

**Introduction:**

The CCMBC Leadership Team and Executive Board have been engaged in the 2018 budget process and have determined the following:

1. The current funding model is not sustainable over the long term. Ministry expenditures have exceeded the contributions received from the Canadian MB churches.
2. The reliance on cash contributions from the Stewardship operations is not a healthy strategy for CCMBC.

The relationship between CCMBC and the member churches must be strengthened to ensure that the ministry strategy of the conference is sustainable. As you review the CCMBC Ministry Budget and the Legacy Budget, you will notice that the 2018 budget year includes some significant changes. Due to the magnitude of these changes, it was decided that a Zero-Based Budgeting (ZBB) would be used in developing both sets of budgets.

**Why did we use Zero-Based Budgeting (ZBB)?**

Zero-Based Budgeting is a method of budgeting in which all expenses must be justified for each new period rather than justifying incremental changes from an existing budget. Zero-based budgeting starts from a "zero base" - it is like a blank page. Every function within an organization is analyzed for its needs and costs. Decisions are based on the priorities to achieve the mission and not on historic spending patterns. Including a faith-based component means asking questions like, "How could we rely more on God to fulfill this need?" or "What would a step of faith look like in this area?" or "What should we be praying for?" While ministry uses financial numbers, it is not primarily about numbers but about lost people. Using ZBB creates a new perspective towards finances as related to our mission.

**What are some reasons ZBB is used by organizations?**

- **Mission focus** - since expenditures are linked to activities, the contribution of activities to mission become better defined.
- **Alternatives analysis** - creates a review of alternative ways to perform each activity (such as keeping it in-house or outsourcing it), as well as the effects of different levels of spending. New ways to operate are discovered.
- **Required review** - invites a full review of the organization, its costs, needs and alignment to mission so that it uses resources most effectively for its current and future context, rather than building off a historical context.
- **Communication** - significant debate results among the management team about the mission of the organization and how it is to be achieved.
- **Culture** - the value of each department's contributions as well as the organization's priorities are better understood by all team members, allowing for a more unified culture.
- **Eliminate non-key activities** - the organization is forced to decide which activities are most critical so that non-key activities can be eliminated or outsourced. Redundancies can be identified and removed.
- **Resource allocation** - if conducted with the overall mission and objectives in mind, the organization will be a better steward of its resources, ensuring that they are allocated to those areas where they are most needed.

**What are some of the basic tenets of ZBB?**

- Budgeting is not accounting, but rather is a tool to ensure accountability. Everyone in the organization who impacts a cost by making a decision has a responsibility to the budget.
- All activities must pass the test of necessity and cost-benefit analysis, showing they offer the best way possible to contribute to the fulfillment of the mission.
- Past activities do not continue to exist simply because they have acquired a history. Activities exist if there is a need and if someone takes the responsibility for justifying the need for their existence, as well as ensuring that the outputs are produced.
- Future activities must fit into the organizational objectives and strategies to fulfill the mission.
- The existence of the expenditure does not justify the output. The output must justify the expense by addressing key organizational needs.
- Outputs should be measured and monitored to create accountability.
- Budgets do not control the mission but are meant to be a tool to help fulfill the mission. Healthy and challenging dialogue can happen around finances and mission in a ZBB approach.

The Executive Board has reviewed this process and understands how ZBB changes the budget development process and has agreed that this is the appropriate approach for the development of the 2018 budget. This has been a process of rebuilding CCMBC based on a needs analysis and not necessarily on our existing departments and spending patterns.

*CCMBC is looking for new ways of accomplishing the mission. We are not just trying to cut costs.*

**What is included in the CCMBC Budget and what is included in the Legacy Budget?**

With the launch of Legacy in 2018, there needs to be a clear division of responsibilities between the two organizations. In the past, there has been some confusion regarding who was paying for what and using what funds. To provide greater clarity in the 2018 budgets, the following decisions were made:

1. CCMBC's primary ministry obligations are the Building Community, Multiplying Churches, and Developing Leaders ministries supported by the funds provided by the churches. CCMBC seeks to better coordinate these ministries with the provincial conferences to function in a complementary fashion. The whole purpose of the ministry model is to strengthen partnerships.
2. For clarity, CCMBC will pay cash to Legacy for all accounting services provided and will pay the costs of audit and insurance directly to the providers. The CCMBC audited financial statements for 2018 will include only the CCMBC ministry operations as presented in the 2018 CCMBC Ministry budget. Like other MB ministry partners, CCMBC can receive some rental subsidy from Legacy.
3. Legacy's primary ministry obligations are part of Resourcing Ministry. Legacy will handle all stewardship ministry activities related to mortgages, as well as payroll and accounting services, management of gifts of securities, endowment funds and cash management. CCMBC Holdings Ltd. and the "For Profit" companies will be managed within Legacy. The Legacy audited financial statements will be consolidated with the Holding and "For Profit" companies.
4. The rental and associated operating costs of ministry hubs will be managed as part of Legacy and net costs will be identified as subsidized ministry support as part of Resourcing Ministry. Facility subsidies are being offered to a variety of MB partners including ABMB, MBCM, ETEQ, MB Mission, C2C network and CCMBC (which includes CMBS).

## **CCMBC BUDGET - SPECIFIC COMMENTARY**

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### **CCMBC Income:**

The amended motion at Gathering 2016 requested a balanced CCMBC budget using church support only, which means there will be no cash transfer from Legacy in 2018. CCMBC is now designed to become self-sustaining using church support. The church support for 2018 was estimated to be \$1.2M. This is the amount that can be distributed to support all CCMBC ministries. By comparison, the 2017 budget was based on \$2.65M as it included Legacy support. This is a significant change which makes the Zero-Based Budgeting approach so important.

### **Overall CCMBC Expenditures:**

After completing the ZBB process, the proposed allocations of the \$1.2M in the 2018 budget were as follows:

- 43% Building Community
- 32% Multiplying Churches
- 16% Developing Leaders
- 9% Administration

Overall, it was felt that the Building Community ministry (which includes items like the BFL, Executive Board, archives, MB Herald, etc.) should be given the highest priority as many of these activities can be performed only at a national level. A key question asked was, *“What are the responsibilities that only the national conference can fulfill in accomplishing the mission of the MB Churches in Canada?”*

### **Building Community:**

The ZBB process began by defining the highest priorities for CCMBC. Legally, what must the national conference do to function as a denomination in Canada? A quick review of the CCMBC Charter and General Operating Bylaws (GOB) made it clear that the Board of Faith and Life must be supported as our theological center. The Executive Board and Annual General Meetings (held at Study Conference and Gathering) must be hosted. The role of the Executive Director is critical to represent the denomination. Consequently, the Building Community ministry budget was evaluated first.

Extensive analysis of each budget line was completed using the ZBB process. For example, three different scenarios were analyzed for how the Executive Board could meet to fulfill its obligations under the GOB. Costs ranged from \$7,000 (in which all meetings were hosted by video) to \$50,000 (in which meetings were held at airport hotels). The proposed option of \$38,000 uses a scenario where meetings are hosted in local churches with board members staying with billets. The BFL meeting arrangements will match those of the Executive Board. This is one example of how CCMBC will be seeking greater support from the local churches.

CCMBC Partner Support was a challenging exercise. Overall support is down to \$126,000 from \$191,000 in 2017. ICOMB saw the most significant reduction, but the \$24,000 is based on the actual 2% commitment requested of ICOMB conferences. The Historical Commission reduction matches a request made by the USMB Conference to reduce support to USD\$10,000/year.

### **MB Herald moving to Subscription:**

In 2017, CCMBC provided over \$175,000 to subsidize the MB Herald which is delivered to over 12,000 households. A significant cost is the printing and shipping which is about \$129,000. This summer, 130 churches responded to a brief survey asking about magazine distribution options and about recovering the costs of printing and shipping. We learned that only 21% of churches verify that their church

members choose to receive the printed version of the Herald. We learned that some were open (over 60%) to using the free electronic version of the Herald, while others preferred to receive the print version. In the 2018 budget, it is proposed that those who prefer to receive the printed version of the MB Herald pay \$24/year to cover the print and shipping costs of their hardcopies. In addition, moving to paid print subscriptions allows the MB Herald to apply for a federal grant. It is anticipated that many subscribers will move to the free electronic versions of the Herald, resulting in a reduction in printing and shipping expenses. We understand the sensitivity around the issue of the MB Herald and we worked hard to find a solution that could fit into the new operating realities of CCMBC.

**Developing Leaders:**

The most difficult challenge in developing the 2018 budget was probably in the area of Developing Leaders. Senior leadership made a very difficult and unanimous decision to recommend the closure of the L2L department and presented this recommendation to the EB for approval in the 2018 budget.

Strategically, CCMBC must focus on supporting services that the provincial conferences cannot offer to their member churches. CCMBC recognized that the provincial conferences are providing their own leadership development and the CCMBC ministry was identified as being redundant and even competitive. Also, churches have access to a wide variety of leadership resources within and outside of the denomination. The decision to close L2L does not mean that leadership development resources will not be available to churches across Canada.

From a national perspective, CCMBC believes that it must continue to allocate resources to both MBBS and ETEQ. There has been a reduction from historical support levels which we hope can be understood given the magnitude of changes being proposed in the 2018 budget. The Leadership Training Matching Grant is a national initiative that remains unchanged at \$30,000.

We would like to affirm the excellent work that has been done by L2L and thank them for their service.

**Multiplying Churches:**

The mission of CCMBC is to multiply Christ-centred churches to see Canada transformed by the good news of Jesus Christ, and so Multiplying Churches is a very important part of the ministry model. We believe that keeping a healthy commitment to church multiplication will help to keep CCMBC and our churches on mission.

In past national budgets, CCMBC has been covering any shortfalls in the MB church planting costs in the provinces. For example, Quebec provides only \$2,500 towards church planting. In Atlantic Canada, we have no provincial conference. CCMBC feels that this is an important national role to encourage church planting in regions that are not able to fully support this work on their own. In fact, the Multiplying Churches ministry is an excellent example of collaboration between provincial and national conferences.

Even with the national conference's contribution, the total cost of supporting MB church plants across Canada has not been met; however, the C2C network is offering to continue their fundraising to support the costs of the MB church plants (even if the merger is approved). Like other denominations that partner with C2C, we believe that it is important that the MBs cover their church planting costs. In the proposed 2018 budget, CCMBC is able to contribute \$383,700 towards MB church planting along with \$703,500 from the provinces. The C2C network will be asked to contribute \$823,600 to meet the 2018 budget needs. We understand that the proposed C2C and MB Mission merger may make this a bit more complicated to understand which is why the 2018 budget was prepared showing C2C separate (just

below the CCMBC income and expenses) but still identifying their fundraising contribution to support MB church plants.

A new item included in the 2018 budget is a nationally based First Nations ministry. There has been an invitation by First Nations people to work with tribes across Canada as they are not provincially based. This is an incredible opportunity for the MBs to work with First Nations people.

**How will MB church plants be handled if C2C/MB Mission merger is approved?**

It is important to understand that MB church plants will continue to be managed within CCMBC if the merger is approved. You will notice that the provinces provide their funds to CCMBC and not the C2C network. CCMBC helps to support and coordinate the work of multiplying churches across Canada. For example, the non-registered church plants operate under CCMBC's charitable registration and their finances flow through the CCMBC general ledger. Legacy provides the actual accounting services. (Note: As the non-registered MB church plants use CCMBC charity registration, they are required to be included in the CCMBC operations for CRA reporting.)

Legacy's accounting services costs for the MB church plants will not be attributed to CCMBC. These costs are considered part of the ministry subsidy work that Legacy will offer to MB church plants. The MB church planting budgets for each province are approved by the provincial leadership teams. Each province's budget acts as a "funded project" within CCMBC. Project accounting principles apply to each of the provincial church plants. Hence, provincial funds are first designated to a specific project and funds must be spent as indicated by the approved budgets. The Multiplying Churches ministry highlights how provincial and national conferences are working collaboratively to support church planting across Canada.

**The Long-Term Future Of CCMBC:**

We hope that this document has provided some insights into the 2018 budget development process. We anticipate that there will be many questions. A conference call in October and break-out sessions before the November 1 Special General Meeting are being planned to allow more dialogue around the whole 2018 financial picture, including Legacy. (Also, please review the Legacy Budget Commentary.)

We know that every dollar matters. The ZBB process forced us to look at each cost and how it benefits the mission. There could be a valid case made for almost every budget line to be increased but then a reduction would be needed somewhere else. For example, to give more funds to Developing Leaders, you could ask the Executive Board to only meet by video, but how would this impact our ability to fulfill our mission of multiplying Christ-centered churches to see Canada transformed by the good news of Jesus Christ?

A final element of the 2018 budget proposal is the potential impact of the One Mission Partnership Task Force. Today we have 7 different MB conferences in Canada and multiple MB ministries trying to work together and work with the MB churches across Canada. The Task Force has been asked by the Executive Board to investigate if there could be "one mission – local, national, global" that could unify our ministries and churches, and what might this mean to how we operate. We recognize that 2018 could be a bridge year towards a new future for the MB family.

## **LEGACY BUDGET - SPECIFIC COMMENTARY**

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### **Legacy Subsidies to MB Ministries**

The purpose of Legacy is to Resource Ministry. In addition to offering mortgages to churches and pastors using the Registered Funds (TFSA, RRSP, RRIF), Legacy provides subsidies to MB partner ministries through its payroll services, accounting services, and facility subsidies. Small churches have been granted free payroll services. The new MB church plants, which are not yet registered with CRA, are given free accounting services while they operate under CCMBC's charitable registration. MB partners are also offered facility subsidies. For example, CMBS, MB Mission and the Manitoba Conference, as well as CCMBC Communications Team, receive free space (valued at over \$125,000) within the Winnipeg office.

### **Revenue**

The most significant decision applied to the 2018 Legacy budget is that the revenue and direct expenses relating to the non-registered deposits will not be incorporated into the 2018 budget. The net impact of this decision results in a reduction of revenue of approximately \$3.8 million. As we are awaiting detailed guidance from the securities regulators, it was deemed more prudent to exclude those deposits from the 2018 budget and apply a "Sabbath year" approach. Any net earnings from these deposit funds recognized in 2018 will be added to the investment reserve directly, in the same fashion as we have been adding capital gains. By applying a Sabbath year approach, any net earnings from 2018 could be used in 2019 so that the 2019 funding is based on actual funds available from the previous year as opposed to using projected earnings for the 2019 year.

Sales and cost of sales from Kindred Productions and the Herald remain in the CCMBC ministry budget to comply with the articles of incorporation for Legacy and our application for charity status with CRA (which we have received).

Rental income for all of the facility tenants is being recorded as rental revenue. In the situations in which cash rent is not being received, we have provided for an offset expense identifying the subsidized amount. The facility rent subsidy to the MB family is \$466,655.

The revenue for payroll and accounting services provided to churches and conferences is being recorded in full. There are a few small churches which have met the payroll subsidy criteria and have been given a "payroll holiday". Each year, churches can apply for this subsidy. In 2018, the approved subsidies are expected to be \$8,500. In addition, the accounting services for the non-registered MB church plants are being provided at no charge. This is also identified as a subsidy to our church family. In 2018, this is expected to be \$127,080.

Net investment earnings on mortgages and surplus cash are being recorded on a consistent basis as prior years.

No revenue is being recognized in the 2018 budget for capital gains, recovery of the allowance for credit losses and net profit (loss) from the for profit operations. This is consistent with prior years' budget practices.

## **Expenditures**

All expenditure departments and line items have followed the ZBB process explained for CCMBC in the CCMBC Budget Commentary document. All activities have been identified as zero based (fully funded/net zero), essential, maintenance or growth. Efforts were made to see that the ministry hubs were maintained as well as the ETEQ rental subsidy of \$120,000. The mortgage rates will remain as they are through to July 2018.

The 2018 budget proposal has been prepared to include further reductions in properties under management to reduce facility expenses and provide investment capital. Some staffing reductions have been discussed and will be implemented in 2018.

The Resourcing Churches ministry is made up of providing mortgages to churches and pastors, providing payroll and accounting services, and providing facilities to our church family. The administration cost for Legacy is 14.3% of the total Legacy expenditures. There have been significant reductions in costs for most expense categories.