Mission and Service Fund Budget 2021

1. Executive Summary

The 2021 Mission and Service Fund (MSF) Budget is being presented to the Synod, following endorsement by the Resources Board and approval by the Synod Standing Committee. The Budget has been constructed in consultation with the General Secretary and Synod Executive Officers.

During 2020, the financial implications associated with the COVID-19 pandemic have created significant pressures on the Church's investment returns. This, together with a record low interest environment, has caused, and will continue to cause stress on the budget as it relies heavily on investment and interest income. However, predominantly due to receiving Federal Government JobKeeper payments, the MSF is expected to finish with a surplus in 2020.

The 2021 MSF budget has been built with a desire to uphold the balanced budget imperative. This is in keeping with the decision made by the Presbytery and Synod meeting in November 2014. However, achieving a balanced budget for 2021 has been challenging. The 2021 MSF budget (refer Attachment 1) is forecasting a deficit of $794k. This deficit reflects the continuing challenges facing investment income and recognising that the Synod is no longer eligible for JobKeeper. The Budget also includes several initiatives to curtail expenditure. The deficit will be funded predominantly by the 2020 surplus (held in retained earnings).

2. Discussion

2.1 Background

At the November 2015 meeting of the Presbytery and Synod, the members approved a 2016 MSF balanced budget, which was requested in November 2014. This reflected a change to structures and practices in order to move towards financial sustainability. This followed many years of deficits which resulted in accumulated losses exceeding $4m. In keeping with the resolve for a balanced budget, the UCSA has committed to the approach that any proposal considered by Synod or its Standing Committee needs to have a corresponding income source, or achieve a commensurate reduction in expenditure.

Balanced budget targets were achieved in 2016, 2017, 2018 & 2019 (resulting in actual modest surpluses). In the midst of COVID-19 global pandemic, the MSF could achieve a better than balanced budget result for 2020, largely due to the JobKeeper payments received from the Federal Government and a once off receipt.

.

The 2021 budget is built on this base of financial sustainability. However, it is constructed in the midst of the pandemic, which has had a significant financial impact on the Synod's capacity to earn income from its investments/financial assets.

2.2 Process

The General Manager Resources (GMR) and the Manager Financial Services commenced the preparation of the MSF budget by meeting with Ministry Centre/Team Leaders. Development of the Ministry Centre budgets was based on non-salary costs not exceeding CPI, employment costs calculated using a first principles approach and increases for ministry and lay staff aligned to stipend or lay salary estimates.

Following conversations with Ministry Centre leaders the initial draft budget was constructed. It was reviewed by the Executive Officer Resources (EOR) and outstanding matters were addressed as appropriate. The EOR together with the GMR then provided the General Secretary with a briefing. This briefing outlined the challenges of balancing the 2021 budget, the anticipated deficit and suggested a range of potential savings. The Resources Board was provided with a budget progress report at its meeting in September. Essentially this report aimed to inform the Board that a deficit budget was likely, due to the financial impacts of the global pandemic.

A verbal update provided at the Resources Board's meeting in October explained that the Synod would not be eligible for JobKeeper 2.0 for the final quarter of 2020. JobKeeper had been estimated to provide an additional $570k in financial support in 2020 with the possibility of further support in 2021.

Between the construction of the initial draft budget and the final draft budget, the General Secretary, in consultation with the EOR and GMR, identified savings to reduce the extent of the anticipated deficit. Each Executive Officer has cooperated and responded to the challenges the MSF is facing.

The Resources Board considered and endorsed the budget for the approval of the Synod Standing Committee. When considering the budget, given the forecast deficit, the Board considered how it could fund the deficit. The Board agreed to endorse the proposal that the deficit be funded predominantly from prior year surpluses. The Board understands the balanced budget imperative, however due to the exceptional circumstances brought about by the pandemic, it has taken a 24 month (2020 and 2021) view of the Fund's performance.

Noting the deferral of the 2020 Synod meeting, the Synod Standing Committee approved the 2021 MSF budget. In the interests of good financial governance the budget is presented to this annual Synod meeting for noting.

2.3 2021 Budget Principles

Given the financial uncertainty and resultant reduction in investment returns anticipated in 2021, the following principles have underpinned the budget conversations:

- As staffing costs represent approximately 65% of total expenses, stipends and salaries have been forecast on a first principles basis. That is, the approved head count of each Ministry Centre is costed at either the agreed stipend rates or 2020 lay staff salary rates, with any increase budgeted in accordance with the resolutions of Stipends Committee (approved at the July Standing Committee meeting) "That there be no increase to the ministerial stipend at 1 Jan 2021. An increase from 1 July 2021 of 1.25% (in line with the RBA forecast trimmed mean CPI). This is to be reviewed and affirmed by end of 2020 and/or early 2021".

- The cessation of discretionary expenditure during 2020 in response to the financial pressures experienced as a result of the COVID-19 pandemic (e.g. travel and non-essential items) will remain in place during 2021.
- As per recent years, the MSF budget has been constructed on a zero-based budgeting methodology, meaning approved positions were budgeted using actual contracted costs. Significant non-salary expenses such as grants, depreciation, rent, equipment leases and communication contract amounts are easily and objectively determined. Therefore all non-salary expenses have been forecast based on previous year trends and known changes, and have only been increased by agreement.

2.4 Content

It is impractical to list all the assumptions and key information to support the budget figures. Notwithstanding the explanation above, there have been no material systemic or structural changes from 2020. Comments are made on the following:

2.4.1 Income

- Total contributions from congregations are expected to reduce by 14% (based on the 2020 budget) to $1.33m based on the 10% collection methodology. This $1.33m is consistent with forecast collections for 2020.

- MSF income returns derived from its own investment assets have been determined using first principles in consultation with the Manager, Investment Services. The estimated income mirrors the income expectations advised to the Uniting Church Investment Committee as a part of the asset allocation process.

- In accordance with the Uniting Church Investment Committee planning, it is expected that the UC Invest grant will remain at the same level as in 2020 of $2.315m.

- The Parkin Mission and Parkin Trust Governors have confirmed that the 2021 grant from Parkin Mission will be $1.15m ($1.291m in 2020) and Parkin Trust will be $330k ($317k in 2020). This strong support has been commended by the Resources Board.

- Epworth SA Fund is budgeted to meet the 2021 income expectations per the UCIC Asset Allocation calculations (40% lower than budgeted in 2020).

- Income generated by the Manse Reinvestment Scheme is expected to halve in 2021 as the interest rates paid were halved, as agreed by the Resources Board at its meeting in September.

- RH White Settlement grant will remain at current levels, relying on past years' underspend.

- RH White Settlement 2 grant will reduce by approximately 27% as per the 2021 income expectations reported in the UCIC Asset Allocation calculations.
- Cost recoveries from Ministry Centres will decrease by $439k, or 8.6% overall. The following factors have affected cost recoveries:
    - The Uniting College for Leadership and Theology (UCLT) income will decrease by ($298k) in 2021. This reflects a realignment of student fee income and a further reduction in the infrastructure grant from Flinders University, which is now tied to student numbers.
    - Resources income has decreased by $61k (-7%), which is predominantly $59k reduced grant income for the Property Review Project (PRP) which largely concluded in September 2020. This reduction is offset by a corresponding decrease in expenses.

It is also noteworthy that Synergy income and expenditures have been included in this year's MSF budget for visibility and completeness. As Synergy is self-funding, there is no impact on the net result of the MSF Budget.

Total income of $10.775m represents a decrease of $1.336m (-11%) when compared with the 2020 budget.

2.4.2 **Expenditure**

- The 2021 MSF budget has been constructed on the base assumption that all stipend and lay salary costs will increase by 1.25% from 1 July. All estimates for salaries/stipends have been calculated from first principles. This type of expenditure forms the major part of the overall budget. It should be noted that the Superannuation Guarantee (Employer) contribution rate, applicable to lay staff, will rise by 0.5% as at 1 July 2021. This increase is legislated and therefore is unavoidable.
- CPI for 2021 has been estimated at 1.75% and non-salary expenditure has been increased by this rate (note: current CPI (Adelaide) = 1.0%, RBA Economic Outlook forecasts 'underlying inflation is expected to remain below 2 per cent over the next couple of years' (https://www.rba.gov.au/publications/smp/2020/aug/), although it is noted the speed of the economic recovery out of COVID-19 is difficult to predict).
- Trends in non-salary expenditure were analysed for the past five years (where available) together with current year forecasts to determine a best estimate.
- Wider Church contributions to Assembly have been sustained at 2020 levels. In addition, the budget will continue to provide $46k (as it did in 2020) to fund the National Assembly Safe Church Unit.
- Cost of Ministry Centres & Programs will decrease by $518k (or -5.5%) overall. The following factors have affected expenses:
    - UCLT costs decrease by $284k, (or -12%) over 2020. While expenses have decreased, they have decreased at a lesser rate than the reduction in income. Reduced staffing costs at

UCLT/ACD/ATL accounts for $83k of this savings, and other expenditures have reduced in accordance with a decrease in income (grants).

  - The General Secretary, upon a detailed review of the MSF budget, identified and agreed $150k savings. In consultation with Executive Officers, these have been included in this proposed budget. The agreed savings included deferring the fulfilment of the Strategic Planning Resource and savings in program costs.

- The grant to UAICC remains unchanged, remaining at 2020 levels.
- The Presbytery Pool reflects 40% of the congregation contributions to the MSF as per the Funding Model previously agreed. This is based on actual contributions received in 2020, and represents a reduction of $103k from the 2020 budgeted amounts.
- Within Other Expenses:
  - Interest Expenses are expected to decrease by $24k as the loan (overdraft facility) held by the MSF has been paid off.
  - Depreciation expenses have reduced by $55k due to depreciated assets being removed and minimal capital expenditure planned for 2021.

It should be noted that a provision for Redress payments of $127k has been included in the 2021 budget expenses based on the average payments made in 2019 and 2020. Previously Redress payments were unbudgeted and expected to be funded by insurance reserves (held in the MSF). Insurance reserves have been calculated based on uninsurable and unknown events. Given the Synod's Redress payment history and knowledge of claims to be processed, together with its commitment to the scheme for 10 years, a Redress Payment expense, based on an average payout amount, has been included in the 2021 MSF budget. That is, the MSF has made 5 redress claim payments since it joined the scheme in 2019. One redress claim amounted to $145k before counselling costs and the UCA Redress administration fees. Another Request for Information involving the same perpetrator has recently been received. It is foreseeable that this claim will be significant. The amount provided for Redress payments in the 2021 budget therefore could be conservative.

It should also be noted that this budget does not take into account any financial implications of the premiums paid in excess of deceased member contributions made to their Protect and Provide Funeral accounts, which will be sourced from the Insurance Reserves.

Total expenditure of $11.569m represents a decrease of $543k (-4.5%) against the 2020 budget.

Overall, the MSF budget is unable to accommodate any new programs/increase in overall expenses over CPI without an identified corresponding income source.

2.5 Capital Expenditure

Capital budget requirements for Synod Office and Campus and IT&T have been prioritised on an as needs basis.

IT&T Capital Expenditure Budget has decreased from $84,260 in 2020 to $37,510 in 2021. The budget includes a planned investment in software to increase organisational efficiency, hardware as per a scheduled replacement cycle and extension of warranty to extend the life of two production servers as well as provision to replace four laptops.

Synod accommodation, including UCLT and space for presbyteries has a Capital Expenditure Budget of $50,050 in 2021. This budget remains low, reflecting the work recently completed for the 212 Pirie Street refurbishment and the Brooklyn Park refurbishment, which has reduced the need for expenditure in this area. It also allows for the signage on the front of 212 Pirie St to be updated with the current UCSA logos.

2.6 Funding 2021 MSF Budget Deficit

The MSF is forecast to achieve a better than balanced budget result for 2020 predominantly due to the JobKeeper payments and CashBoost payments received from the Federal Government, which totalled $1.3m. The anticipated surplus is forecast to be $193k after receiving this support.

The Property Trust received correspondence from the Westpac Banking Corporation advising the Synod of an error in the way it had maintained its system. This error related to our set-off arrangement, which was ceased in 2013. The error together with a compensatory payment amounted to $562k. This receipt was unexpected and was not incorporated in 2020 forecasts. This receipt when added to the anticipated surplus equates to $755k.

The Resources Board has considered the budget and endorsed it for the approval of the Synod Standing Committee. When considering the budget, given the forecast deficit, the Board endorses the proposal that the deficit is funded predominantly from the prior year surplus. The Board understands the balanced budget imperative, and the Synod's desire for financial sustainability. However due to the pandemic, the Board has taken a 24 month view, combining the financial performance of the Fund in 2020/2021 resulting in an estimated deficit of $39k.

3. Summary

The 2021 Mission and Service Fund budget can be summarised as follows:

	2020 ($m)	2021 ($m)	Change ($m)	Change %
Income				
Congregation Contribution	1.547	1.330	(0.217)	(14.0%)
Investment Income	5.373	4.587	(0.786)	(14.6%)
Cost Recoveries (incl. Synergy)	5.132	4.834	(0.298)	(5.8%)

Other Income	0.059	0.024	(0.035)	(59.3%)
Total Income	**12.111**	**10.775**	**(1.336)**	**(11.0%)**
Less Operating Expenditure				
Wider Church	0.527	0.557	0.030	5.7%
Synod Ministry Programs	9.487	8.970	(0.517)	(5.4%)
Presbyteries and Congregations	1.144	1.041	(0.103)	(9.0%)
Other Expenses	0.953	0.874	(0.079)	(8.3%)
Redress Payments	0.00	0.127	0.127	100%
Total Expenses	**12.111**	**11.569**	**(0.542)**	**(4.5%)**
Budget Surplus/(Deficit)	**0.000**	**(0.794)**	**(0.794)**	

4. Future pressures on the balanced budget framework

Each year there are increasing and additional pressures which make meeting the MSF balanced budget imperative a challenge. It is hoped 2021 will be an exceptional year, one that the church recognises brings unique challenges.

As outlined in the corresponding report last year, there remains two known expenditure pressures which have and will continue to provide stress on the budget which were not present when the balanced budget imperative was agreed nor are accompanied by a corresponding income source. Equally a third pressure has emerged which adds to that pressure.

4.1 National Safe Church Unit

The MSF does not have sufficient capacity to meet the Assembly's funding expectations relating to the operations of the National Safe Church Unit. The Synod is paying $20k less that requested. An equitable sharing of costs is complex, due to the different structures across Synods. In other states, the schools, hospitals and agencies associated with the church are generally incorporated under the Property Trust, whereas in South Australia, entities associated with the Uniting Church are separately incorporated. Because of this difference, the current arrangement to allocate costs based on the number of congregations within each Synod whilst simple, is not equitable. Furthermore, it ignores historical information relating to the Synod's risks and the local efforts made in this domain. The MSF does not have capacity to incorporate these costs into its existing budget parameters which is predicated on a balanced budget imperative, without finding a corresponding income source. This is an ongoing conversation amongst General Secretaries.

4.2 Assembly Contributions

The annual contributions requested from each Synod to the Assembly are under review, with a view to establishing a new funding agreement for the Assembly. Sue Raw (General Manager, Resources) and Peter Battersby (Executive Officer, Resources) attended a briefing to discuss this matter earlier this year and articulated a number of concerns with the modelling and cost projections. It was anticipated that a new three-year agreement will be presented to each Synod Standing Committee for approval following this meeting, however it seems that COVID-19 may have stalled the conversations.

4.3 Redress Claim Payments

The Church has made a commitment to survivors of past child sexual abuse within its institutions. This commitment is largely encapsulated through its membership of UCA Redress Ltd. As mentioned previously, this is a 10 year commitment. Already the SA Synod has made a number of redress claim payments, and anticipates more. It was initially expected that these claims would be few in number and around the medium claim amount. This has not been the case as the Synod has received numerous large claims. This reality has caused a re-think, including incorporating a redress claim expense in the annual MSF budget. Previously redress payments were unbudgeted and expected to be funded by insurance reserves (held in the MSF), which are set aside for uninsurable and unknown events.

Furthermore, it is understood that the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability will adopt a redress scheme, most likely expanding the current arrangement used for Institutional Responses to Child Sexual Abuse.

4.4 Additional Pressures

In addition to the above, there are other ongoing financial pressures the MSF holds in tension.

4.4.1 Uniting College for Leadership and Theology

For a number of reasons the Uniting College has not been able to meet this recurrent budget target, necessary for the MSF to achieve a balance budget. The Resources Board and Mission and Leadership Development leaders have been working together with regard to the College's finances. A joint working group was formed between the UCLT Leadership and the Resources Board. This group met in September 2019 and developed short and long term strategies to assist the College to operate within the agreed parameters. Some of these strategies/tasks have been executed, others are in progress and others are still to be activated.

Over the past few months the General Secretary has worked closely with Andrew Dutney (UCLT Principal and Executive Officer Mission and Leadership Development) and the Mission and Leadership Development Board regarding the oversight and management of the College's finances. Savings have been made across the UCLT/ACD/ATL group which have been incorporated into the 2021 budget. The Resources Ministry Centre continues to play an active role in the financial management of the College, providing financial reports to the Board and overseeing the Resources Ministry Centre responsibilities within its mandate. Whilst the immediate financial pressures are close to being resolved, the finalisation of the outstanding strategies/tasks identified by the joint working group should conclude this discussion.

4.4.2 MSF Capacity

Since the GFC 10 years ago, pressure on the MSF has intensified. Expenditure has been under scrutiny and no material additional sources of income have been found. This scrutiny is necessary and has stimulated needed changes, however, there is a sense that the continuing pressure on expenditure is nearing a point that it will no longer be sustainable. It could be argued that a number of the church's significant ministry areas are under-resourced to the extent they cannot deliver what is expected, which increases risk to the church. By way of example, the Synod has limited resources to educate and monitor Safe Church policy and practices whilst the demands of its regulatory obligations exponentially increase. The supervision of ministry agents would also benefit from greater resources. The limited capacity to run a Synod meeting greater than at the bare minimum is also proving unhelpful. These examples give a sense of the 'leanness' of the Synod. Additionally, the COVID-19 crisis has put some programs and ministries behind in their work, and there is little or no capacity to catch up this extra work quickly. Managing another crisis would be challenging. Finally, the Synod budget has little capacity to respond to any new directions that the anticipated new Strategic Plan will initiate, without reducing existing positions or programs.

5. Conclusion

The construction of the 2021 Mission and Service Fund budget is complete. The financial resources of the Synod are very limited and rely heavily on investment income. Balancing the budget during the COVID-19 global pandemic has been difficult given the financial impact on the economy. The MSF is likely to finish with an operating surplus in 2020 due to the support of the Federal Government JobKeeper payments. The Synod is no longer eligible for this Government support beyond September 2020. A once-off deposit received into the Fund has boosted the final 2020 surplus result. Despite adopting strategies to reduce expenditure, the MSF is expected to operate with significant deficit due to the impact of COVID-19 in 2021.

Due to the financial implications of COVID-19, the Synod Standing Committee resolved to approve the proposed 2021 budget deficit of $794k to be funded primarily from the 2020 net surplus. In this way, a 24 month view of the MSF is taken, combining the results of 2020/2021 financial years, resulting in an operating deficit in the order of $38k.

6. Recommendation

That the Synod:

1. **Note the Mission and Service Fund Budget 2021 report.**
2. **Note that the Mission and Service Fund, due to the financial impact of COVID-19, will not meet its balanced budget target in 2021.**
3. **Note the 2021 Mission and Service Fund budget, attached as Attachment 1, in particular:**
   a) **A deficit budget (on an accrual basis) of $793,649**
   b) **A capital expenditure budget of $87,560**

   c) **The funding the 2021 Mission and Service Fund operating budget deficit from retained earnings**

4. **Note the forecast combined operating result of the Mission and Service Fund for years ending 31 December 2020 and 31 December 2021 is an operating deficit of $38,496.**

Michael McClaren
Member and Representative, Resources Board

Peter Battersby
Executive Officer, Resources

Peter Battersby
Executive Officer, Resources

30 November 2020

Mission and Service Fund 2021 Budget

Budgeted Income	2020 Agreed Budget		Adjustment		2021 Proposed Budget	
Mission and Service Fund						
Contributions from Congregations		1,547,168		-217,168		1,330,000
Synergy		0		111,800		111,800
Income from Investments						
Epworth SA Fund Grant	787,290		-314,443		472,847	
Investment Income	873,530		-299,266		574,264	
Parkin Mission of SA Grant	1,291,320		-141,320		1,150,000	
UC Invest Grant	2,314,916		0		2,314,916	
R H White Settlement (2) Grant	106,335	5,373,391	-31,335	-786,364	75,000	4,587,027
Cost Recovery by Synod ministry centres						
Mission and Leadership Development						
Uniting College for Leadership and Theology	1,366,860		-297,756		1,069,104	
R H White Settlement Scholarships	350,000		0		350,000	
Parkin Trust Grant	317,220		12,780		330,000	
R H White Settlement (2) Grant	202,500		-52,500		150,000	
Mission Resourcing	19,443		-5,443		14,000	
Resources	919,019		-61,058		857,961	
Insurance Services	1,273,396		0		1,273,396	
Governance, Innovation and Communications	79,192		6,146		85,338	
Placements and Safe Church	603,964	5,131,594	-11,234	-409,065	592,730	4,722,529
Other Income		59,017		-35,042		23,975
Total Income		**12,111,170**		-1,335,839		**10,775,331**
Less Budgeted Expenditure						
Wider Church						
Assembly - General Allocation	447,000		30,190		477,190	
Assembly - Safe Church Unit	45,854		0		45,854	
Ecumenical Relations Group	34,329	527,183	0	30,190	34,329	557,373
Synod Ministry Centres						
Mission and Leadership Development						
Uniting College for Leadership and Theology	2,054,577		-259,473		1,795,104	
ACD Industry Grant	330,268		-24,268		306,000	
Mission Resourcing	698,499		-128,539		569,960	
Resources	2,403,041		-63,385		2,339,656	
Synergy	0		113,321		113,321	
Insurance Services	1,273,396		-5,500		1,267,896	
Governance, Innovation and Communications	1,443,146		-128,385		1,314,761	
Placements and Safe Church	341,233		1,115		342,348	
Chaplains	720,568		-9,642		710,926	
Ministers Support and Training	222,619	9,487,347	-12,417	-517,173	210,202	8,970,174
Congregation support						
Grant in Aid	20,000		0		20,000	
Presbytery Pool Allocation	618,867		-103,267		515,600	
Uniting Aboriginal & Islander Christian Congress (UAICC)	505,551	1,144,418	0	-103,267	505,551	1,041,151
Other						
rent, depreciation, insurance	952,222		-78,940		873,282	
Redress Payments	0	952,222	127,000	48,060	127,000	1,000,282
Total Expenditure		**12,111,170**		-542,190		**11,568,980**
Operating Surplus/Deficit for the year		**0**		**-793,649**		**-793,649**