

Minutes of a meeting of the **FINANCE COMMITTEE** of the **CARLISLE DIOCESAN BOARD OF FINANCE LTD** held **BY VIDEO LINK** on **17 MARCH 2021**

Present: Mr J A E Johnson (Chair)
The Bishop of Carlisle
The Archdeacon of West Cumberland
Mr A R H Cook
Mr J Edwards
Mrs J Busk
Mrs S Wigley
The Archdeacon of Westmorland and Furness
The Archdeacon of Carlisle
Mr D Dalgoutte
Mr 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 Janet Busk.
2. **Apologies for absence:** No apologies had been received.
5. **Minutes:** The Committee approved the minutes of the meeting held on 20th January 2021.
6. **Matters Arising:** The Committee noted the Action Sheet and it was confirmed that all actions from the minutes were on the Action Sheet or had been completed.

Rydal Hall Accounts: The decision to write off the loss made by Rydal Hall and provide more working capital (£300,000) was not taken early enough for the transfer to feature in the 2020 accounts, but on audit advice we have been able to designate it, along with a £150,000 restructuring fund, in the DBF accounts. The end of the year statutory accounts will show a loss at Rydal with the consolidated accounts showing the associated transfer between the DBF and Rydal.

The Committee approved the following resolution:

“In the light of the decision to grant £300,000 to Rydal Hall at the January Finance Committee meeting, but this being too late to include in the 2020 accounts, it is resolved that the £300,000 be designated for Rydal Hall in the DBF accounts, as at 31 December 2020 – for onward payment to Rydal in 2021.”

Board Review: The Chair reported that various points raised during the Board Review discussion are taken up either in the agenda or in what has happened since the last meeting.

As part of the work on the Board Review a meeting was held on 10th March 2021 with Derek Hurton, Ric Jacques, Janet Busk and Sue Wigley to explore potential Key Performance Indicators for the Finance Committee. This work is seen to be about continuous improvement of the Board's performance rather than a reflection on its current ability or performance. By comparison with other organisations, the Church of England is complex, with unusual governance relationships including the relationship between the Bishop's Council and the DBF.

In the discussion about taking the Review forward the following suggestions were made:

- An externally facilitated session on the Charity Governance code would help Trustees to understand their roles and know what to look out for. A number of suggestions for facilitators for a such session were made, including: our auditors Dodd & Co; the of Chair of Chads College Durham Board of Governors who has experience in this area; Bond Dickinson solicitors; and Sintons, who have a sizable charitable section and where Laura Peace, who is our registrar, is based. It was agreed that Derek Hurton and Richard Pratt would discuss the best way forward and obtain costings for different options.
- Regular/Annual strategic planning with Bishop's Council and the Bishop's Team with a planning process based on a Diocesan strategic plan. There needs to be a date in the diary every year or two where there is a review jointly between the Council, who have strategic responsibilities, and the DBF.
- To introduce key elements of work or review, managed by the Executive Officers, that take place in a cyclical manner with a Board timetable for addressing the various areas so that the Trustees know that they are fulfilling their responsibilities.
- Documenting the policy approach taking in more areas, rather than the way we operate, where our approach tends to be implicit rather than specifically codified.

Two specifics that have not been addressed are increasing awareness of the so-called "minor funds" and DBF Trustee responsibilities in relation to the governance of our subsidiary companies. The first of these was covered in more detail later in the agenda.

Memorandum and Articles (Terms of Office): Derek Hurton introduced the Memorandum and Articles: Trustee Terms of Office paper. The proposal is to amend the DBF's Articles to extend the possible term of office of elected and co-opted Trustees beyond the existing maximum of 6 years and to allow members of partner churches to be co-opted as Trustees.

The key considerations in this area are whether the arrangements, including length of terms of office and process for appointments, enable the Trustee body to have sufficient experience and knowledge to provide effective and informed oversight at each moment in time. This includes the time required to build relationships with the ex-officio Directors and Officers.

The paper proposes that the current restriction on terms of office are too constraining, and notes they are short by comparison with other Dioceses, none of whom have a maximum of

only 2 terms of 3 years. The suggestion is that instead of having a maximum 2 terms of 3 years we should have a maximum of 3 terms of 3 years.

The scope for trustees to be appointed who are not Anglicans requires all DBF Trustees to be communicant members of the CofE or of Churches in communion with the CofE, thereby excluding our partner denominations and limiting the pool from which Trustees with the right skills and experience can be drawn.

Options for addressing this include:

- require all Directors to be members of the CofE or of churches in communion with the CofE, or members of a church that is a member of Churches Together in Britain and Ireland and/or of a denomination with which we are in a formal ecumenical partnership OR
- require elected Directors to be members of the CofE etc, and allow co-opted Directors to be members of a church that is a member of Churches Together in Britain and Ireland and/or of a denomination with which we are in a formal ecumenical partnership OR
- require elected Directors to be members of the CofE etc and allow co-opted Directors simply to have sympathy with the aims and ethos of the Church of England.

The recommendation was for the second of these as it emphasises the essentially Anglican basis of the DBF as the corporate embodiment of the Diocese but allows for members of partner denominations to contribute.

If we do want to go ahead with changes either to terms of office or for ecumenical scope for trustees, we will draft amended Memorandum and Articles for consideration at the May Committee meeting, with a view to them going to the June Synod/DBF meeting for approval. These changes would therefore come into effect in time for this Autumn's elections to the Finance Committee and could be used also to re-align terms with the election cycle.

The Committee agreed to both of the proposals. Derek Hurton will draw up a revision to the Memorandum and Articles for the May meeting.

The Chair reminded the Board that there is one place available for co-option at the moment and asked them to give it some thought, as they have talked in the past about diversity and getting some younger church representation.

PART A FINANCIAL POSITION AND MAJOR FINANCE MATTER

7. **Management Accounts:** Ric Jaques introduced the draft management accounts for the year up to 31st December 2020. The numbers have moved a little bit since they were circulated as some extra accruals have been introduced. The end result is that they are now around £15,000 worse than the original version. It has been agreed that we are going to designate £150,000 into a Restructuring Fund and a £300,000 grant to Rydal Hall out of the general

fund, leaving an overall surplus in the region of £150,000. Unrealised gains in 2020 have been achieved as a result of the share price of the Investment Fund ending the year up.

8. **Budget 2022+:** Derek Hurton introduced the Budget paper. Finance Committee members were aware of the 2020 outturn, the emerging financial picture for 2021 and the baseline assumptions for 2022, all of which were discussed at the Bishop's Council meeting in February and again at Diocesan Synod/DBF on 6 March. Most members of the Finance Committee attended Bishop's Council and/or Synod and were aware of the issues raised at those meetings.

For 2021 reforecasting shows that the situation is becoming a bit better than budget, with the required £100,000 worth of savings on payroll now being identified.

As far as 2021 is concerned we have developed a set of assumptions earlier in the year than usual in order to enable us to come up with a working baseline. We propose to revisit these assumptions as we undertake our usual budgeting process in the coming months, including a bottom-up budgeting exercise across Church House departments with the goal of clarifying the scope to make running cost savings, particularly from virtual working and increased use of technology. This has the scope to make a small but material difference.

The main areas for work 2022 will however be on levels of local ministry (which make up most of our cost base) and the contribution from the local church (which provides the majority of our income). Associated scenarios are being drawn up around that, using as a starting point the 2021 offers which were pledged at £560,000 less than was received in 2019. All scenarios show a deficit on the full year budget. Local conversations are therefore planned with church leaders with a view to agreeing what levels of Offer and Costs can be sustained in 2022 and beyond. This approach will start to introduce elements of the "Endowment" and "Empowerment" model, including shifting thinking and discussion from simply subsidising ministry to investing in mission.

The end result of this work is hoped to be the agreement of multi-year "Covenants" between Mission Communities and the DBF which address the level of Offer to be provided and the amount of ministry deployed in response. We already have a worked example of this in the East of Eden Mission Community. With Methodist funding also covered by the process there, it provides a genuinely ecumenical approach. We would like to see more of these agreements being put in place through the course of 2021 and 2022.

9. **Risk Register:** Jim Johnson introduced the Risk Register. He drew attention to the wide range of risks that we faced even though, as a diocese, we are more solvent than most. The Register focused on financial risks but we also needed to be aware of wider business risks which may not have a directly financial component. Ric Jaques has undertaken a review of the register following discussions in 2020 and updated it accordingly. The Committee reviewed each area of risk in turn and made the following comments.

Parish Offer: we know this risk could have a high impact and, in 2021, is a high probability area, but there is not a lot we can do in mitigation. We are taking it into account in our projections and budgets, and are continuing to communicate openly with the local church

and promoting stewardship. The Archdeaconry-based conversations about Offer and Costs may help. The continued Church decline lying behind the figures requires the DBF and the Bishop's Council to work together to address the issues.

Pensions: we have 3 types of schemes all of which are managed closely. Recent years have not seen the continued escalation of contribution rates for the Clergy scheme while the more modern lay schemes have capped contribution rates. Pre-Covid there had been some optimism that contribution rates on the defined benefits schemes would fall as deficit repayment regimes came to an end, but this is now less likely.

DBF Income reduced if Commissioners' allocation falls: The short term risk of significant changes is very small and the medium term risk is a bit bigger, as is reflected in the document.

DBF income reduced as equity returns (dividends) fall: This year just gone is an indication that even though there has been a very significant shock to economies in general our CBF dividend stream has held up very well.

DBF income reduced if commercial property market turns down: This is low risk given the relatively small scale of our directly managed portfolio as opposed to that managed through CCLA. The size of our portfolio is declining as we sell commercial properties.

Parish default on loan payments: This area has been upgraded as a risk on the basis that a parish has defaulted on a loan and another is having to be monitored closely. Overall, the amounts in question are relatively small.

Use of reserves: The substantial use of Diocesan reserves to cover cashflow problems would necessitate the sale of shares at low values. However, the last year has demonstrated that we are able to manage through significant economic upheavals without having to take such steps.

Overall income reduced as result of combination of all factors above: The "perfect storm" of events required was previously considered highly unlikely but the pandemic shows that "the unthinkable" can happen. The potential for another event with the range of impacts of a pandemic is being factored into the risk assessment. Assessment of overall risk should also differentiate between short and long term risks. The register addresses a sudden and significant overall fall in income, but does not currently address the risk of the decade long 40% real terms fall in Parish Offer continuing into the future.

Fraudulent payments: The risk is low as dual authorisation is required on all HSBC.net payments and transfers, 2 signatures are required on all cheques over £100, we have an intra-day overdraft limit of £100,000 on our current account and we apply all recommended IT security measures.

Uninsured loss: This is low risk as we use brokers DE Ford who assess, identify and remedy any weak spots in our cover.

Regulatory penalties: The risk is low but present in areas such as Health and Safety, GDPR and Employment. Associated policies are in place but should be reviewed by the Trustees on a systematic basis.

Restore: The creation of the new separate charitable company has reduced this risk as it has established a stronger and more dedicated governance and management structure. The new charity has what is regarded as an adequate level of working capital.

Rydal Hall losses: The potential impact in the register is scored at 2 based on Rydal's last normal year of operation but Covid has obviously had a powerful negative impact. The Board is now stronger and more proactive than previously and a clear statement of purpose. This risk is kept under review at each Finance Committee meeting.

Good Shepherd MAT: The MAT's financial position is well managed but it operates on small margins and is expected to seek additional funding to grow in 2022.

IME Student Fee Income: Risks relating to fee income generated by Cumbria Christian Learning have been replaced by similar risks in relation to Emmanuel College. The College is intended to be wholly self sustaining from fee income and there is no suggestion that Dioceses will have to provide funding over and above an initial loan of £10,000 to be repaid within 12 months. Bishops and DBFs are expected to become the corporate members of the College which will give visibility over operational developments and the financial outlook.

Key staff cover: In a small organisation there is inevitably significant reliance on key individuals. Mitigation includes succession planning and maintaining goodwill and strong links with other dioceses in the North West who could and do provide mutual support.

Single point of failure: The potential impact from a single point of failure will depend on the nature of such a failure. The 2 key issues relate to loss of Church House or loss of key staff. The Covid pandemic has demonstrated resilience and an ability to undertake most work from locations outside the office.

Health of the Local Church: The health of the local church, both Anglican and ecumenical partners, has a direct impact on the Diocesan finances and is high risk.

Changes within Ecumenical Partners: Changes in structure, local leadership or national policy may all impact on the likelihood and ability of partner denominations to work effectively as part of the God for All strategy.

Risk associated with employment of staff on behalf of third parties: This has largely been mitigated by the adoption of relevant policies in 2019 and the use of secondment agreements to clarify respective roles and responsibilities.

In wider discussion about the Risk Register the risk of a breakdown in the relationship between the Bishop's Council and the Finance Committee was raised but it was agreed that given the extensive overlap of membership between the two bodies this was not of serious concern.

It was agreed that Ric Jaques and Derek Hurton will identify other Dioceses in the North West against whom we will benchmark our approach. Ric Jaques will update the Register and provide it to the next meeting.

PART B FINANCE – MINOR MATTERS

- 10. Parish Offer:** The Committee received a report on Parish Offer receipts to 28th February 2021. It was too early to draw conclusions or make firm projections for the year as a whole but levels of initial receipts were not discouraging.
- 11. Rydal Hall:** The Committee received draft minutes from the Rydal Board meeting held on 23rd February 2021 & the management accounts to 31st January 2021.

Richard Pratt gave a verbal update. Rydal Hall is getting ready to reopen and there are a lot of bookings. They are hoping for and expecting a really busy summer and their opening road map is in accordance with the Government's road map. Self catering cottages can be open from mid April for overnight stays for people from the same household. The camp site will have to wait until a later date to reopen as it offers only shared facilities.

The Committee received the Final Management Accounts to 31st December 2020. Ric Jaques made the Board aware that the December position assumed that the DBF's grant would count for 2020 which it does not. Rydal therefore now shows a negative balance sheet, but the underlying Diocesan consolidated position is no different. The Trustees' report will address that issue.

The Committee approved the following resolution:

“The Carlisle Diocesan Board of Finance (**CDBF**) remains committed to the work and ministry of Rydal Hall Ltd. The CDBF will continue to keep the ongoing operation and viability of Rydal Hall Ltd under close review in the course of 2021 and 2022, and to give both practical and financial support, if required, to enable it to deliver its work as part of the Diocese's God for All mission strategy.”

- 12. Stewardship Activities Report:** Ric Jaques introduced the Stewardship Activities Report. Our Stewardship Enabler remains on maternity leave with a likely return to work mid-July. There has been a meeting with the Northern Regional Advisor from the National Giving Team and we are looking to do a piece of work with them in May to discuss how we can help PCCs to

fill the void on the money they have lost over the last year. Preparations for the contactless giving project, through which local churches would be offered free-of-charge contactless units, were continuing.

13. **MAT:** The Committee noted the minutes from the meeting held on the 10th December 2020.

PART C PROPERTY MATTERS

15. **Property Issues requiring Finance Committee attention:** Neal Andrews joined the meeting.

The Committee received the draft minutes and action points of the property sub-committee meeting of 12th February 2021:

The Committee agreed to appoint Rob Cook as a third trustee to the property sub-committee to enable rapid decision making where this was needed.

The next property meeting will be 9.30am Friday 16th April (by Zoom). If any finance committee member wishes to attend they are to advise Neal Andrews.

Significant Update Items To Note Since The Property Meetings:

Threlkeld, 1 St John's Gate – the house will not be sold as it is to be rented to the Revd Nicky Smith, the newly appointed Director of Ministry Development.

Bridekirk Vicarage - At the county court hearing on 4th March agreement was reached for a suspended Possession Order against the tenant.

Current sales in progress, offers accepted:

- 7 The Green, Houghton - £212,000. Completed on 12th March.
- 54 Eden Street, Carlisle - £170,000. Final enquiries being addressed and pressing for a completion date.
- Arlecdon - £300,000.
- Kirkbride - Land registration remains to be resolved.
- 139 The Parklands, Cockermouth – offer accepted, with the sale to be completed in early May.

Tenancy Notice Periods – The regulations introduced under the Coronavirus Act extending notice periods on residential tenancies to 6 months, which were to expire on 31st March have, as anticipated, been extended. The provision will now remain in place until at least 31st May.

The Board approved provisions to be accrued in the management accounts for 2020 work in progress.

2021 Housing Repairs – With falling infection rates deferred housing repairs are expected to be resumed in week commencing 15th March.

Restore, 2-4 Petteril Bank Road – documentation, with the DBF as guarantor, is expected to be circulated imminently.

Croglin – The community group have advised they will still need until October to finalise feasibility proposals for the East Fellside Heritage Centre.

Cleator Moor St John – The potential purchaser has now submitted a listed building application, although there are concerns over its adequacy.

Dendron – With deterioration of the building (which has now had to be physically closed) we have been asked to accelerate the formal closure process.

Middleton Holy Ghost – Information is being provided to the parish on the processes involved as they are contemplating closure.

Stonegarth – The Committee authorized the Property Subcommittee to waive rent payments by the tenants where considered justified by the particular circumstances.

Castle Carrock – An initial approach from a local resident has been received about the possibility of buying the remaining glebe for a “community orchard, tree planting and children's play area”. The matter is understood to have been discussed by the parish council on 10th March. A further approach is awaited.

Underbarrow Former School – With the agreement of the local parish a restrictive covenant limiting use of the former school, now a house, to “not more than two private dwelling houses each in single occupation” may be released. The owners have been advised that an appropriate payment plus costs will be required.

PART F FINANCIAL STATEMENTS AND REPORTS

- 16. Treasury and Investments including Minor Funds:** Ric Jaques reported on the fund statements. Not all year end property or investment valuations were yet available, including in respect of the Scandale and Rydal hydro schemes.

The Investment Sub-Group is next due to meet by Zoom on 29th April. This meeting will include a market update and portfolio review from Heather Lamont of CCLA, and also an introduction to EdenTree Investment Management, the investment managers owned by Ecclesiastical Insurance Group and used by a number of dioceses. Trustees are welcome to join part or all of this Sub-Group meeting if they wish.

Bishop James made people aware that an Archbishop's Commission has reported on housing. It has recommended that rules governing the sale of church-related land and buildings for housing should be relaxed and such land offered to housing associations to build affordable properties. The Bishop reminded members that we have already been operating in that kind of way for some years, with Mitre Housing being part of the diocesan family. Our approach is always to explore the potential for some or all of sites to be used for affordable housing.

17. Ric Jaques reported on the statements and updates on the following funds giving a brief summary of the background behind each fund. Although they are described as minor funds they actually contain much of our money. They are minor in the sense that given the restrictions that apply to most of them there is little scope to debate what we can do with them. They therefore contrast with our unrestricted funds whose use is more actively guided by Bishop's Council as part of resourcing the mission strategy of the Diocese.
18. **Date of Next Meeting: Wednesday, 19 May 2021**