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Diocesan Finances Review Update

Summary

In light of deteriorating financial sustainability in dioceses, the Diocesan Finances Review aimed to identify *mechanisms to ease dioceses' current financial stress in a way which helps to develop the Church's longer-term missional and financial health, focusing on:*

- *The financial support of dioceses by the national Church*
- *The simplification of the Church's financial systems primarily in respect of financial flows between dioceses and the National Church Institutions*

A package of costed recommendations have been developed for consideration as part of the Triennium Spending Plans for 2026-28. The proposals include increasing Lowest Income Communities Funding; providing time-limited additional financial support to dioceses as they pursue longer term strategies for growth and sustainability; abolishing diocesan apportionment; streamlining the funding of ordination training and associated costs; increasing and standardising clergy stipends and pay policies; increasing the starting rate of pensions; and providing for more detailed work to address structural overheads, duplication and complexity.

The proposals recognise the immediate financial pressures on dioceses and the need to ease this stress, whilst enabling change within a longer term mission, financial and people plan for sustainability and flourishing, as well as seeking to simplify complex, opaque and burdensome arrangements currently in place. The total package represents a cost of £220m time limited funding over 9 years, plus £30m in perpetuity.¹ The Triennium Funding Working Group will therefore need to consider affordability and balance priorities alongside other funding requests in developing the spending plans recommendations for 2026-28.

Introduction

1. The Diocesan Finances Review was commissioned by the Archbishops' Council in order to establish a robust and complete picture of diocesan financial health. A detailed data collection exercise was undertaken in collaboration with dioceses, which revealed a deteriorating picture, with aggregate underlying diocesan operating deficits² of £29m in 2022 expected to more than double to £62m in 2024, as outlined in GS Misc 1384.
 - The number of dioceses in deficit is increasing, with 18 in deficit in 2019 and at least 35 expecting to report deficits in 2024.
 - Declining attendance (by at least 25% since 2015 and as much as 40% in some dioceses) has driven a real terms reduction in parish share in all mainland dioceses, with a significant mismatch between parish share collected and the cost of resourcing ministry and mission.

¹ The level of assets required to support £30m per annum in perpetuity is estimated as £0.9bn - £1.2bn of the national endowment managed by the Church Commissioners.

² Underlying operating deficits reflect income less expenditure, excluding gains or losses on property sales, one-off unusual items and realised and unrealised gains on investment assets. This measure seeks to provide a view of sustainability in terms of underlying financial health; rather than the benefit of one-off asset sales.

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- Half of dioceses face some short-term liquidity risk with 23 holding less than 3 months' cash reserves, 13 of which do not have any easily available investment assets to liquidate.
2. In light of these findings, the Diocesan Finances Review Steering Group³ (which included membership from dioceses as well as the NCIs) undertook work during 2024 to develop costed, coherent proposals for reform of the key financial flows, in order to make a recommendation to the Triennium Funding Working Group as they consider spending plans for 2026-28 and beyond. The proposals were developed in consultation with stakeholders across the Church, and sought to uphold a number of agreed principles⁴.
 3. The aim of this work was to *identify mechanisms to ease dioceses' current financial stress in a way which helps to develop the Church's longer-term missional and financial health, focusing on:*
 - *The financial support of dioceses by the national Church*
 - *The simplification of the Church's financial systems primarily in respect of financial flows between dioceses and the National Church Institutions*
 4. In developing their recommendations, the Group has also taken account of other key areas of work which impact upon the overall financial picture, notably in relation to improving clergy wellbeing. This includes proposals developed in response to the February 2024 General Synod motion which committed the National Church and dioceses to work together to explore how stipends and pensions could be improved in a sustainable manner, with reference to the impact of changes in pension benefits since 2011⁵. It also considered proposals from the Ministry Development Board which seek to improve maintenance arrangements for ordinands both in terms of adequacy of provision and simplification of the processes. As such, the Group wishes to emphasise the integrated nature of the proposals which should be viewed as a package due to the significant degree of interdependency in the financial system.

Summary of recommendations

5. In developing their recommendations the Group recognised the immediate financial pressures on dioceses and the need to ease this stress, whilst enabling change within a longer term mission, financial and people plan for sustainability and flourishing, as well as seeking to simplify complex, opaque and burdensome arrangements currently in place. The proposals are summarised as follows:
 - A commitment to **Strategic Mission & Ministry Investment** as the **key funding pillar** to support dioceses to realise the Vision & Strategy in parishes and worshipping communities through a partnership approach and in a way appropriate to their context.
 - The critical importance of **Lowest Income Communities Funding** which it is recommended should be **increased by c. 1/3rd**, and a **light touch reporting framework** introduced to improve **accountability** and **transparency**, and

³ See Appendix A

⁴ See GS Misc 1384 Appendix 2 which details the principles along with the theological framework

⁵ See GS 2330A, B and T and GS 1391

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encourage greater **intentionality**. The current formula and recipient dioceses should remain unchanged.

- **Time-limited additional financial support, tapering down over 9 years** to provide breathing space for dioceses in light of the acceleration in financial challenges faced post-pandemic.
 - **Diocesan apportionment should be abolished**, with votes 2-5 met through the national endowment, and a **new reporting framework** introduced to provide accountability for national costs and services
 - The introduction of a **single ministry training fund** to replace vote 1 and the pooling and maintenance arrangements, which will be administered nationally, funded by dioceses with contributions reflecting diocesan wealth as well as clergy numbers, and set on a multi-year basis for planning certainty
 - **Increase clergy stipends** to catch up inflation since 2011, and **standardise stipends levels and policies across dioceses** (maternity, paternity, sabbaticals etc).
 - Increasing the National Minimum Stipend will also **uprate starting pensions**. **Remove the one-year NMS time-lag on starting pensions**, and review pension benefits and contributions in light of next statutory scheme valuation (as at 31 December 2024)
 - Set aside funding to support detailed planning and pilot schemes aiming to **address structural overheads** which impact our cost base, and **opportunities to reduce duplication and complexity** to be undertaken in the next triennium.
6. The total package represents a cost of £220m time limited funding over 9 years, plus £30m per annum in perpetuity.⁶ The Triennium Funding Working Group will therefore need to consider affordability and balance priorities alongside other funding requests in developing the spending plans recommendations for 2026-28.

Further details

7. The following sections provide further detail about each of the key recommendations. As noted above, these form part of an overall package of recommendations, with important interrelationships between them in terms of the impact on individual dioceses and collectively, so must be viewed holistically. In developing the recommendations the Steering Group took account of feedback and engagement with a wide range of stakeholders.

Strategic Mission & Ministry Investment

8. **Strategic Mission and Ministry Investment (SMMI)** provides the key funding pillars which together aim to help the Church to realise the Vision & Strategy in our parishes and worshipping communities; to become a Church for the whole nation, which is Jesus Christ centred, and shaped by the five marks of mission. The SMMI funding commenced in 2023, building on previous funding arrangements, and incorporates:

⁶ The level of assets required to support £30m per annum in perpetuity is estimated as £0.9bn - £1.2bn of the national endowment managed by the Church Commissioners.

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- a) The **Diocesan Investment Programme (DIP)** [£240m in 2023-25] – investing in long term diocesan strategies through an integrated partnership approach. Dioceses are in different stages on the journey so DIP is tailored to their needs:

- Early stages of strategy development: Capacity funding, removing barriers to change, people pipeline development
- More advanced strategy: investment in targeted missional programmes in particular parishes, and further increase change capacity
- Substantial funding over 9 years to invest in people, programmes and capacity to deliver strategies supporting parishes and other forms of church across whole dioceses

Short term support can be provided to address financial challenges within the context of a *long term plan* for mission and financial sustainability

- b) **People & Partnerships Funding** [£49m in 2023-25] – targeting strategic partnerships to help parishes across the country, and support for various kinds of ordained and lay ministers. For example developing ministry pipelines and investment in lay and leadership development for parish ministry and senior leadership; grant funded partnerships to scale, innovate and strengthen around particular challenges e.g. children and youth ministry, deprived contexts; and funding of research / data analysis, learning communities and digital infrastructure.
- c) And **Lowest Income Communities funding** [£91m in 2023-25] – supporting flourishing ministry in parishes in the areas of greatest need which will never be self-financing (see below)

Lowest Income Communities Funding

9. Lowest Income Communities Funding (LInC) was a key area of focus for the Group and is considered to be a key foundation in the funding model. The most deprived communities have 60% less attendance and 40% less ministry per capita compared to the least deprived. LInC funding provides critical support to sustain flourishing ministry in parishes in the areas of greatest need which will never be self-financing.
10. Total LInC funding is c. £30m per annum and is paid to 28 dioceses, supporting c.2,000 parishes. **It is recommended that the total LInC fund available should be increased by c. 1/3rd** and should continue to increase annually in line with inflation. The recommended increase offsets some recent erosion of the value of LInC in real terms due to inflation and also recognises the impact of the proposed increase in stipends (see below). The increase in LInC also helps to rebalance resources amongst dioceses in light of other recommended changes (most notably abolishing apportionment which over-benefits more highly resourced dioceses).
11. The LInC formula estimates a diocese's ability to raise giving income in its low income communities, with funding directed to those which are least able to fund this ministry. It is a function of dioceses' residents' income, income deprivation and population. The Group carefully reviewed the existing formula and recipients, and concluded that these remained appropriate, with no change recommended.
12. The most recent available data indicates that 67% of LInC is allocated to parishes in the 25% most deprived areas. LInC tends to be allocated in different ways - retrospectively (filling parish share deficits), upfront allocation (as a cash grant or a

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discount to parish share) or for mission projects. It is recommended that a **light touch reporting framework** be introduced to:

- a) Ensure all parishes supported by LInC know they are beneficiaries and the extent of that support
- b) Report to Diocesan Synods on the intended (detailed budget) and actual use of LInC
- c) Confirm LInC strategy at the start of each triennium, and explain how the use of LInC aligns with local mission plans as part of wider strategic development and Diocesan Investment Programme bids

13. The reporting framework aims to demonstrate transparency, accountability and more intentional use of LInC whilst avoiding burdensome / complex processes and ensuring that areas of greatest deprivation and need are prioritised.

Time-limited additional diocesan support

14. Dioceses have faced a significant acceleration of financial and missional challenges post-pandemic which has created a level of acute pressure that is a blocker to strategic change. It is therefore recommended that **additional time-limited additional support should be provided to dioceses – this should be in the order of £200 million over a 9 year period**, tapering down over time. The intention of the funding would be to help to prevent short-term non-optimal decisions and to free up / give confidence to diocesan leadership teams to concentrate on developing strategic mission, people and financial plans for the long term mission, health and sustainability of their parishes and other forms of ministry.

15. The additional support should be provided through two strands, firstly a formula-based approach to provide immediate relief, enabling diocesan leadership teams to concentrate on longer term planning and transition to a strategic pathway which can then be supported through the Diocesan Investment Programme, and secondly an increase in the Diocesan Investment Programme funding so that as dioceses bring forward their bids there is adequate funding available to address short term financial pressures and fund existing ministry costs whilst waiting for missional interventions to translate into improved financial health (with a commitment to transparent reporting on the use of DIP in this way).

Diocesan apportionment

16. Diocesan apportionment is the contribution currently made by the dioceses to the Archbishops' Council under 5 separate 'votes':

- a) Vote 1: Ministry Training (+ adjustment to pool and share maintenance costs)
- b) Vote 2: Archbishops' Council National Church responsibilities
- c) Vote 3: Grants (Anglican Communion Office, Ecumenical matters etc)
- d) Vote 4: Mission Agency Pensions
- e) Vote 5: Clergy Retirement Housing

17. Dioceses currently pay £33m in apportionment contributions towards the 5 'votes' of the Archbishops' Council's budget. However apportionment now funds only 50% of the associated costs and has reduced in real terms by about 25% since 2019. This is a consequence of declining affordability for dioceses, which has led to apportionment being frozen or capped in recent years. It is generally felt to be a complex and opaque way to meet what is a declining share of the associated costs.

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18. The Apportionment formula is based on sum of “diocesan resources” (including parish resources) reflecting expected giving income, diocesan income and parish investment income. It is to some degree ‘redistributive’ in that the wealthier dioceses pay a greater share of the whole. However, capping to avoid large changes over time means the current apportionment contributions no longer accurately reflect the formula.
19. It is recommended that **diocesan apportionment be abolished, with votes 2 – 5 funded through the distributions from the endowment managed by the Church Commissioners, and new arrangements put in place for Ministry Training** (replacing vote 1) (see below). A more robust and transparent framework for Synodical consideration of national budgets / spending plans should be introduced to ensure accountability for only funding services which are required and best delivered nationally. This would replace the ‘votes’ of the Archbishops’ Council budget process, and is already envisaged in the Governance Programme proposals in relation to the future body Church of England National Services (CENS).

Ministry Training Fund

20. The current arrangements for funding ministry training are extremely complex and opaque, with multiple money flows and adjustments required over time between the Archbishops’ Council, dioceses and the Theological Education Institutions (TEIs). It is recommended that a **single Ministry Training Fund be established for ordination training costs**, which could incorporate all fees, living allowances and expenses, to be managed through a much clearer, simplified and standardised framework to allow prospective ordinands greater clarity and confidence about the support they would receive, and to ensure that support is sufficient. This fund would be administered nationally by the Ministry Development Team of the Archbishops’ Council, and largely funded by dioceses.
21. The diocesan contributions towards the Ministry Training Fund would be determined by a formula based on clergy numbers and assets per capita i.e. dioceses contribute based on their share of clergy and also on their underlying wealth (those dioceses which have more investment assets would contribute a greater share, retaining some element of redistribution of wealth following the abolition of apportionment). The contributions made by dioceses are therefore not directly linked to the number of ordinands sent by that diocese, avoiding any financial disincentive to encourage vocations.
22. Contributions would be set for a multi-year period (e.g. a triennium) to give planning certainty to dioceses; any variation in ordinand numbers would be funded through a national top up of the fund and smoothed in over time.
23. The total value of the Ministry Training fund would be set at such a level as to accommodate increased maintenance grants (as recommended by the RMF maintenance review) and a significantly simplified system for ordinands. A one-stop shop approach would be created, with improved systems to support the process including an online calculator to enable ordinands to quickly understand their entitlements. Ordinands would apply directly to the Archbishops’ Council Ministry Development Team for their maintenance grant and claim any expenses from the Archbishops’ Council.
24. Decisions about training pathways (institutions, modes and duration) would remain with the Sponsoring Bishop (via the Diocesan Director of Ordinands) within national guidelines.

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Clergy stipends and pensions

25. A General Synod motion passed in February 2024 committed the National Church and dioceses to work together to explore how stipends and pensions could be improved in a sustainable manner, with reference made to the impact of changes in pension benefits since 2011⁷. Clergy stipends have fallen behind inflation (including the National Minimum Stipend which determines the starting pension for new retirees). 42% of stipendiary clergy report that they experience financial stress, and 1 in 5 clergy have sought help from the Clergy Support Trust.
26. The recommendation of the Clergy Stipends and Pensions Review is to **increase stipends to catch up inflation since 2011. Future stipend increases should increase automatically** in line with inflation, with a cap, and subject to annual review by the Archbishops' Council.
27. Dioceses currently set their own stipends, with reference to the National Stipends Benchmark. There is a c. £2.3k differential between the highest and lowest incumbent level stipend paid by dioceses (ranging between just under £30k and £32.3k per annum). As already announced, with effect from April 2025 the National Stipends Benchmark will increase by 3% to £31,558.
28. It is recommended that a **National Standard Incumbent Stipend** is introduced, removing the differential stipend levels paid across dioceses in order to reduce the 'postcode lottery' faced by clergy across the country, supporting national deployment of clergy, and reducing the complexity of annual pay review processes and the administration of pay and policies across dioceses and nationally. Curates would be paid at the National Minimum Stipend, maintaining the current differential between curate and incumbent level stipends. It is recommended that with effect from April 2026 the National Standard Incumbent Stipend would be £34k, and the National Minimum Stipend would be £32.5k.
29. It is recommended that relevant **policies such as maternity, paternity and sabbatical arrangements should also be standardised.**
30. The proposed increase in stipends will put further financial pressure on dioceses. Therefore the 'balance' of other recommendations outlined in this report (i.e. the net financial benefit to dioceses of removing apportionment, introducing the single ministry training fund and increasing LInC; as well as the additional time-limited support) is designed to enable dioceses to absorb the cost of increasing stipends.
31. The proposed **increase in the National Minimum Stipend would improve the starting rate of pensions** accordingly and mitigate the effect of changes to accrual rates since 2011. Starting pensions currently refer to the previous year's NMS as the reference point; **removing the one-year time-lag in the NMS** would improve starting pensions further. This would require a change to the Pension Scheme Rules and the Clergy Pensions Measure 2018 (requiring General Synod time for legislative change).
32. A fully funded pension scheme offers **opportunities to review benefits further.** Contribution rates are down from highs of more than 40% to the current rate of 25% of pensionable stipends. The next statutory valuation of the clergy pension scheme is being undertaken as at 31 December 2024. Subject to market conditions there may be potential for a further reduction in the future service contribution rate. This could

⁷ See GS 2330A, B and T and GS 1391

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provide headroom to reduce contribution costs or improve pension accurate rates (or both). This would be subject to detailed analysis and consultation.

33. Looking further ahead, a new type of pension enabled by the Pensions Act 2021 – Collective Defined Contribution could provide an attractive option in the longer term offering significantly higher target pensions per £ contribution (albeit without the same strength of guarantees in a defined benefit pension structure). The Pensions Board are keeping this under review.

Opportunities for longer term structural change

34. The Group received significant feedback and concern from a range of Church stakeholders about a number of big, seemingly intractable issues which materiality contribute to the challenges of financial sustainability. There is significant call for these to be addressed. The financial overhead of maintaining current arrangements is enormous, whether that is the difficulties of managing church buildings which are no longer required for worship, or the scale, complexity and duplication of organisational and governance structures at diocesan and national level.
35. The Group recommends that **funding (in the order of £20m initially)** is made available in the next triennium to undertake detailed analysis and planning (including pilot initiatives) focused around **addressing structural overheads which impact the cost base, and opportunities to reduce duplication and complexity**. This would enable the Church to develop a shared plan for reform over the next decade, investing intentionally to change the size and shape of underlying structures and ways of operating. Detailed scoping and analysis would be needed, and so resources should be set aside to enable this. This is critical if the Church is to right-size its physical and organisational infrastructure to better serve the needs of today's Church and to develop the agility to respond to changes over time – serving the needs of tomorrow's Church as well.

Delivering simplification and transparency

36. One of the key objectives of the Diocesan Finances Review was to **simplify the Church's funding arrangements in order to help improve transparency** so that the key aspects of the Church 'financial system' can be more easily understood; the proposed arrangements will significantly reduce complexity and will be easier to explain at diocesan and local parish level – as well as reducing administrative overhead. The following actions will simplify / aid transparency in relation to the Church's funding arrangements:
- Ensuring greater transparency over the use of Lowest Income Communities Funding to give confidence that it is applied in the areas of greatest need through a simple reporting process
 - Removing diocesan apportionment arrangements and the five "votes" of the Archbishops' Council which are characterised by an overly complex and opaque formula, and costs which are not well understood at parish level and therefore hard to raise parish share for
 - Improving transparency of and accountability for National budgets through more holistic reporting framework aligned to the National Governance proposals
 - Introducing one set of arrangements for funding Ministry Training (fees, maintenance and expenses) rather than managing a series of funding flows, true

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ups and ‘pooling’ adjustments between dioceses, the national church, TEIs and ordinands

- Fixing diocesan contributions to Ministry Training for a multi-year period to give clarity and aid planning
- Clearer arrangements for prospective ordinands to understand their entitlement to maintenance support more easily; removing the post-code lottery and associated confusion and differential treatment
- Removing the post-code lottery for clergy stipends and pay policies (maternity, paternity, sabbaticals) through standardisation; giving clarity to clergy and reducing the overhead of managing these from an administrative perspective
- Removing the overhead and complexity of clergy stipend setting through a pre-determined formula for increases (with a safety net cap for affordability)

Next steps

37. The Triennium Funding Working Group is considering these proposals within the context of developing the triennium spending plans for 2026-28 and beyond, balancing a range of priorities and funding requests. Recommendations will be made to the Church Commissioners and Archbishops’ Council in due course. The General Synod will consider the outcome of this work in the July Group of Sessions, including any elements which require Synodical approval.

Carl Hughes, Chairman
Diocesan Finances Review Steering Group

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Appendix A

Diocesan Finances Review Steering Group Membership

Carl Hughes, • ACFC Chair	Gareth Mostyn • Chief Exec (CC)
Neill Burgess, • ACFC Member, General Synod member	William Nye • Secretary General (AC)
Debbie Clinton • Co-Director of Vision & Strategy	Michaela Southworth • Diocesan Secretary, Chelmsford
Simon Gallagher • Director of Secretariat (AC)	David White • Deputy Director of Finance
Richard Gough • Chair of Dio Sec/ Chief Exec's Network	Joanna Woolcock • Director of Finance Transformation
Stephanie Harrison • Governance Prog Director	+Pete Wilcox, • Bishop of Sheffield & Church Commissioner
Philip James • Deputy Director for Diocesan Support	Neil Williams • Finance Director, Exeter
James Morgan • Diocesan Secretary, Durham	