

# Parochial Cost Recoveries and 3 Year Synod Budgets Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998 Synod Estimates Ordinance 1998

(A report from the Standing Committee.)

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## 1. Introduction

1.1 This report considers and recommends the following proposals -

- (a) the setting for 3 years (rather than each year as at present) of the formula by which parish ministry and property costs are recovered from parochial units; and
- (b) 3 year budgets (rather than 1 year as at present) for programmes funded from the income available from endowments and other trusts.

1.2 Following this report are 2 bills for implementing the proposals. It is possible for one proposal to be implemented without the other but, if the Synod proceeds this way, amendment to the first bill is needed. See 2.11 and 3.18 for further details.

## 2. A Separate Parochial Cost Recoveries Ordinance

### *How the Proposal Will Work*

2.1 Under this proposal the recovery of parish ministry and property costs from parochial units would be dealt with in a separate ordinance named the Parochial Cost Recoveries Ordinance, to be considered by the Synod at the 1st session of each Synod (see Annexure A). For this purpose "ministry and property costs" are all costs, expenses, charges or contributions which, in the opinion of the Standing Committee, have been incurred or will be incurred on behalf of or in relation to a parochial unit or any member of the clergy licensed to a parochial unit. These costs, expenses, charges etc include -

- (a) superannuation, long service leave and sickness and accident fund contributions for parochial clergy;
- (b) stipend continuance insurance costs for parochial clergy;
- (c) maintenance and operating costs of the Property Trust's titles registry; and
- (d) insurance costs for parochial units.

### *Formula to apply for 3 Years*

2.2 Currently, the Synod Appropriations Ordinance passed by the Synod each year specifies the formula for determining the cost recoveries charge payable by each parochial unit in the following year. It is proposed that the Parochial Cost Recoveries Ordinance specify the formula for determining the cost recoveries charge payable by each parochial unit but, rather than applying only in the next year, the formula will apply for each of the 3 following years.

2.3 When a Parochial Cost Recoveries Ordinance is considered by the Synod the total amount of the ministry and property costs for the next year can be estimated and so the cost recoveries charge payable by each parochial unit in that year can be determined at that time by setting the variables in the formula adopted in that Ordinance. For the next 2 years thereafter, the charges payable by each parochial unit will be determined by the Standing Committee, by setting the variables in the formula approved by the Synod, when the total ministry and property costs for that year are estimated. The formula will have fixed parameters for determining the

variables to ensure that the spirit of the Synod's decision about the formula will be maintained. The variables in the formula, the charges to parochial units and a list of the costs payable will be reported to the Synod.

### *Timing*

2.4 The Standing Committee recommends the following timetable.

<b>Year</b>	<b>Triennium Year</b>	<b>Process/Matters before Synod</b>
1998	3	* Report proposal to Synod * Necessary Ordinance changes debated and agreed
1999	1	* Parish Cost Recoveries Ordinance with a cost recoveries formula agreed for 3 years 2000/1/2 including the variables for 2000
2000	2	* Standing Committee reports to Synod variables, parochial charges and costs payable for 2001 - see 2.3 above
2001	3	* Standing Committee reports to Synod variables, parochial charges and costs payable for 2002 - see 2.3 above
2002	1	* Parish Cost Recoveries Ordinance with a cost recoveries formula agreed for years 2003/4/5 including the variables for 2003

### *Precondition - Annual Financial Returns to be lodged*

2.5 While the proposal enables the Synod to adopt each 3 years any formula for the recovery of ministry and property costs, the Standing Committee expects that in the foreseeable future the Synod will continue to adopt a formula which requires a consideration, in some way, of a parochial unit's net receipts. Accordingly, the proposal does not affect the obligation of a parochial unit to lodge Annual Financial Returns.

### *Payment of Charges*

2.6 The cost recoveries charge for a parochial unit will be paid in 10 equal monthly instalments from 1 March, unless a Parochial Cost Recoveries Ordinance specifies a different arrangement.

### *Variations*

2.7 If for a particular year the Standing Committee expects that the total of the cost recoveries charges calculated by applying the formula approved by the Synod will be insufficient to meet the total of the ministry and property costs for that year, it may bring an ordinance to the Synod containing a proposal to meet the insufficiency. This ordinance could, for example, amend the formula previously approved to enable cost recoveries charges to be increased.

### *Benefits and Drawbacks*

2.8 The benefits of this proposal include -

- (a) parochial units be more certain about the basis of the cost recoveries charge for budgeting and planning purposes;
- (b) time (and costs) will be saved in the Secretariat, DEB, Standing Committee and Synod in 2 out of 3 years; and
- (c) the process of cost recoveries will become simpler.

2.9 The drawbacks of this proposal include -

- (a) Annual Financial Returns from parochial units will still be required in the foreseeable future (subject to what sort of formula is adopted); and
- (b) some parochial units may be unhappy about being "locked in" to a particular formula for 3 years.

### *Bill*

2.10 The bill for the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998 provides for the implementation of this proposal. The Standing Committee considers that the bill, if passed, will simplify the cost recoveries process and avoid the necessity for the Synod to debate the matter each year.

2.11 If the Synod is minded to approve the proposal for a separate Parochial Cost Recoveries Ordinance on the basis set out in this report, but not the 3 year Synod Budget proposal, then clause 2(i) of the bill for the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998 will need to be deleted and a new clause 2(i) as shown in Annexure C will need to be inserted.

### 3. 3 Year Synod Budgets

#### *Introduction*

3.1 The idea of 3 year budgets or "triennial" funding has been around for many years within the Diocese. 3 year budgets have been used in tertiary institutions to provide certainty of funding to allow them to plan ahead more strategically. Certainty of funding provides the opportunity to change structures and staffing to meet new challenges, and to seek out efficiencies in operations and administration, so that savings can be utilised for "core business". A number of other government endeavours have utilised 3 year budgets within a broader scheme of 5 and 10 year planning cycles, particularly where there is a need for capital expenditure. It is hoped that organisations funded by the Synod will take the opportunity to seek out the benefits available through this system.

#### *How the Proposal will work*

3.2 The bill for the Synod Estimates Ordinance 1998 authorises Standing Committee to prepare for the 1st ordinary session of each Synod a 3 year Synod Appropriations Ordinance which contains estimates for each of the following 3 financial years of -

- (a) costs of Synod and certain other diocesan offices and activities;
- (b) grants to Synod organisations or other organisations; and
- (c) income available from the diocesan endowment, other trusts and where necessary the Synod reserve to meet the costs and grants referred to in (a) and (b).

See forecast at Annexure B.

3.3 The process for requesting, recommending and approving grants will be similar to the current practice but will take place each 3 years rather than annually. Of course, annual reports by organisations to Synod will still be required.

3.4 When the ordinance is considered by the Synod the 1st year's income from the Diocesan Endowment and other trusts will be known (ie. 1998 trust income distributed in 2000). The Standing Committee will estimate the income from those trusts for the 2nd and 3rd years (ie. 1999 and 2000 trust income distributed in 2001 and 2002 respectively).

3.5 Variances of income or expenditure can be managed by Standing Committee (see 3.11). The process will be reasonably flexible and a "mini-budget" could be introduced in years 2 and/or 3 to cater for urgent new initiatives or other unforeseen events.

3.6 The Standing Committee will annually report various matters to Synod as part of the 3 year budget process, including -

- (a) actual trust income earned in the previous year; and
- (b) movements to and from the Synod reserve.

#### *Timing*

3.7 Standing Committee believes that 1999 is the earliest and best time to present the 3 year Synod budget for the years 2000 - 2002. This ensures that it will be debated and approved in the first year of a new Synod triennium. If 3 year budgets were introduced in the second or third year of a Synod triennium, the following Synod would be unable to set its own priorities and see results during its triennium.

3.8 The Standing Committee recommends the following timetable-

<b>Year</b>	<b>Triennium Year</b>	<b>Process/Matters before Synod</b>
1998	3	* Report proposal to Synod * Necessary Ordinance changes debated and agreed
1999	1	* 1st 3 year Synod Appropriations Ordinance for years 2000/1/2.
2000	2	* Standing Committee reports to Synod - see 3.6 above
2001	3	* Standing Committee reports to Synod - see 3.6 above
2002	1	* 2nd 3 year Synod Appropriations Ordinance for years 2003/4/5
2003	2	* Standing Committee reports to Synod - see 3.6 above

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3.9 Standing Committee believes that it is best to have a 3 year budget in 1999. The alternative of a 1 year budget in 1999, a 2 year budget in 2000, followed by a 3 year budget in 2002 could be argued as a "phasing in" of the concept, to allow organisations time to fully prepare for 3 year budgets. However, few benefits would flow from these short periods and Standing Committee believes that the organisations have the skills to change to the new process now.

##### *Preconditions*

3.10 Certain pre-conditions are needed to ensure the successful implementation of this proposal including -

- (a) reasonable predictability of trust income from the Diocesan Endowment and other major trusts;
- (b) a healthy balance in the Synod reserve to buffer any adverse variations between estimates and actual income (the current reserve of about \$3 million should be maintained - see the annexed Forecast of Parochial Cost Recoveries and 3 Year Synod Budgets); and
- (c) adequate notice to our organisations of 3 year budgeting - the 4 Interest-Group Committees discussed the proposal and generally supported the concept.

##### *Variations (between estimates and actuals)*

3.11 Any variances of income and expenses during the 3 year period will be resolved by Standing Committee by -

- (a) allocating from contingencies to buffer unexpected expenses;
- (b) allocating from or to the Synod reserve to buffer variations of income;
- (c) promoting to Synod an ordinance abating grants; and
- (d) varying the appropriations % rate applied to Diocesan Endowment income.

Options (a) and (b) could be used to make minor changes and options (c) and (d) could be used to make major changes. These options will allow the process to be "managed" effectively by the Standing Committee and will provide flexibility.

3.12 Best efforts will be made to maintain approved grants. However, extraordinary circumstances may arise (eg. a major collapse in investment markets and a diminished Synod reserve) which could require reductions to some approved grants. In these circumstances Standing Committee will give notice to any organisation affected by a Synod ordinance to abate grants. This would be little different from the current annual cycle given the same circumstances.

##### *Income*

3.13 The GAB will continue to seek maximum investment returns rather than to simply fulfill its budgeted income objectives. Of course, performance is always subject to market fluctuations.

3.14 Standing Committee notes that ordinances generating other trust income for Synod should be reviewed so that the distribution rates applicable to Synod for the 3 relevant income years are known at the time a 3 year Synod budget is being prepared. There should be no subsequent reductions to distribution rates for those 3 relevant income years after the 3 year Synod Appropriations Ordinance has been presented to Standing Committee prior to Synod's approval.

##### *Benefits and Drawbacks*

3.15 The benefits of this proposal include -

- (a) organisations will have more certainty of funding which will allow them to -
  - (i) plan ahead more strategically, including the enhancement of corporate governance;
  - (ii) seek opportunities to change structures and staffing to meet new challenges;
  - (iii) seek out efficiencies in operations and administration so that savings can be utilised for new initiatives or capital expenditure;
- (b) time (and costs) will be saved in organisations, the Secretariat, DEB, Standing Committee and Synod in 2 out of 3 years; and
- (c) DEB and Standing Committee will be able to fully review and debate Diocesan priorities separate from the financial context of the annual Appropriations Ordinance.

3.16 The drawbacks of this proposal include -

- (a) the Synod reserve may run out before it could be topped-up, possibly causing unexpected grant cut-backs (but this is little different from the current annual budget process);
- (b) a bigger effort may be required by our organisations initially to plan further ahead and then every 3 years to complete the process;
- (c) 3 year budgeting is a long time in a rapidly changing environment - some less urgent new initiatives may have to wait for 2 or more years to be addressed;
- (d) organisations may not use the opportunity well and may simply "sit and do nothing" about strategic planning for 3 years; and
- (e) the annual multi stage review process of the Appropriations Ordinance would be lost, thereby reducing annual pressure on the organisations to attain expected outcomes.

*Bill*

3.17 The bill for the Synod Estimates Ordinance 1998 provides for the implementation of this proposal. The Standing Committee thinks that the benefits which should come from the bill, if passed, will outweigh the drawbacks.

3.18 If the Synod is minded to approve the proposal for 3 Year Synod Budgets but not the proposal for a separate Parochial Cost Recoveries Ordinance on the basis set out in this report, clause 2(j) of the bill for the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998 will need to be amended by deleting its proposed clause 11(1) and replacing it with a new clause 11(1) as shown in Annexure C.

#### **4. Recommendations**

4.1 The Standing Committee recommends to the Synod that it pass the bill for the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998 and the bill for the Synod Estimates Ordinance 1998.

For and on behalf of the Standing Committee

M.S. FRANCIS

14 August 1998

**Annexure A - Forecast of Parochial Cost Recoveries**Forecast - **Parochial Cost Recoveries**

Line Item	(\$000s)				
	1999	2000	2001	2002	
	<i>Appropriations</i>				
1.	Parish Ministry and Property Recoveries	3,590	3,698	3,809	3,923
	Total Appropriations	3,590	3,698	3,809	3,923
	<i>Allocations</i>				
2.	Parish Ministry and Property Costs	3,590	3,698	3,809	3,923
	Total Appropriations	3,590	3,698	3,809	3,923
	Surplus/Deficit	-	-	-	-

**Annexure B - Forecast of 3 Year Synod Budget**Forecast - **3 year Synod Budget**

Line Item	(\$000s)				
	1999	2000	2001	2002	
	<i>Appropriations Endowment %</i>				
1.	Appropriations from the Diocesan Endowment	6,372	6,684	6,783	6,527
2.	Appropriations from other Trusts	1,398	1,366	1,373	1,406
	Total Appropriations	7,770	8,050	8,156	7,933
	<i>Allocations</i>				
3.	Diocesan Services	1,535			
4.	Training for Ministry	1,521			
5.	Parish or Area Ministry	1,936			
6.	Adults and Children Outreach Ministries	1,305			
7.	Parish Support Projects/Central Ministry Organisations	874			
8.	Extra-Diocesan Purposes	179			
9.	Special Grants	132			
10.	Contingencies	88			
11.	Diocesan Endowment - Transfer to Synod reserve	200	160	30	-357
	Total Allocations	7,770	8,050	8,156	7,933
	Surplus/Deficit	-	-	-	-
	Synod Reserve - balance year end (1998 \$2,991)	3,191	3,351	3,381	3,024

## Annexure C

### Amendments Required if only 1 Bill Passed

#### 3 Year Parochial Cost Recoveries Passed but 3 Year Synod Funding Not Passed

*Amendments to the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998*

1. Clause 2(i) is deleted and the following is inserted instead -

- "(i) the following matter is inserted at the beginning of clause 9(1)(d) -  
'in the case of a proposed ordinance to be considered at any time before the conclusion of the 3rd ordinary session of the 44th Synod -'."

*Amendments to the Synod Estimates Ordinance 1998*

2. The bill should be rejected in full.

#### 3 Year Synod Funding Passed but 3 Year Parochial Cost Recoveries Not Passed

*Amendments to the Assessment Authorisation Ordinance 1975 Amendment Ordinance 1998*

3. In clause 2(j), proposed clause 11(1) is deleted and the following is inserted instead -

- "11. (1) The Standing Committee must prepare for each ordinary session of the Synod a proposed ordinance to be adopted by the Synod which -
- (a) specifies the cost recoveries charge in respect of Ministry and Property Costs to be paid by parochial units in the following financial year, or the method or methods by which such charge may be determined; and
  - (b) authorises the Standing Committee to apply the cost recoveries charges paid by parochial units in the following financial year towards the Ministry and Property Costs for which those charges have been paid."

*Amendments to the Synod Estimates Ordinance 1998*

4. No amendments required.