

Top 20 Financial Pitfalls for Parishes

Key Points

- This report provides a list of common financial pitfalls and myths that rectors, wardens and treasurers may encounter, based on the experience of Sydney Anglican Loans (“SAL”).
- The SAL has loans with over 20% of parishes, giving it a broad view of the financial issues that a parish can face and the financial mistakes that some parishes make.

Common Financial Pitfalls and Myths

1. **Rectors don't need to worry about finances:** The ultimate responsibility for parish finances lies with the wardens of the parish. Wardens and parish councillors should be controlling spending decisions and taking responsibility for long term financial planning and building maintenance. It can be tempting to view this as allowing rectors to focus completely on ministry matters. However, ministry and financial matters are interlinked and rectors that neglect financial matters may find that the money runs out and they are left with no option but to suddenly reduce ministry staff. Proactive management of financial matters will support better outcomes for ministry.
2. **Building maintenance can be indefinitely delayed:** There is often a temptation to postpone building maintenance in order to increase the proportion of the budget available for hiring staff and other direct ministry spending. This is not without risk. The SAL regularly talks to parishes that have deferred maintenance works and as a result have seen the severity and cost of fixing problems increase. In some cases parishes have lost access to their buildings for months whilst urgent repairs are undertaken or asbestos is removed. Some parishes have missed out on tens of thousands of dollars of rental income due to parish buildings being taken out of action for emergency repairs.
3. **Financial and property administration isn't important:** Without well-functioning administration processes, parishes will reduce the effectiveness of their ministry activities. If ignored properties will deteriorate, suppliers will cease supplying goods and services, offertories won't be collected and tenants won't pay their rent. Administration of financial and property matters is important and ideally should be dealt with professionally and efficiently by wardens, parish councillors and office staff. There is an important balance for rectors for administration matters; being aware and engaged, but delegating appropriately. For general administration, employing administration staff is often much cheaper and more efficient than having ordained ministers completing these activities.
4. **Parishioners generally know about the Parish's financial position:** In many areas of life the experts and insiders think that everyone knows nearly as much about a topic as they do. In parish life, the Parish Council will generally have a much stronger understanding of the parish's financial position than the average parishioner. Even if information is regularly provided many people do not read it or do not understand enough about financial management to make sense of it. If critical information is not conveyed clearly and during services on a regular basis it should be assumed that most parishioners understand little about the financial position of the parish.
5. **Parishioners will give more if we ask them to:** Some parishes assume that parishioners will automatically give more if there is a substantial building project or new staff are added. Best practice is to tell the parish what is being proposed, seek feedback and buy-in, and ask what financial response parishioners will make if the change is implemented. Even when parishioners have had a good history of increasing giving on a per head/family basis this should not be assumed upon. At some point parishes suffer from “giving fatigue” when asked to repeatedly increase giving.
6. **Parishioners should just give and not ask questions:** Parishioners generally want to know what their giving is being used for. Major decisions made without consultation can result in some parishioners decreasing or stopping their regular financial contributions. The SAL's experience is that parishes that plan, consult and get buy-in from parishioners in the years prior to starting building works see a far greater level of financial contribution from parishioners. Less is borrowed and loans are repaid faster when parishioners have a clear understanding of what is happening and why.
7. **New parishioners will figure out how to give:** As many parishes no longer take up an offertory each service it is less obvious that giving is necessary. Parishioners who have transitioned from another

parish may seek out the information needed to transition their giving. However, most new parishioners will not know where to look for information on giving. Many parishes have developed booklets that explain why Christians should give to support ministry and how their parish enables that. The booklet is often given directly to parishioners after they have been involved for several months as part of a general conversation about giving. New Christians may not understand that the parish relies upon giving to pay for staff and other costs unless this is explained to them.

8. **We don't need a budget, God will provide what we need:** It is true that God promises in the Bible to meet our needs. However, discerning what are wants and needs is often tricky. Jesus instructed the disciples in Luke 14:28-30 to plan and budget for major expenses. Constructing a budget forces a parish to consider what its future income and expenses are likely to be and to plan for that.
9. **If only we had better buildings attendance and offertories would grow:** In 2016 the SAL reviewed a study that looked at the attendance levels of Sydney Anglican parishes before and after substantial building works. It showed that for most parishes there was virtually no change in the trends as a result of the building works. Small and dilapidated buildings can certainly be a hindrance to ministry but upgrading buildings is in no way a guarantee that a Parish will grow.
10. **We have to hire more staff to grow attendance and offertories:** There are many theories why some churches grow faster than others, but much of the "evidence" put forward is anecdotal rather than based on a broad dataset. Adding more staff will allow a parish to conduct more ministry activities, but that does not guarantee that more people will attend or that offertories will grow. When staff are added, growth typically lags the addition by several years requiring the existing parishioners to give more until offertories increase. Alternatives may include hiring lay or part-time staff instead of fulltime ministers or drawing upon volunteers for activities such as teaching scripture, administration and visitations to free-up ministers.
11. **If we want to add staff it's just the stipend we need to worry about:** The costs of adding a fulltime minister includes the stipend, PCR, car allowance and utilities which together can total around \$95,000. A parish is likely to need to rent a house or have tenants vacate an existing property (thereby losing income) in order to accommodate a new minister. The cost of renting a suitable house for a ministry family can exceed \$1,000 per week in some Sydney suburbs. Parishes also need to budget for existing expenses to increase each year by 2-5%.
12. **We don't need to plan beyond the next year for building works or hiring new staff:** Parishes that make rushed decisions on hiring staff and conducting major building works are more likely to have bad outcomes. Adding a fulltime minister is likely to cost well in excess of \$100,000 per annum, which would require a very substantial increase in offertories if not planned for. Large scale building works can easily cost hundreds of thousands of dollars, beyond the cash reserves of most parishes. Well run parishes typically plan over multiple years for large expenses such as adding new staff and building upgrades or purchases; building surpluses and reserves in advance of the expenses.
13. **Parishes don't need to generate surpluses or build cash reserves:** As buildings age over time, they require increasingly frequent and costly maintenance works. In a commercial context, property owners typically build reserves each year to cover future maintenance costs. As well as building costs, parishes should also have reserves to cover the seasonal peaks and troughs of offertories and as a contingency in the event that income declines. Parishes may see their income fall when there is a change in staff, when ministry or financial disputes arise, when large giving families leave or when rented properties are vacant. Without reserves, delaying or reducing stipends can be the only way to manage these situations. The SAL recommends all parishes have reserves of at least one month's expenses, with additional amounts needed to cover accrued employee liabilities/MEA and other creditors.
14. **If the budget is in surplus everything is fine:** Budgets include most expense items but typically exclude the principal component of loan repayments and capital purchases. Parishes with loans or expecting to undertake capital purchases should have a surplus large enough to cover these items.
15. **Parishes don't need to monitor cashflow:** Each year a number of parishes strike financial trouble. This most often comes to a head when they do not have sufficient cash to pay staff and other expenses in a timely fashion. The solution usually requires staff to be made redundant with salaries reduced or delayed for remaining staff until cash reserves rebuild. Had these parishes been monitoring their cashflows they would have been aware of the pending issues and would have been able to take action much earlier.

16. **Rent money is dead money:** The decision to buy or rent property is not straightforward. In most cases, loan repayments and ownership costs (rates, insurance, maintenance) will be substantially higher than market rent on a property of the same value. Without a very large down-payment, this means that sacrifices will have to be made elsewhere in the budget to be able to meet loan repayments. With the benefit of hindsight, buying residential property in Sydney 20 years ago was the wise path to pursue. However, with Sydney residential property prices now being high relative to other comparable cities there is a risk that property prices could fall in the future. Rent should be considered an alternative to paying interest on a loan, which is equally “dead money” if property prices do not rise.
17. **We can negotiate all our financial arrangements without outside assistance:** Some parishes have wardens and parish councillors with substantial expertise in property and finance. However, even for these people the parish context can be unfamiliar with unusual processes and structures. For large contracts and getting a mortgage from a financial institution, parishes are required to work with the ACPT (property) and SAL (lending). Even when not required, a short call with the experienced staff of the ACPT and SAL early in the process can often save a parish time and money.
18. **If the bank will lend us money on these terms it must be low risk:** In the current environment it is common for parishes to get loan offers for large amounts with repayments over 20-30 years. In some cases parishes have been offered loans when they cannot demonstrate an ability to meet the repayments without cutting staff. A bank may view a loan as low risk if it has a mortgage over property worth substantially more than the loan. Whilst this may be acceptable for the bank, taking out a loan with a reasonable likelihood of being forced to sell property or lay-off staff is not an acceptable risk for a parish. Parishes borrowing should be able to demonstrate the ability to (i) meet repayments without undue financial pressure, (ii) repay the loan within a reasonable period (typically 15 years or less) and (iii) deal with the potential for interest rates to increase. The SAL encourages all parishes to make contact early in the process if they are considering borrowing.
19. **Adding a childcare centre will improve our financial position and increase ministry opportunities:** Parishes that host childcare centres have had varying experiences. Some have had great financial and ministry outcomes, with the centre paying market rent and allowing ministry staff and parishioners to be actively involved. Others have found themselves shutout of buildings during business hours, unable to witness to the children and their parents in any meaningful way. Some parishes have not sought advice and have accepted onerous terms and below market rent, bearing the cost for many years. The ACPT has substantial experience in helping parishes achieve positive outcomes with childcare centres.
20. **The AGM is mostly about the ministry update:** The AGM is an opportunity to provide parishioners with information about both ministry and financial matters. However, it is often the only opportunity each year for parishioners to ask questions and discuss financial matters. As such, the financial outcomes of the previous year, budget for the current year, property matters and staff changes should be discussed at length with substantial opportunity for questions.

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