HUBBARD COMMUNICATIONS OFFICE
Saint Hill Manor, East Grinstead, Sussex

HCO POLICY LETTER OF 28 SEPTEMBER 1979RA
ISSUE I
RE-REVISED 12 NOVEMBER 1980

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(Revisions not in Script)

Finance Series 18RA

INTRODUCTION TO THE NEW FINANCE SYSTEM

REFERENCES:

HCO PL 14 Dec 70	GROUP SANITY
HCO PL 31 Aug 71	THE EC NETWORK DISBANDED (THE WHY OF GI CRASHES)
HCO PL 3 Dec 71	Executive Series 4 EXCHANGE
HCO PL 12 Nov 71R II	HOW TO RAISE YOUR STATISTICS AND PAY
HCO PL 20 Jan 78	INCOME CUTATIVES AND SALARY SUM
HCO PL 28 Feb 80	Finance Series 25 PRODUCTION AND ONE'S STANDARD OF LIVING

It is a fundamental law of economics that income and prosperity are dependent upon delivery and the production of real and honest Valuable Final Products. This law is etched in hardened steel and an inescapable fact of life.

It equally applies to an org and to an individual - or any activity for that matter.

To illustrate, let us take an example of a fellow whose business is painting houses. And let's further assume that he is a terrific salesman and runs around collecting vast amounts of advance payments from customers.

If he continued to collect advance payments as his sole activity without painting any houses he would eventually find his customers skeptical and collections difficult and after that, impossible. Even if he did paint a few houses, but far less than he had been paid for, he would eventually find it difficult to collect further advance payments until he delivered what he'd promised. His reputation would suffer from complaints of dissatisfied customers and he would be getting no referrals or word of mouth advertising.

Similarly, if this fellow actually did paint houses but turned out overt products - such as if he painted over the old peeling paint, or used wrong colors or inferior paint - he would again find advance payment collections difficult to impossible.

If, on the other hand, this same fellow produced like mad, painting houses left, right and center to his customers' full and complete satisfaction, he would have them begging him to take their money and would be hiring staff to cope with the flow of business.

The above is all very obvious and well covered in the references listed at the top of this policy letter. But unfortunately some orgs, namely those with income difficulties, do not fully understand this fundamental law.

In addition to any failure to fully understand the basic principles of exchange, the previous finance system was susceptible to abuses and violations of this law. An org's FP allocation (the amount of money available to spend) was solely determined by gross income without taking delivery into account. An org was to some degree considered to be doing well and prosperous in a particular week if income was high, even though the value of services delivered might be out the bottom. The focus was on income without a correct emphasis on what was actually exchanged for that income in some cases. Income without delivery is a false viability.

Some finance authorities, recognizing that spending more than was earned was out-exchange, sought to remedy this by putting in a fixed FP allocation that stayed the same no matter how high income and delivery might have been in any given week. The frailty of this approach was that it failed to reward and encourage actual production. Some staff members were found to have the idea that it is impossible to raise one's standard of living through production by reason of having been subjected to this system. This idea is a false datum. (Reference: HCO PL 28 Feb 80 PRODUCTION AND ONE'S STANDARD OF LIVING.)

On an individual basis it is easy to demonstrate that income depends on delivery. If one sold John Preclear a 25 hour intensive and then didn't deliver it, the registrar might find the going rough when he tried to sell him additional hours.

Similarly, if the auditing was "delivered" but the tech was out and the expected available gains were not forthcoming, he will be unlikely to run out and get the money together for some more auditing.

Of course all delivery and no income demand would be equally crazy. If the painter in the above example did nothing but paint houses without collecting payment for it, he would soon be starving and out of business.

What is needed is a proper balance of income and delivery. It is where there is more attention on income than on production and delivery, that an org gets into trouble. And reversely, when more attention is given to production than sales, a downtrend can also occur as the organization is put out of balance.

Well paid delivery in high quality is the correct answer. Only then can a boom continue.

To remedy the faults of past finance systems, the Founder suggested and the Boards of Directors adopted a new system which encourages a proper balance of income and delivery and which also ensures that staff are rewarded for their production of valuable final products. Those familiar with the theory contained in the references listed at the beginning of this policy letter will recognize that this new system is based on sound and tested principles of finance and organization. The principles themselves are not new, the mechanics of application are.

There are other issues implementing the new system which must be consulted for a full understanding. But the following covers the basics and mechanics of the new system.

DEFINITIONS

Some terms need to be defined, so that you fully understand this new system.

1. ALLOCATION - "a sum of money or a quantity set aside or allotted for a specific purpose." (Modern Management Technology Defined - MMTD)

2. FP - FINANCIAL PLANNING - "the financial planning hat is worn by the Advisory Council. Financial Planning means - how to handle the money and assets of an org so as to maintain outgo below income." "in essence is the sensible allocation of funds on necessities." (MMTD)

3. FP PROGRAM NUMBER 1 - "Program for carefully planned financial handling to result in an organization which is not only solvent but expanding on a sound gradient scale." (MMTD)

4. CGI - CORRECTED GROSS INCOME - "The corrected gross income is the income available for use and is calculated by deducting various items . . . " (MMTD) (These items are: bounced checks, counter checks, FSM Commissions, Tours Org commissions, HCO Book Account money, Claims Verification Board claims (for refunds and repayments), unsolicited donations, sales taxes, VAT (Value Added Tax in UK), all those things which do not belong to the org, or which the org may not spend.)

   Under this New Finance System there are VERY SPECIAL additional deductions made to obtain the CGI, and at the same time make the org more attractive to work in.

   These very Special Deductions consist of Staff Bonuses available to all staff in normal or above and based upon production.

5. VSD - VALUE OF SERVICE DELIVERED - "One simply adds up the invoices of completed services at the end of each week and that is the stat." (HCO PL 12 Nov 76RA, Rev. 18 Jul 79, STATISTIC CHANGE TECH SEC STATS)

ORG FP SUM

The org's weekly FP Sum (money for FP, pay, etc.), instead of being based solely on the GI, as is the current system, will now be based on CGI and VSD.

The org gets a percent of its VSD and a percent of its CGI for the FP Sum. This covers all its expenses; salary, disbursements and promotion.

The org also gets a percentage of the CGI as a Bonus to the allocation (in other words, to the FP Sum) if the GI is in a one and six week normal or above trend. An additional bonus to the allocation is available if training VSD exceeds processing VSD for the week. Having training VSD exceed processing VSD is desirable and rewarded because it helps promote future expansion and VSD for the org. Without trained auditors, there will be no one to deliver processing.

(The specific percents of CGI and VSD that can be taken for the allocation are as established for your org or area and issued by SO ED from the Board of Directors. These SO EDs also provide a gradient approach to earning the "training VSD over processing VSD" Bonus to allocation during the period that your org is first getting onto this New Finance System.)

Here is an example of how this works:

CGI - $5,000.00 VSD - $5,000.00

Let's say GI is in a one and six week normal or above trend and training VSD exceeds processing VSD for the week:

35% of CGI	$1,750.00
35% of VSD	$1,750.00
Subtotal	$3,500.00
2½% CGI (GI BONUS)	$ 125.00
2½% CGI (VSD BONUS)	$ 125.00
FP SUM	$3,750.00

Unused amounts over and above the FP Sum plus staff bonuses are paid into reserves accounts.

When your VSD and CGI are equal, the above can be seen to work easily.

However, when VSD and CGI are not equal, the following rule applies:

The amount of CGI that can be taken for the Financial Planning Sum can be no greater than the VSD that can be taken, and the amount of VSD that can be taken can be no greater than the CGI you can have.

<u>EXAMPLE</u>:

CGI - $7,000	35% - $2,450.00
VSD - $2,500	35% - $ 875.00

However, per the above rule, the amount of CGI that can be taken for the FP Sum is <u>not</u> $2,450.00, but only $875.00, as that is the amount of VSD that can be taken. So the correct calculation would be:

35% CGI	$ 875.00
35% VSD	$ 875.00
FP SUM	$1,750.00.

On the other hand,

<u>EXAMPLE</u>:

CGI - $2,500	35% - $ 875.00
VSD - $7,000	35% - $2,450.00.

But, the amount of VSD that can be taken for the FP Sum is only $875, <u>not</u> $2,450, because $875 is the amount of CGI that you can take. So the correct calculation in this case would be:

35% CGI	$ 875.00
35% VSD	$ 875.00
FP SUM	$1,750.00

So you can see that both VSD and income must be high to get a high allocation. Under this system both income and production are rewarded in the allocation.

When the org is really making the income and really delivering the services, there are further rewards available to the staff above and beyond the unit value.

<u>BONUSES</u>

There are two Major types of bonuses, both of which reward increasing income and delivery.

The first are those previously mentioned Bonuses to the org's allocation. One of these is earned by income increase. For example, in Class IV orgs, 2½% of the CGI is added to the allocation if the GI is in one and six week normal or above trend. The other 2½% can be earned by having the training VSD above the processing VSD for the week.

The second type of bonus differs from the ones above in that they are paid directly to deserving staff rather than into the org's allocation. They are in addition to the unit value of regular staff pay.

These bonuses are further rewards for increasing income and VSD. Anyone whose stats are in normal or above is eligible to share in these bonuses.

Therefore it is to your advantage to keep your production and stats up. These bonuses can amount to a fair-sized chunk of CGI each week.

FINANCIAL PLANNING NUMBER 1

Orgs must work out their new FP No. 1 when going onto this system based on what their FP Sum would have been over the last 4 months on this new allocation system. (How one does an FP No. 1 is covered in HCO PL 28 Sep 79R III, Finance Series 20R FINANCIAL PLANNING PROGRAM NUMBER 1.)

To base the FP No. 1 on any previous allocation system used by the org can give falsely high or low FP No. 1 sums which would be totally unworkable for the org on the new allocation system.

REFUNDS

Any refund comes off the VSD per HCO PL 12 Nov 76RA, Rev. 18 Jul 79, STATISTIC CHANGE TECH SEC STAT and HCO PL 28 Sep 79 VIII, VALUE OF SERVICE DELIVERED AND YOUR ORG'S ALLOCATION and accordingly comes off the CGI. If any refund is found hidden, put in drawers, etc., when it is found it comes off double off the VSD.

An org has no right to deliver out-tech and has no right to accept money and not deliver anything.

FINANCIAL DICTATORSHIP

FINANCIAL (adjective) - "Having to do with the Management of large sums of public or private money." (World Book Dictionary)

DICTATORSHIP (noun) - "Absolute authority; power to give orders that must be obeyed." (Thorndike Barnhart Dictionary)

A Financial Dictatorship is called on the org by the AGF (AG if no AGF, DGF Cont if no AG, or as needed) when the org's FP Sum, based on the CGI and VSD calculation, is below the amount needed to cover the org's FP Number 1 over a period of time (1 to 3 weeks). This means that the AGF is in <u>total</u> control of the org's finances and ONLY vital expenses will be approved together with Bonuses for those who productively contributed to the org's GI and VSD.

The Dictatorship is run in such a way as to get the org to RAPIDLY investigate and handle whatever it is that is preventing the org from either making enough money or delivering enough VSD to cover their FP Number 1. It is not expected that an org would remain under Financial Dictatorship for very long without incurring action from the Guardian's Office, the FOLO or even Flag on the org and its executives. It is quite easy to raise income and delivery using policy.

The org execs should very quickly acquire an interest in forming a strong Ad Council and demanding they do excellent income and delivery planning and carry out that planning. This would be vital to: (a) keeping the org's finances in your hands and (b) if under a Dictatorship, getting control back.

As long as the org continues to increase income and delivery and to receive more allocation than is needed to cover the FP Number 1, the control of the finances is in the org's hands and the FBO, AGF and Treasury N/W persons (per Finance Series 1) cannot bypass and disapprove FP, they can only cram and correct, and hat as needed.

The org can thus use sums over the FP Number 1 for large promotional campaigns, improving the org image, increasing payroll, etc. In fact, anything that is determined to drive up the delivery and income of the organization.

A STEP BEYOND DICTATORSHIP

There is a step beyond the org going under Financial Dictatorship wherein it is found either during a Dictatorship or when the org is on its own that this new finance system is being used dishonestly or in a corrupt manner. At this point an org loses its right to this new finance system. The Guardian's Office and the Sea Org coordinate to take over the org's finances. This is not a fortunate position as this type of financial management begins with Ethics actions. HCO PL 18 Jan 65, FINANCIAL MANAGEMENT BUILDING FUND ACCOUNT steps and procedures would apply to such a scene.

Correct application of this new finance system in an honest manner brings increased production and staff pay.

ALIGNMENT

This system gets the Org, FOLO, Flag, GO and all Networks aligned to increase delivery, income and -- with that -- the resulting increase in staff pay, FP, and all the rest.

Before an Org can go onto this new finance system, all FP Committee Members must do the new FP Committee hat.

SUMMARY

You now have a finance system which totally aligns with fundamental economic laws as covered in policy. If followed, your org will flourish and prosper because you will have a proper balance of income and delivery.

Use it and win. Our aim is to see that staffs everywhere are well paid through increased income and delivery.

BDCS:dr

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of the
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