burden on parishes large enough to employ a curate, effectively operating as a de facto increase in parish assessment.
- There has been a dramatic decrease in grants to candidates for ministry (from \$300,999 to \$174,000) and some cuts to grants to theological colleges (\$140,000 to \$100,000) (Part B, page 13). There would appear to be a suggestion of introducing a loan scheme for candidates (Part B, page 14, note 4). A lot of the growth we have seen in churches in the last couple of decades has been the result of young talented ministers from both Ridley and Trinity. We don't want to make it even harder for future clergy to be trained. This is another example where making cuts in the absence of a strategy could be counterproductive.
- Approximately \$1.4 million is spent on maintaining our bishops and archbishop (\$71.30 per attending Anglican). Approximately \$654,623 is spent on the office of archbishop (\$32.73 per attending Anglican). The disclosure as to how these funds are spent is difficult to ascertain. We consider that as a part of developing a strategy of the diocese there should be an honest upfront discussion about how these funds are spent and how our bishops can encourage church growth and parish ministry.

Budget should still be approved by Synod

The track record of financial accountability in the diocese has been poor and Synod has often had to intervene to ensure there is appropriate accountability for expenditure. In addition churches who make considerable sacrifices to pay their parish assessment should have an open and transparent say in the budget making process. Therefore we see great benefit in budgets being presented to synod for adoption, and look forward to the prompt presentation of the legislation previously requested by this synod to give expression to this principle.

Conclusion

We reiterate that those who have been involved in preparing this budget should be congratulated for the work they have done, in both making the proposed cuts to expenditure and in simplifying budget information. However we believe that the next task is to develop a strategy for the diocese and matching expenditure to that strategy. Without such a strategy we believe that the diocese will continue to decline and put the budget under further strain.

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² Assuming that there are approximately 20,000 Anglicans in the Melbourne diocese