

FC 20/117

Minutes of a meeting of the **FINANCE COMMITTEE** of the **CARLISLE DIOCESAN BOARD OF FINANCE LTD** held **BY VIDEO LINK** on **16 SEPTEMBER 2020**

Present: Mr J A E Johnson (Chair)
The Bishop of Carlisle
The Archdeacon of West Cumberland
The Archdeacon of Carlisle
Mr A R H Cook
The Archdeacon of Westmorland and Furness
Mr J Edwards
Mrs J Busk
Mrs S Wigley
Mr D Dalgoutte
D Bradley

In Attendance: Mr D Hurton – Diocesan Secretary
Mr R Jaques – Head of Finance
Mrs C Bell – Office Manager

1. Opening Prayers: Prayers were led by David Dalgoutte

2. Minutes: The Committee approved the minutes of the meeting held on 15th July 2020.

3. Matters Arising from the Minutes: The Committee noted the Action Sheet and it was confirmed that all the actions noted had been progressed or were on the meeting agenda. The Chair reported that the valuation of Rydal Hall was a highly sensitive subject. The Task Group, in their final meeting, were given an overview of the valuation. The valuation provided was for the estate as a whole lot as the valuers recommendation was that this would give a greater overall value than splitting it into parts, due to there being complications with common and public access, shared services and boundaries. The valuation came in at a range of £3.7 and £4.5 million and an open market rental of £180,000 to £220,000 per year so approximately a 5% return per annum. There was a sense that if those were realistic figures in today's market then they were a lot lower than anticipated. Both the Task Group and Bishop's Council had been unable to agree on a recommendation for the future of Rydal.

PART A FINANCIAL POSITION AND MAJOR FINANCE MATTERS

4. Annual Report & Accounts: Ric Jaques introduced the Annual report and Accounts. The completion and audit of these accounts have been delayed due to the coronavirus pandemic, but a DBF AGM has been organised on Zoom for 30th September at 7pm, taking advantage of emergency legislation to allow such an AGM to be held rather than by meeting in person which is not currently appropriate.

The audit process has been through partner review. There remain a small number of enquiries that are still being completed but neither Head of Finance nor the Audit Manager believe there will be any changes now to the financial statements – if there are they are likely to be cosmetic and certainly not material.

The Board would normally have sight of the 'Management Letter' reporting any issues to the Trustees and be asked to sign the 'Letter of Representation', but these have not been completed by Dodds. It is therefore proposed that these be circulated to the Trustees when ready (and prior to the AGM), and that, having been given the chance to respond by e-mail, Jim Johnson and one other Trustee be given delegated authority to sign the letter of representation.

The current draft of the Trustees Report has been drafted by the Head of Finance, the Diocesan Secretary, and the Chair of the Board. However, this document is the 'voice of the Trustees' and so this is the opportunity to influence the narrative covering 2019 before it is sent to the DBF Annual General Meeting for approval.

Additional narrative has been required, as well as a 'post balance sheet event' note in the accounts, to explain the impact of the coronavirus pandemic on the charity.

The Trustees approved the 2019 Financial Statements and delegated authority to Jim Johnson and one other Trustee to sign the Letter of Representation.

5. Management Accounts: Ric Jaques introduced the draft management accounts for the year to 31st August 2020. The accounts for the first 8 months of 2020 show a surplus of £225k, which is £243k better than the phased budget – mainly a result of lower than budgeted expenditure. This is £28k better than at this stage last year, but this variance to 2019 is materially impacted by the Church Commissioner's 'LINC' grant being paid over to us in full in April, rather than being spread over the year, offsetting the reduced income from parish offer.

Non-parish income has been strong so far this year, but the impacts of Covid-19 have affected Parish Offer, which is likely to be down by 10% for the year as a whole, and parochial fees. However, in mitigation, some material elements of costs have been curtailed due to the lockdown, the furlough of many staff and the postponement or cancellation of housing and project work. For the first time in several years, spend on stipendiary clergy and curates is close to budget.

The forecast is currently showing a surplus of £213k, which is £306k better than budget.

Clearly the quick and decisive actions to cut discretionary costs and furlough significant numbers of staff have had, and continue to have, a material impact on reducing costs to mitigate against lost income from parish offer and fees. Investment and other income levels have held up well.

6. Parish Offer & Parish Offer 2021: The Committee received a report on Parish Offer receipts to 31st August 2020 and indicative 2021 offers. Ric Jaques reported on the latest view of offers/share

across all Dioceses. With our year to date offer receipts down by 7.5% we are faring better than many, and compare well to those in the Northern Province at -9.9%.

The total offer made for 2020 is currently reported as £4,666,753, a reduction of £90,873 (2.00%) from the 2019 offers. This includes the increased offers from the Penrith West Mission Community to fund some additional ministry.

Receipts up to 31st August were £2,747,204. This represents 58.9% of the year's offer. At this point last year, receipts were £2,971,400 (£224,196 higher) which was 62.5% of the year's offer.

The process to ask parishes for their final 2021 offers had been paused, but in order to get a sense of the 2021 income, the call for PCCs and Treasurers to make an indicative offer was made. Additional resources were created to help them think through the possible impacts on their own income and costs, helping them to forecast through 2020 and 2021, based on a cautious set of assumptions about churches being open for worship and how their local congregations were likely to respond to an ongoing presence of Covid-19 through the winter.

The headline figure at this point is that the 2021 offers are 11.2% less than the offers made for 2020. 45% of parishes have reduced their offer, with 27% holding it as the 2020 level.

It is planned that we will use these offers as the basis on which to build the 2021 budget, but will want to go back to Parishes relatively early in 2021 to see if their initial offers remain appropriate. We will need to know as soon as possible to react if there is going to be any further reduction in receipts.

7. Task Group Report: Derek Hurton introduced the Task Group Report to the Board. He reported that the Task Group achieved its terms of reference as far as it could given the timescales, complexities and dependencies on other pieces of work. It reported back to Bishops Council at the meeting on the 9th of September and the budget that has been produced for this meeting had been based on the conclusions from the Task Group.

The following points are the conclusions of the Task Group in the light of the impact of Covid-19, the pre-existing financial situation and the associated state of play on the Vision Refresh:

- The high-level content of the Vision refresh is valid irrespective of financial considerations.
- The associated strategic themes and strategies for ministry etc are not yet agreed but will impact or be impacted by financial considerations
- The highest episcopal priority for future years' budgets is to maintain as much stipendiary/salaried local ministry as possible following substantial reductions in recent years and in the light of the importance of local leadership in enabling the whole people of God in support of the mission of the local church.
- We hope to increase investment income by taking a more proactive approach to surplus property sales thereby creating an "endowment" that will pay for a baseline level of ministry across the Diocese and we may also increase the local church's contribution towards the costs of local ministry by making a closer link between Parish Offer and the ministry provided.
- In the short to medium term that additional income is therefore unlikely to bridge the structural budget gap, let alone the gap following the impact of Covid-19 so savings will also need to be found.

- If local stipendiary/salaried ministry is the highest priority for expenditure, then by implication other areas of expenditure have a lower priority.
- Discretionary spending is mainly concentrated in the God for All team and significant savings (£300k pa) could be made there without stopping things that are required by statute.
- On Rydal Hall the Task Group considered questions of its missional value; the extent to which it is core to the Diocese and aligned with the Diocesan Vision; the opportunity cost of the investment sought by the Rydal Board; and the capital that might be released by its sale. The Task Group was unable to reach a conclusion except to suggest that any proposal to close and sell Rydal would have to be made by Diocesan Synod, and recommended that an informed debate happens in March 2021.
- Taken together, additional investment income and reduced discretionary expenditure will close much of the 2021 budget gap but will not be sufficient to close it completely and, if trends continue, 2022 will be worse. There will also need to be some reductions in expenditure on local stipendiary/salaried ministry.

The report from the Task Group went on to conclude that any significant changes in the budget are likely to require time to implement, especially if they involve redundancy or pastoral re-organisation. At the same time the overall financial situation requires urgent action to avoid depleting reserves and reducing future investment income.

The Task Group's recommendation is to adopt an incremental approach in which we make changes as they are practical rather than waiting to do everything at once. In this way we recommend treating the remainder of 2020 and the first half of 2021 as an interim period in which we:

- unpack the Strategic Themes in the Vision Refresh and their resource implications
- review the ecumenical Strategies for Ministry and Buildings and develop the Future Financial Model, which will itself involve further work on our medium-term financial prospects in terms of both the ongoing impact of Covid-19 and our underlying structural issues
- set an interim budget for 2021 within which the Bishops Staff Team has flexibility to operate, including making appointments, but with tight monitoring and control to avoid exceeding budgets, particularly in key areas such as Ministerial payroll and Mission-Enabling.

The Budget, which is the next agenda item, is based on the recommendations from the Task Group.

8. Budget 2021: Derek Hurton introduced the budget 2021 paper to the Board. The draft budget is based on the task group's conclusions and the notable elements are an overall deficit of £155k before additional mitigation, a continued emphasis on funding payroll and housing costs of local stipendiary and house for duty ministers, and Network Youth Church leaders. Stipendiary curate numbers will be lower than the long term average in 2021, but numbers and costs are planned to rise again in future years. Significant savings will be found in the God for All team, with some roles funded in future by the Church Commissioners Strategic Development Fund grant, others transferring to the new North West IME College and some job losses among the remainder. Other savings would be found in the "back office functions" including a reduction in the central administrative team. This is likely to involve the loss of another post and to mean compulsory redundancy. A continued squeeze on housing expenditure will mean suspending any major capital

improvement works in the year. There will be continued sales of surplus houses and development land to release capital for investment in order to generate a long term income.

Initially, until we know what support we will receive from the Church Commissioners or from accelerating property sales, the proposal was to ask the Bishops Leadership Team to manage a stipends budget that is £100,000 lower than the figures provided, in order to end up with a budget that would have a deficit of around £55k.

The proposal does not solve our financial problems but buys time during the remainder of 2020 and 2021 during which time we must undertake more detailed work on a number of key elements that are intended to put on us a path towards full financial sustainability at the earliest opportunity. Mr Hurton suggested that putting these elements in place is unlikely to be painless or uncontroversial.

The majority of the Board approved the Diocesan Budget 2021 on the basis that it will be kept under review and if there are major changes in circumstances, they will be built in to it. Mrs Sue Wigley abstained as she could not approve a deficit budget and wished for this to be noted.

PART B FINANCE – MINOR MATTERS

9. Financial implications from associated meetings: Derek Hurton reported that the associated meetings with financial implications had largely been the task group and the Bishops Council both of which had been covered in the budget item.

10. Rydal Hall: The Committee noted the draft Minutes of recent meetings of the Rydal Board and the associated Management Accounts for the period to 31st July 2019.

Ric Jaques gave a brief overview of the finances reminding the Board that back in March the site was mothballed and all but 2 members of staff were furloughed. From mid-June onwards they started to slowly reopen starting with the tea shop, camp site, cottages and youth barn and then in late July started to admit guests in to the hall. The current situation is that staff have been brought back under the flexible furlough system, so there are enough staff to do what needs to be done while still making savings. August has proved very busy across the site, and busier in the Hall than expected. The original projection was that there would be a £300k loss but this is now difficult to predict as it is unclear what the “rule of 6” will do to future bookings.

Richard Pratt reported that the Rydal Board is going to make the best use it possibly can of the next 6 months leading up to March next year when a decision will be taken as regards the future of the Hall.

The subsidiary and group auditors, Dodd & Co, require a formal declaration from the Holding Company that it would continue to support Rydal Hall for the next 12 months as a condition of signing off the accounts. This is particularly important now in the light of Covid-19 and the financial impact that is having on Rydal in 2020. The Trustees agreed to provide the auditors with the necessary declaration, and resolved that ‘Carlisle Diocesan Board of Finance remains committed to supporting the current work and ministry of Rydal Hall Ltd. In the light of likely losses arising in 2020 following the Covid-19 pandemic, the DBF will continue to keep the ongoing operation and viability of Rydal Hall Ltd under close review in the course of 2020 and 2021, and will give both practical and financial support, if required, to enable it to continue with its work in the Diocese.’

11. Stewardship Activities Report: The Board noted the Stewardship Activities Report.

12. MAT: The Board noted the draft minutes of the meeting held on Thursday 9th July. Vernon Ross gave a verbal update informing the Board that there is a small working group between the MAT and the DBE looking at a future strategy The MAT needs to grow. Vanessa O’Dea, the Diocesan Director of Education will attend a future Finance Committee meeting to present the future strategy including the financial dimension.

13. DBF as Employer of local staff: Derek Hurton reported that we have had a further request from a PCC to take on the role of employer and associated payroll, pension, terms and conditions work for someone they want to employ.

Mr Hurton explained that this topic was debated last year and it was agreed at that time that depending on who the local body was we would have a differentiated approach. This was because in some cases it would be obvious that it should be the local body that should employ the person, while in others there might not actually be a corporate local body to be the employer. The argument remains very much around risk versus expertise. In Church House we have the systems and expertise to provide payroll, pension, terms and conditions, which is why local bodies ask that the DBF should be the employer for ‘their staff’. However, if the DBF does employ staff on behalf of local bodies the DBF takes ultimate responsibility for the health and safety, oversight and management of them. In some cases local management arrangements have been weak, with the DBF having no control over one of its employee’s line manager, thereby putting the DBF at risk of, for example, a case being brought in an employment tribunal.

The Board recognised the risks involved and decided to explore the use of secondment agreements, where the DBF would be the employer but would second the employee to the PCC or other local body. As part of the secondment arrangement the employee would be managed by the PCC or similar and the local trustees would be responsible for ensuring that their working environment and management was being undertaken effectively, safely and within all the legislative requirements.

PART C PROPERTY MATTERS

14. Parsonage Minutes: The minutes of the following meetings were noted:

- Archdeaconry of Westmorland and Furness – 14th July 2020
- Archdeaconry of West Cumberland – 9th June 2020
- Archdeaconry of Carlisle – 25th June 2020

15. Property issues requiring Finance Committee attention: The committee received the draft minutes from the property sub-committee meeting on 14th August 2020 and noted all the property papers.

Derek Hurton commented that the more house sales that go through in 2020 and early 2021, the easier it will be to manage the budget without having to have long vacancies and not fill posts. Similarly, the more houses we can identify as surplus over the next few years, without compromising our operational ability to fulfil our missional priorities, the sooner we will be able to shift towards a financial model that is based more significantly on investment income, thereby reducing our dependence on falling Parish Offer.

PART D PARISH PROPERTY FUND

16. Requests from parishes for financial assistance: the committee noted the following grant:

- Holy Trinity & St Barnabas Carlisle – a grant of £932 towards replacement carpets for disabled access.

PART F FINANCIAL STATEMENTS AND REPORTS

17. Treasury and Investments: Mr Jaques reported on the fund statements. Following the dramatic and world-wide progress of the virus since March, the key issue, from a Treasury/Investment point of view, has shifted to ensuring adequate liquidity is maintained by the DBF to be able to fund ongoing activities in the short and medium term, while new forecasts and budgets are prepared for life after the virus.

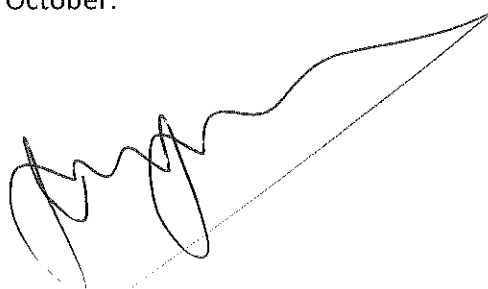
Around £1.2million of property sales in early 2020 have given a significant boost to liquidity and these proceeds have been retained in our deposit accounts to provide funding over the rest of 2020 and hopefully beyond – avoiding the need to liquidate investment assets in unfavourable market conditions.

18. The Committee noted the statements and updates on the following funds:

- Minor Funds Update
- Pastoral Account Statement
- Glebe Statement
- OpShops
- Barchester Statement
- Parish Property Fund
- Growth Fund Statement
- Loan Statement

Derek Hurton informed the Board that there had been an extra meeting on 1st May of which the minutes had been missed off the July agenda. It was agreed that these minutes would be circulated to the Board to approve prior to going to the DBF meeting in October.

19. Date of Next Meeting: Wednesday, 18 November 20

A handwritten signature in black ink, appearing to be 'Derek Hurton', is written over a diagonal line that extends from the bottom right towards the center of the page.

