The Minutes of a meeting of the TRUSTEES of the CARLISLE DIOCESAN BOARD OF FINANCE LTD held BY VIDEO LINK on 21 SEPTEMBER 2022

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

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

1. Opening Prayers: Prayers were led by Derek Bradley.

2. Apologies for absence: Apologies were received from John Edwards and Janet Busk.

3. Minutes: The Trustees approved the minutes of the meeting held on 13th July 2022.

4. Matters Arising from the Minutes: The Trustees noted the points on the Action Sheet and it was confirmed that all the actions noted had been completed or progressed, or were on the meeting agenda.

PART A FINANCIAL POSITION AND MAJOR FINANCE MATTERS

5. Management Accounts: Ric Jaques introduced the Management Accounts to 31st August 2022. The accounts for the first 8 months of 2022 show a surplus of £356k, which is £28k better than the phased budget. Underspend is around £128k, some of which is most likely due to timing differences, whilst some will prove to be real savings achieved.

Income is now £101k under budget, parish offer receipts being back near to budget after active management since the last meeting. Some aspects of investment income are below budget due to delayed property sales and a dry spring for the hydro schemes. Contributions from other funds also reflect delayed property sales as well as the impact of reduced spend which in turn reduces the need to draw in that funding.

The forecast for the year is based upon the current view of likely clergy changes, and expected property sales, and includes the stipend/pay rises agreed at the May meeting.

Clergy severance packages are not currently forecast as needing to be funded by the designated sustainability fund, and an assumption remains that 99% of parish offer pledges are received. It shows a forecast deficit of £20k. There will be scope at the end of the year to fund some element of clergy restructuring costs from the sustainability fund if required.

6. Parish Offer: The Trustees noted the Parish Offer Receipts to 31st August 2022 and indicative 2023 offers. Ric Jaques introduced the Parish Offer paper. As reported in the Management Accounts item, Parish Offer receipts had been starting to fall behind, but without many indications that parishes were struggling to pay, and subsequently many parishes have caught up with payments.

Ric referred to the paper produced by the National Church that shows a graph of how all dioceses are doing. This includes year-to-date performance against last year and also against 2019, which is the last 'normal' year. Our drop in offers coming in this year is bigger than the average, which could be a reflection of Cumbria being hit harder and people not coming back to church, therefore losing more of our regular givers, or an indication of the Parish Offer system being an offer, whereas the majority of diocese still work a share system.

With around 95% of offers received, our estimate of the total for 2023 is £4,209,000. This represents an increase on the original offers made for 2022 of 2.4% against a proposed increase in the Diocesan stipend of 5.5%.

Sophie Hodge reported on how the parish offer process went this year. The emphasis was on encouraging parishes to move towards an approach whereby they set an offer in the context of conversations with their Mission Community and eventually moved to a three year covenant. In 2022 the process involved several locations where the Archdeacon and representatives of the Finance Team met with the Mission Community and talked about aspirations and plans for mission and ministry, the financial context, costs of ministry and Parish Offer aspirations. One of the potential strengths of the system is that it is much more relational and it appears to have improved the trust and the relationship between the Mission Community, parishes and the diocese. It potentially adds a level of mutual accountability into the system. The hope is to make Mission Communities feel empowered and to have more say over what mission and ministry looks like in their patch, but also more accountability for providing the resources required to fund it.

7. Stewardship Activities Report: The Trustees noted the Stewardship Activities Report. Ric Jaques acknowledged a huge amount of work that Sophie Hodge and John Thompson put into this area of work and thanked them for a big push to update contactless giving machines and deliver free signage to parishes over the last couple of months.

8. Budget: Derek Hurton introduced the budget item. He reminded the Trustees that we are attempting to set a Diocesan budget that indicates our planned financial direction of travel for next 5 years while accepting that there is much uncertainty. The process being followed involves an initial discussion with Trustees followed by a joint discussion with Bishop's

Council resulting in a draft budget being presented to Diocesan Synod and DBF on 15 October 2022.

Overall, the budget exists to support the God for All Vision and Strategy. Taking this down a level it means enabling us to continue to invest in local ministry within Mission Communities, but with a more diverse model of ministry, including: lower cost lay ministry; more professional administrative support; more investment in less affluent areas; and investment in church revitalization/planting and in expanding Network Youth Church support. We aim to pursue this goal in a way that also means that the Diocese is in at least as good a financial position on 31 December 2027 as on 1 January 2023

Major assumptions bearing on the budget are around the material impact of the carbon neutral agenda, changes to the clergy pension scheme contribution rate, future trends in parish offer, numbers of clergy and inflation. When applied to the budget model most of these assumptions have a negative impact and therefore steps to mitigate against them have been built in from the outset, particularly in terms of an expectation that all new initiatives must be externally funded and that existing ministry currently funded through the Reaching Deeper project must be self-sustaining at the end of the funding.

Applying the assumptions and mitigation to the model shows a substantial and growing loss each year, approaching £600k in 2027 and cumulatively £1.9m across the budget period. The driving forces behind that outturn are: high inflation at the start of the period, which builds in higher baseline costs; reductions in cash terms in Parish Offer and parochial fees; and the hangover from Covid. Those things are offset to some extent by: continued reductions in clergy numbers in situations which the Archdeacons feel are not currently sustainable – from 72 to 63 fte posts, but with some offsetting increases in Network Youth Church and eternally funded posts; and increased investment income as we dispose of surplus assets and invest the proceeds.

Given the agreed principle of balancing the budget over the cycle, such an outturn would be unacceptable. Responses could include reducing costs further or increasing income. Further savings would involve substantially deeper cuts in local ministry or to the remaining discretionary expenditure. Deeper cuts in local ministry would be inconsistent with the implementation of the strategy for ministry and Mission Communities, while the remaining discretionary expenditure largely consists of the communications and stewardship functions, both of which were regarded in the 2020 review of expenditure as highly necessary to the effective operation of the Diocese.

Emphasis has therefore been placed on revisiting the scope to increase the local church's contribution to the DBF. This area is fundamental. If local church cannot shoulder at least as much of the financial burden in the future, then the viability of the current model of church is called into question and within the next 5 years we will reach a tipping point in terms of our ability to deploy stipendiary clergy in leadership roles across the county. Modelling the impact of the parish offer rising by the same rate stipends from 2024 to 2027

– ie increases of 3% in 2024 and 2% in each of the three subsequent years – results in arriving at 2027 in a better than break-even position for that year.

In order to achieve such an increase it will be necessary to give this areas a strong focus in the coming years, involving much greater local dialogue and following through on tough decisions. The factors that suggest the increases could be achieved are that: Parish Offers are up by nearly 2.5% this year, the first time in a decade that has happened; and that PCCs overall hold substantial reserves. The factors pointing the other way are that: the 10-year trend has been strongly in the wrong direction: there is significant inflationary pressure; and some Mission Communities are not functioning effectively, making it difficult to achieve real engagement with this area of work.

Overall the approach being proposed is based on squeezing more out of the existing system over the next few years in anticipation of underlying improvements as Mission Communities become properly established and plans for Church Planting & Revitalization begin to have an impact. The result of re-running the budget model on the basis described shows a £165k loss in 2023 that is turned around to a £60k surplus in 2027 and a cumulative deficit of £420k or 1% of turnover over the 5 year period.

Given the sensitivity of the position to the actual level of Parish Offer, if the budget proposed is adopted we will monitor and manage the situation on an annual basis. By the time we get to 2027 the landscape will have changed further with, in all likelihood, a further reassessment of the shape of the local church and Mission Communities, ready for the next stage of evolution.

Derek Hurton concluded that the approach proposed was the only one that we think is consistent with implementing the Vision & Strategy while also sticking to our agreed budget principles. The alternative is substantial further cost cutting at this stage, which risks losing the critical mass necessary for the implementation of Vision & Strategy especially Mission Communities.

During the discussion the following question/comments were made:-

- Q: how realistic is it to consider a reduction from 73 to 63 in terms of Stipendiary Ministry and remain effectively operational? Won't those reductions have a continued impact on the workload and therefore stress for the remaining clergy in post?
  Ans: the figures are based on responses from the archdeacons who were consulted as to what they thought was realistic over the next 5 years, whether there were anomalous situations where the relationship between Offers and the costs of local ministry is unrealistic, and whether there are posts at the margins that we could operate effectively without. We hope that the Parish Offer process of dialogue with local churches will actually result in a greater level of generosity in some of those locations, with the end result that we do not actually need to make the reductions identified.

- Q: how much security is there in the assumption that the areas identified for potential external funding will actually be externally funded?
  Ans: we know that the Church Commissioners want to provide substantial financial support to Diocese including our own, on the basis that our God for All Vision and Strategy is aligned with the national Vision and Strategy. The new or expanded roles proposed as part of the Component Strategies, including digital enabler, program management, growing younger enabler and mission community development support roles would all have to be funded from external grants or from redeployment within the DBF's existing budgets. The budget did not include any additional 'general' funding for such roles.
- The success of this budget is entirely driven at the local level, and that that means managing change at the parish level. If we're expecting mission communities to increase their offer then we're going to have to help them manage their cost base, particularly in relation to their church buildings.
- Q: General Synod set a target to be net carbon zero by 2030, without really doing anything about costing it or working out how it's going to be paid for. What's the impact going to be on parsonages and local parishes as that has an obvious impact on money available to fund Parish Offer? Do we know how much financial support is going to come through from the diocese to implement this?
  Ans: The vast majority of the money in the budget for this heading is there to deal with the properties for which the DBF has direct responsibility, ie principally parsonages. The budget suggests putting aside £250k a year for eight years which amounts to £2m in total, which we can expect will go a significant way to funding work towards the target. The approach would be to start building a fund early on but deferring substantial expenditure to later in the period in anticipation of technology improving over time. There will be a full 5 year cycle of quinquennial works from 2025 through which work that is more influenced by technological change (eg heating systems) can be implemented. Support for PCCs is less certain. We don't yet know whether funds allocated by the Church Commissioners are going to be available for specific work in local churches. The DBF's Parish Property Fund and Loan Scheme will be available to PCCs to support work towards the 2030 target but support from those funds will be relatively small when compared with potential overall costs.
- The Budget understandably emphasises stipendiary and paid ministry as that is where cost is incurred, but we must not lose a focus on self-supporting ministries being a norm rather than as a bolt on. It continues to feel as if self-supporting ministry is seen on the ground as an additional reserve force, not a key element.

The Trustees agreed that the budget should be taken as written to the joint meeting with Bishop's Council, with Sue Wigley abstaining on the basis that in principle she was unable to approve a deficit budget.

PART B FINANCE – MINOR MATTERS

10. Financial implications from associated meetings: The Trustees received the paper on the financial implications from associated meetings.

11. Rydal Hall: The Trustees noted the management accounts to 31st July 2022 and draft minutes of the meeting of the Rydal Board held on 12th July 2020 2022. Ric Jaques introduced the Rydal Hall item. The operation of the Hall continues to be a mixture of encouragement and concern, with the encouraging news that the challenging turnover budget for August was almost reached. The growth of income year-on-year is impressive and is the result of a lot of hard work, but at the same time Rydal is being hit with very substantial unbudgeted additional energy costs when the hydro is not generating electricity, which was the case for much of the summer. Rydal is in an interim period since the general manager left and there is a member of the team holding that position at the moment. Recruiting chefs is very challenging at the moment so there is additional expenditure on agency staff. A new booking system is being installed and this will improve the booking process resulting in fewer empty rooms. Rydal has also employed a revenue management expert, Jackie Lancaster, who has overseen the instillation of the new booking system, and whose work will result in material financial benefits.

12. Stewardship Activities Report: The Trustees noted the Stewardship Activities Report.

14. Good Shepherd Multi Academy Trust (MAT) & Academy Schools: The Trustees noted the draft minutes of the meeting held on 7th July 2022.

13. Approval of the sale of Holme St Cuthbert Church Hall, Mawbray, Maryport: The Trustees approved the sale.

PART C PROPERTY MATTERS

16. Property Issues requiring Finance Committee attention: The Trustees received the minutes and action points from the property sub-committee meeting and the PFK review meeting on the 12th August 2022, and noted that the next meeting will be on the 21st October 2022.

<u>Vacant Properties and House sales</u>

<u>Significant Update Items To Note Since The Property Meeting:</u>

<u>Langdale Vicarage and Natland Vicarage -</u>Sales appraisals having been received suggesting guide prices of:

- Langdale – £800,000 to £850,000.
- Natland - £750,000 to £800,000

<u>Other Diocesan Board of Finance Properties</u>

<u>Significant Update Items To Note Since The Property Meetings:</u>

34 Valley Drive, Kendal – Unfortunately, the bid for a replacement property was not successful and the search continues.

Closed Churches

Matters Requiring Further Finance Committee Consideration and Approval:

Waverton Christ Church - Further to marketing at £125k, and invitations for best and final offers after various interest, the highest bid received was £150k, for residential conversion. Arrangements are being made to accept the offer. The sale will be subject to the purchaser obtaining planning permission. Trustees approved proceeding with acceptance of the £150k offer.

Significant Update Items To Note Since The Property Meetings:

Blawith St John -old church/ruin – Sale is due to complete as soon as the purchasers solicitors are put in funds, expected Tuesday 20th September.
Beckermet St Bridget, Calder Bridge – It is understood that there have been public objections to the proposed closure. The diocese will have to respond and the Commissioners consider matters before closure can proceed.

PART D FINANCIAL STATEMENTS AND REPORTS

17. Treasury and Investments: Ric Jaques reported on the fund statements. He is monitoring the Investment Fund price weekly given the current potential for market turbulence. The fluctuations in prices have not been as significant as they might have been, with the highest weekly movements between 3% and 4.2%. Neither increases nor decreases have been sustained for many weeks. At the end of August, the Investment Fund share price had fallen since 1st January by 6.5%, up from its low point of 11.5% down, but the Property Fund shares had increased by 6.5%, down from its peak of 8.8%. Both saw growth of over 14% in 2021.

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

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

19. Date of Next Meeting: Wednesday, 21st September 2022

Joint Meeting with Bishop's Council

Following on from the joint meeting of Trustees and Bishop’s Council, the Trustees approved the draft budget to be proposed to Diocesan Synod and the Diocesan Board of Finance on the 15th October 2022.