

CARLISLE DIOCESAN BOARD OF FINANCE LIMITED

Minutes of a meeting of the **FINANCE COMMITTEE** of the Carlisle Diocesan Board of Finance Ltd at Church House, Penrith, on Wednesday, 12th July 2017.

PRESENT:

The Bishop of Carlisle	Mr M Bonner
The Archdeacon of Carlisle	Mr D W Dickinson
The Archdeacon of West Cumberland	Mr J A E Johnson
The Archdeacon of Westmorland and Furness	Mr R Morris
Canon M Jayne (Chairman)	Mrs G Troughton
The Revd A Towner	

IN ATTENDANCE:

Mr D Hurton – Diocesan Secretary
 Mr R Jaques – Head of Finance
 Mr N Andrews – Property Secretary
 Mr J Walker – Chair, Rydal Hall Ltd
 Mr J Richards – General Manager, Rydal Hall
 Mr D Weakley – Finance Manager, Rydal Hall

FC 17/72 OPENING PRAYERS

Opening prayers were conducted by Mr Michael Bonner.

FC 17/73 RYDAL HALL – FC 17/66

Canon Jayne introduced Mr Jim Walker, Chair of Rydal Board, who in turn introduced James Richards, Rydal's new General Manager, and David Weakley, Head of Finance.

Mr Walker and Mr Richards made a presentation to the Finance Committee to explain how the Hall's business and mission had developed in 2017. The presentation covered:

- the new Board structure and membership, which now included five non-executive Directors to cover the following areas – financial management, the hospitality business, building/estate management, strategic management and Christian mission through hospitality and training – and two executive Directors – the General Manager and the Head of Finance. Directors would serve for a three year term of office and could be re-elected.
- Rydal's purpose, which could be described as both 100% business and 100% ministry. Without the business the ministry could not happen and without the ministry, Rydal was just another Lake District hotel.
- business performance, where returning to a position financial viability and sustainability was the top priority, without losing sight of the vision for Rydal as a place of hospitality, tranquillity and spirituality. Guests had been consulted on how Rydal's offer could be improved. The top five requests had been for better quality food, improved ambience in the dining room, Wi-Fi, lounge seating and more

comfortable mattresses. Financial performance would benefit from a combination of registering the Hall as a charity in its own right and bringing all catering back in-house.

- staffing, in terms of both the resident Community and the wider team. A “Houseparent/Chaplain” appointment was in train to lead and support the Hall’s spiritual life, including the Community’s spiritual development.

Mr Weakley then presented the June Management Accounts which showed improved performance compared to 2016. The 2017 budget was for a full-year loss of £54,000 and he was confident that the budget was fit for purpose. He did not expect that Rydal would need to come back to the DBF for further support in 2017 following the investment that had been made in 2016. A new capital budget was being put together which would stretch across a number of years and give a clearer picture of what was required in the medium term to maintain Rydal Hall as an asset of the DBF and ensure it was equipped to deliver strong commercial performance.

Mr Weakley then briefed the Finance Committee members on developments in relation to the proposal to convert Rydal Hall’s corporate status to that of a registered charity, while remaining a company limited by shares. The Committee had already considered this issue in principle at a previous meeting and Mr Jaques had been working with Mr Weakley to develop the proposal. The proposal would necessitate some changes to the memorandum and articles to ensure that Rydal’s Trustees and Directors had a degree of independence, while continuing to be appointed by the Board of Finance. The proposal was to align the charitable objects for Rydal Hall with those of the Board of Finance.

The Chairman thanked Mr Walker, Mr Richards and Mr Weakley who departed from the meeting.

The Finance Committee then considered the proposed change in corporate status further. The Chair asked members to let him and Mr Jaques have any comments within the next three weeks. Mr Hurton and Mr Jaques would consult the Diocesan Registrar on the proposals. The Committee gave the Chair delegated authority to approve the proposals provided that there were no significant comments from the Registrar. If the Registrar raised substantive points the proposal would come back to the Committee for further consideration.

FC 17/74 MINUTES – FC 17/64

The minutes of the meeting held on 10th May 2017 were approved and signed following a clarification to Minute FC 17/61 Hydro Schemes which stated that Mrs Troughton, who was one of the DBF’s hydro company representatives, had not been present at a particular meeting. Mrs Troughton expanded upon the minute, explaining that she had been unable to attend the meeting due to the date being changed at short notice.

FC 17/75 MATTERS ARISING FROM THE MINUTES

i. Parish Offer Review (FC 17/51). Mr Hurton reported that the review group had now met. The first meeting of the group had been held. It had reviewed what had happened over the eight years since Parish Offer had been introduced, discussed how a mission community would work if it was a financial exemplar and considered what the principles of any parish offer or similar scheme should be.

The group emphasised three key points:

- the importance of stewardship to support any scheme. If church goers were not generous in their giving, the nature of the scheme was irrelevant as in the long term there would be a financial problem.
- a strong sense that we could not go back to the assessment-based system we had before
- the importance of communicating and getting people locally to engage properly with the issue of funding the church and the need to provide mutual support between churches

The group would meet again at the end of August to develop the principles into proposals which would be presented to the Finance Committee. Mr Dickinson and Archdeacon Pratt were both members of the group.

ii. DBF Employment of Local Staff (FC 17/51). Mr Hurton explained that this item related to the piece of work being undertaken to help Mission Communities put in place administrative support. Church House staff were working with one of the mission communities in Appleby Deanery to help them develop a job description, advert and recruitment process. The DBF would then employ the member of staff and administer their payroll, pension and employment, recharging the costs to the mission community. If we got this right it could make a real difference to helping Mission Communities get off the ground.

PART A FINANCIAL POSITION AND MAJOR FINANCE MATTERS

FC 17/76 FINANCE REPORT AND ACCOUNTS – FC 17/67

Mr Jaques said that there were a few minor changes to the Report and Accounts and he had emailed a final version to members. They were not material changes. He drew attention to the Management Letter and Letter of Representation and the Trustees agreed that the Chairman and the Venerable Vernon Ross would sign the documents.

FC 17/77 MANAGEMENT ACCOUNTS TO 31ST MAY 2017 – FC 17/68

Mr Jaques reported that parish offer was pretty much as expected; clergy numbers were still higher than budget but we were making headway on renting out vacant properties. He was a little worried about fee income which was below budget.

The Committee discussed the current arrangements for collecting parochial fees. Some smaller parishes did not provide regular returns because they did not have many occasional offices. A number of parishes, including some larger ones only sent fees to Church House once or twice a year. Mr Jaques planned to undertake an audit of fee income to assess if there were any significant gaps.

FC 17/78 DIOCESAN BUDGET 2018-20 AND POTENTIAL FUNDING REQUIREMENT – FC 17/69

Mr Hurton told members that the next three major agenda items were connected, the first being the Diocesan budget, the second cash flow and liquidity, and the third treasury and investments.

Turning to the next three years of the budget period, which would take us to the end of 2020, he reminded members that it had been set originally to take us through the Vision and Strategy period from 2015 to 2020. We were now half way through the third year of that period, and had to set a budget for the remaining three years.

In May the Finance Committee had considered actual performance in 2015&16 and likely performance in 2017-20 against the original budget assumptions. The Committee had agreed a number of steps to develop the budget and those steps were now in train, as follows:

- rolling the budget period forward and providing draft budget figures to end 2022
- a highly proactive approach to renting properties resulting in anticipated monthly rental income rising from £12k in May to £23k by December 2017
- more detailed analysis of clergy numbers and potential movements leading to slightly revised assumptions about staffing levels from 2018 onwards and some optimism about getting closer to target numbers by 2020
- the review of Parish Offer (and the promotion of stewardship and Giving for Life was underway but for the budget there remained an assumption of a 1% cash reduction year on year

There had also been discussion at the last Finance Committee meeting about a “catastrophe” scenario in response to which we had modelled the impact of a larger, sustained reduction in Parish Offer without a reduction in costs. The meeting papers showed the results of this and other scenarios.

The end result of the work to date showed a cumulative deficit of £275k over the period 2018-20 (and £772k over the period 2015-2020), made up of a deficit of £109k in 2018, a surplus of £49k in 2019 and a deficit of £215k in 2020. Rolling forward the budget to 2022 using the same assumptions showed the deficit increasing to £382k in 2021 and £551k in 2022. This added up to a cumulative deficit of £1.208m over the period 2018-2022 (£1.705m over the period 2015-2022). Projecting the figures beyond 2022 on the same basis would show an increasing deficit year on year. In one sense this outturn was not a surprise because it simply continued current trends, but the scale of the shortfall and speed with which it grew was significant and troubling.

The main factors causing the deterioration over the period were: returning to a position where we took 5 stipendiary curates each year; remaining a few clergy posts over the 2020 target figure; and, most significantly, a continued cash reduction in Parish Offer when unit costs rose by inflation. Other things being equal, a 1% year on year cash reduction in Parish Offer required us to reduce clergy numbers by at least 3 posts a year but we were planning to stop reducing clergy numbers as Mission Communities became established.

In September 2016 Finance Committee had discussed the idea of using reserves to cover a deficit to 2020. Papers for the Committee at that time had argued that before doing so we would need *“to consider i) the strategic requirement and ii) the extent to which we were confident that running a deficit was a temporary exercise required to help us make the transition to a sustainable position in the future. Although the articulation of Growing Disciples/God for All and associated work by the Strategy Steering Group may suggest that a good case could be made for the former, the latter may need more development.”*

Although the first criterion had continued to be met and had been reinforced by Bishop’s Council, on the basis of the figures presented the second condition was not met. On current

assumptions the position could only be sustained by realising assets and spending the proceeds on an ever-increasing and indefinite basis.

A range of options were potentially available to tackle this problem. We had started by modelling the potential impact of changes to our assumptions. Two of the changes (curates and stipendiary clergy numbers) reduced our costs, but were limited in their long term impact unless we changed our strategy and continue to reduce stipendiary clergy numbers. The other change (stabilising and increasing Parish Offer) increased our income and, unless clergy numbers continued to reduce, was a necessity in the long term.

None of the changes on their own would eliminate the forecast deficit. However, if all three changes were made, the budget would show a small surplus in 2021 and 2022, and the 2015-2022 cumulative deficit would peak at £658k in 2020. This did not mean that we should necessarily pursue these three options, but demonstrated that there might be plausible scenarios that were financially sustainable.

Of the three changes that we had modelled, the increase in Parish Offer was hardest to control or influence. It related to stewardship, which included giving as part of Christian discipleship, holistic approaches such as Giving for Life and initiatives such as Giving in Grace; local fundraising; and the philosophy of the Parish Offer, its communication and the way it was approached locally. The current review of Parish Offer was significant and timely in this respect.

Concluding, Mr Hurton said that rolling forward the budget assumptions to 2022 highlighted the underlying financial issues facing the Diocese and demonstrated clearly that without changes the financial situation was unsustainable. Potentially we had some time to consider the issues and agree a course of action to address them, but we could not wait to start this consideration. The current Parish Offer review was an important part of this but wider issues of clergy and curate numbers, stewardship and giving, church growth and other specific ways of increasing income and reducing costs should also be considered. Finance Committee would need to agree a narrative and budget presentation to Bishop's Council based on the conclusions of its meeting.

If the Trustees and Bishop's Council were able to agree a way forward beyond 2020, we would still be faced with the need to cover a potential deficit for the period 2017-2020. Any use of investment assets or capital receipts from the disposal of surplus houses for this purpose would have an opportunity cost in terms of reducing future investment income and would need to be considered alongside thinking about our investment policy and cashflow/treasury management.

The Finance Committee discussed the issues raised by Mr Hurton in some detail, particularly considering the following:

- the constraints in terms of pastoral reorganisation and tenure when trying to reorganise clergy deployment to meet the needs of Mission Communities.
- the attachment that parishes had to hosting stipendiary curates and the fresh ideas that curates brought with them.
- the need to engage more actively with Mission Communities about their contributions to the costs of local ministry. The introduction of Parish Offer had been accompanied by extensive two-way communication and this had been beneficial in terms of the way the system had been received. More recently the system had not been promoted as actively and in some areas Offers seemed to be

made in a vacuum. This was potentially one contributory factor in the overall level of Offers being flat or declining.

- the contributions from different deaneries. Overall, across the deaneries, four or five should be able to cover their costs, two or three should be able to contribute more than their costs and four could need some support to cover their costs.
- the current work to promote stewardship, which, while valuable, was not on a scale likely to have a significant impact. We might therefore need to put more resource into this work. At the same time we needed to be wary of making stewardship feel like another new initiative at a time when implementing God for All and establishing Mission Communities were already massive tasks.
- local ownership of the God for All strategy. If local churchgoers were convinced about it they would support it financially. We needed to improve communications about the rationale for the changes envisaged by the strategy and listen to what people were saying locally.
- the need to address some potentially contentious issues. Difficult questions needed to be asked and answered about the number of church buildings in the County, about the level of stipends and salaries, and about whether Rydal Hall was needed for our strategy.
- our investment income. Our portfolio needed to be reviewed in order to ensure that we were maximising returns.

The Committee agreed to establish a working group to identify options within the budget for reducing expenditure and increasing income. The group would consist of Mr Jayne, Mr Johnson, Archdeacon Pratt, Mr Hurton and Mr Jaques. The role of the Finance Committee was to respond to the Bishop's Council's advice on the priorities for expenditure. The budget group should therefore provide the Council with options for their September meeting which the Council could consider in order to inform the budget that the Finance Committee then shaped. The Finance Committee was required to go to Synod and the Board of Finance in October with a draft budget that reflected the priorities identified by the Council.

FC 17/79 CASH FLOW – FC 17/70

Mr Jaques reported that for the past two months we had seen our cash flow become tighter. There were a number of reasons. One of these was the impact of the deficits incurred in 2015 and 2016 eating into our free reserves. Another was that quinquennial housing work was now being completed more quickly and there was a degree of catch up, which meant that figures which had previously been provisions in the accounts now had a cash impact. We had also needed to find the money for the recapitalisation of Rydal Hall and we were now spending money in areas where it would be some months before we would reclaim the costs from the Church Commissioners Strategic Development Fund grant. We were therefore juggling cash between the range of Diocesan funds.

In response to a question it was reported that there was potentially scope to rationalise our approach to holding liquidity across the funds. Overall we needed a certain level of liquidity but each fund did not need to be viewed in isolation. An impending property sale would release significant cash that would improve our liquidity but we hoped to invest such receipts to generate a long term income stream.

The Committee noted the paper.

FC 17/80 TREASURY AND INVESTMENTS – FC 17/71

The Chairman asked members to note the current position across the range of investments, as set out by Mr Jaques. Mr Jaques' view was that our policy and portfolio needed to be reviewed as a matter of good practice. We would need to obtain independent expert advice in support this review.

It was agreed that a sub-group be set up to review our investment policy and investment portfolio involving Mr Jaques, Mr Johnson, Mrs Troughton and Mr Morris.

FC 17/81 SUCCESSION PLANNING – FC 17/72

The Archdeacon of West Cumberland introduced a paper which addressed the question of revisiting the skills audit which had been undertaken previously and discussed possible amendments to the Memorandum and Articles of the Company. He would be taking advice from the Diocesan Registrar about the issues that the possible amendments were trying to address and would then circulate a proposal.

FC 17/82 EARLY SEVERANCE – FC 17/73

Mr Hurton reminded members that we had a diocesan policy about early severance payments to clergy. He briefed members about a particular case which fell within the terms of the policy and this was approved. He also reported on a case in which a settlement agreement had been reached with a member of clergy under the terms of which they would leave their post. The agreement had been produced with lawyers and had been discussed with the Chair, the relevant Archdeacon and the Bishop. It did not have any cost implications.

PART B FINANCE – MINOR MATTERS

FC 17/83 PARISH OFFER TO 30TH JUNE 2017 – FC 17/74

The Committee noted that parish offer receipts were slightly ahead of last year in terms of both the cash amount and the proportion received to date. Across the Church of England as a whole receipts at the end of April were 2.4% higher than at the same point in 2016 but this figure was down from 3.32% at the end of March. The Archdeacons were asked if there were any concerns that should be reported to the Committee. It was again recognised that some parishes were using their reserves to pay the offer and this had implications for the long-term sustainability of the DBF's income.

FC 17/84 MULTI-ACADEMY TRUST – FC 17/75 & FC 17/76

The Committee noted the draft minutes of the meeting held on 11th May 2017 and a financial statement for the Trust as a whole, including its member schools, to 31st May 2017. The MAT were likely to need the second tranche of £35,000 start-up funding from the DBF as had been previously committed.

The Chair commented that it was important to be clear what financial information the Finance Committee expected from the MAT and for there to be clarity about the non-costed support that was provided by the Diocese in areas such as communications and the work of the Director of Education. Ric Jaques would work with the MAT on future financial reporting.

FC 17/85 RYDAL HALL

i. Draft minutes of the meeting held on 9th May 2017 and Director's report – FC 17/77.

The minutes were noted.

ii. Management Accounts to 31st May 2017 – FC 17/78. These had been superseded by the June Management Accounts considered earlier in the meeting.

FC 17/86 CUMBRIA CHRISTIAN LEARNING – FC 17/79 & FC 17/80

The Committee noted the draft minutes of the Board meeting held on 7th June 2017 and Management Accounts to 31st May 2017.

Mr Jaques said that the figures represented a high level budget which had not yet been allocated between categories. CCL was now fully staffed, income from student fees was currently relatively small and almost all the overall income at the moment was from the Diocese. He would be meeting with CCL staff in the next couple of weeks to help them develop their detailed budget plans.

The members expressed some concerns about the extent to which CCL was operating to an agreed business plan. The financial papers were not very meaningful unless connected to plans for delivery. The DBF was making a very substantial investment in supporting CCL. It would be important to keep a close eye on the key risk relating to student numbers and associated fee income. The members also expressed some concerns about CCL's perceived focus being on ordination training and that this risked underinvesting in the development of lay ministry development.

FC 17/87 OPSHOPS – FC 17/81 & FC 17/82

The Committee noted the Business Development Manager's report to the OpShop Management Group in May and a financial statement to 31st May 2017. Mr Hurton reported that costs were under control but income was below budget. The anticipated trading loss for 2017 was substantially lower than in 2016 and continued to be attributable to difficult trading conditions as the OpShop customer base felt the effect of reductions in welfare payments.

The Archdeacon of Carlisle reported on progress in reviewing OpShops' mission to date and developing a way forward. He reminded members that they had agreed in principle to funding development work over the next 18 months with a view to spinning OpShops out of the DBF into a separate Charitable Incorporated Organisation, involving new people in its governance, improving its financial sustainability and attracting external funding. It had been agreed that Canon Jayne and Mr Hurton be given delegated powers to act on this. The decision had now been taken to employ a Project Manager for an eighteen month period on a half-time basis. The Committee endorsed this decision.

PART C PROPERTY MATTERS

FC 17/88 PROPERTY ISSUES REQUIRING FINANCE COMMITTEE ATTENTION – FC 17/83

i. Minutes. The Committee noted the minutes of the Property Sub-Committee meeting held on 23rd June 2017.

ii. Matters Requiring Further Finance Committee Consideration and Approval

(a) **Heversham Vicarage.** It was reported that the Registrar was pressing the purchaser's solicitors for an update as it was now over three months since the sale had been agreed but no completion date had been set.

It was agreed that the purchasers be given until the end of July after which the house would be put back on the market.

(b) **Grasmere Rectory & Tithe Barn.** The Archdeacon of Westmorland and Furness reported on progress with discussions about the future of the Rectory and Tithe Barn. The existing Rectory was not felt to be suitable for any future appointment, but it would not be easy to find a replacement property that was up to "Green Guide" parsonage standards. Currently the Parochial Church Council were using the Tithe Barn, which was a glebe property, free of charge. The new Priest in Charge was living in their own property outside the benefice.

It was agreed that the DBF would be prepared to buy a replacement house that was suitable for a house for duty priest. The Committee asked the Archdeacon to continue to encourage the parish to agree to the sale of the existing rectory.

(c) **Western Dales Mission Community – Potential Curate.** The Committee considered a proposal to purchase a potential curate's house in Sedbergh if Dent Vicarage was considered to be too remote from the training incumbent. There was potential for a curate to be appointed in 2018. It was agreed that further thought needed to be given to this and it would be reconsidered in September.

iii. Further Update: items to note

(d) **Lettings Generally.** It was noted that significant progress was being made with letting vacant houses and securing agreement to let houses becoming or currently vacant. Mr Andrews expected our rental income to increase to over £20,000 a month by the end of the summer. This would be very valuable at a time when we were facing another budget deficit in 2017.

(e) **Urswick Vicarage.** The Committee noted that the Archdeacon was to meet with the Parochial Church Councils to discuss the new ministry appointment and provision of a mission community office. As the appointment might be expedited the opportunity to rent the house might have passed. It had not been previously rented due to the ongoing use of the Vicarage study as a church office.

(f) **Grayrigg Vicarage.** The Committee noted that a second offer on the house had been withdrawn. The reason cited was the council tax banding. The property was band G but preliminary assessment suggested it should perhaps be band E. An appeal had been submitted.

(g) **31A Stonegarth, Carlisle.** The Committee noted that the two bedroom flat above the Morton OpShop was now vacant. A new NMS youth worker was expected to arrive in Carlisle in August. The flat would be offered as accommodation with some minor decorations and repairs required.

(h) **Church House, Carlisle.** An email about the possible leasing of the building had been circulated and it was agreed that we should respond to say we would be in a position to take a decision in September once the future of the Old Vicarage on West Walls became clearer.

iv. Closed Churches

(h) **West Seaton Holy Trinity.** The Committee noted that the Archdeaconry Mission and Pastoral Committee had approved a proposed sale for an organ training/music training centre. The Church Commissioners were to be asked to progress the disposal scheme on this basis.

(i) **Warwick on Eden St Leonard.** The Committee noted that no alternative use had been found for the building and it was not of interest to the Churches Conservation Trust. An offer had been received to purchase the Church for a nominal sum and preserve the building. The Archdeaconry Mission and Pastoral Committee had agreed that this should be explored further. Given that the potential purchaser had links to the Board of Finance it was noted that the Church Commissioners would deal with the negotiations.

(j) **Barrow St Matthew.** The Committee noted that preliminary discussions were being held with an adjoining community halls association about their taking over the church as an extension to the halls.

Glebe

i. Matters Requiring Further Finance Committee Consideration and Approval

(a) **Egremont Glebe.** It was reported that a substantial offer had been received from a housing developer for land at Egremont subject to planning and other conditions. It was agreed that solicitors should be instructed to agree a conditional contract for the sale at the offer price if a higher price could not be negotiated.

ii. Further Update Items to Note

(b) **Unit 1, 19-24 Friargate, Penrith.** It was understood that the Penrith Town Council had signed their lease. Arrangements were in hand for them to commence fitting out works in late July/early August.

(c) **Job Centre, 19-24 Friargate, Penrith.** The Committee noted that staff were understood to have been told the job centre would not be moving and they would remain in the building.

Closed Schools

i. Update Items to note since the Property Sub-Committee meeting

(a) **St John's Former Girls School, Edward Street, Carlisle.** The Committee noted that the completion date for the agreed sale was 6th July 2017.

(b) **Heversham School.** The Committee noted that the Churchwardens as current trustees were understood not to have agreed so far to pass the trusteeship over to the diocese. Cumbria County Council were believed to be interested in the site as a special

educational needs facility from September 2017 and the Board of Education were considering how this might be arranged with the current ownership.

PART D PARISH PROPERTY FUND

FC 17/89 REQUESTS FROM PARISHES FOR FINANCIAL ASSISTANCE

i. Carlisle St Herbert. The Committee noted that a grant £500 from the Parish Property Fund for audio installation and equipment had been approved.

PART E TRUST MATTERS

PART F FINANCIAL STATEMENTS

FC 17/90 PASTORAL ACCOUNT STATEMENT TO 31ST MAY 2017 – FC 17/84

The Committee received the statement.

FC 17/91 GLEBE STATEMENT TO 31ST MAY 2017 – FC 17/85

The Committee received the statement.

FC 17/92 BARCHESTER STATEMENT TO 31ST MAY 2017 – FC 17/86

The Committee received the statement.

FC 17/93 PARISH PROPERTY FUND TO 31ST MAY 2017 – FC 17/87

The Committee received the statement.

FC 17/94 GROWTH FUND STATEMENT TO 31ST MAY 2017 – FC 17/88

The Committee received the statement.

FC 17/95 LOAN STATEMENT TO 30TH JUNE 2017 – FC 17/89

The Committee received a statement on the position of the Cumberland loan facility.

FC 17/96 DATE OF NEXT MEETING

Wednesday, 20th September 2017