DBF 22/07

CARLISLE DIOCESAN BOARD OF FINANCE LIMITED

Minutes of a Meeting of the Carlisle Diocesan Board of Finance, held at Newbiggin Village Hall, Penrith on Tuesday 14th October 2023

Chair's Remarks

The Chair, Mr Jim Johnson, introduced the meeting. He reported that at the end of August we appeared to be ahead of budget for the year. This is a temporary issue due to a delay in being able to fill posts. In the budgetary process the assumption is that will normalise going into the future, lengthy delays in recruitment and appointments are not desirable. The realisation is that that is not reality, it is taking a long time make appointments when there is a vacancy and during those vacancies the diocese saves money on the costs of ministry. So when revising the budget for the next four years till 2027 that has been taken into account as a reality.

Synod took the decision that Rydal Hall formed an essential part of the diocese mission and acknowledged that it would need some investment in order to sustain its development and approved £250k which was factored into the budget. This has yet to be drawn from. The Chair invited the Venerable Richard Pratt to update Synod on Rydal Hall.

Rydal was continuing to operate in a difficult environment but was achieving strong occupancy levels. Their costs were however rising due to high levels of inflation and staffing shortages. The long dry summer had resulted in Rydal having to buy electricity at the variable rate from the grid rather than it being generated directly by the hydro scheme. Restore was trading well and their new shop in Penrith had been a success so far with high footfall, giving them the opportunity to engage with and support people who were encountering difficulties in their lives.

The Diocese had managed well in financial terms this year and the Chair expressed his thanks to all involved, whether local or in the Church House team.

Minutes

The minutes of the meeting of the Diocesan Board of Finance held on Wednesday 28th June 2023 were approved.

Minutes of the Finance Committee & Questions to the Chair

The minutes of the meeting of the Finance Committee held on Wednesday, 17th May 2023 and Wednesday 12th July 2023 were received.

Recast Diocesan Budget 2024 - 2027

Derek Hurton introduced the Diocesan Budget 2023-27 item and the associated detailed paper.

He opened his presentation by remarking that he hoped it went without saying that the Diocesan budget exists to resource the mission and ministry of the Church in Cumbria. So, it was very timely that we came to set the budget for the next 5 years at the same event as our Bishops had set out the vision for the Diocese. There was a common theme of hope and realism pervading the vision and strategy and that was also written right through the approach to the budget.

When thinking of the budget It could be helpful to use an analogy of baking a cake, starting with a list of ingredients. These started with the vision and what we're trying to achieve. Then there was the context, our financial principles, our priorities and our ongoing eye for changing demands and developments.

What we were trying to achieve was obviously the God for All Vision and Strategy. We wanted to continue to invest in local ministry in Mission Communities, but with a more diverse model of ministry and more investment in less affluent areas. This included revitalizing churches, planting new ones and expanding Network Youth Church. We wanted to support God for All through a range of actions, including support to help mission communities become established and effective and to Grow Younger, and we wanted to do this in a way that also meant the Diocese was in as good a financial position on 31 December 2027 as on 1 January 2023.

Then there was the context. Everyone would be aware that this was difficult in at least 4 respects. There was economic uncertainty, both domestically and internationally, including high and unpredictable Inflation. There was a 10 year trend in Parish Offer to 2022 showing a 40% fall in real terms. We were dealing with the hangover from Covid which had seen a further 12% fall in Offer and had resulted in 2020 in us taking a number of steps to save money in the short term. And there was the wider church context and global context which included particularly the Church of England's commitment to trying to be carbon neutral by 2030.

The reality was that budgeting was very hard in this context. We could view this as taking HMS Carlisle Diocese on a 5 or 10 year journey of discovery across the ocean: the job was to maintain a sense of direction while keeping the ship afloat from year to year.

The next ingredients were our budgeting principles. DBF members would be familiar with most these, but they included balancing the budget over the cycle; not selling assets to fund current spending, nor borrowing to do so; trying to maintain the value of stipend against inflation; thinking and talking about use of the DBF's wider income and support from the Church Commissioners as investment in mission and ministry rather than as subsidy; and seeking external funding for any new initiatives we want to pursue to avoid adding extra financial pressure on our general funds.

The final ingredients were the assumptions and developments we used to inform the budget, and these were set out in the Appendix to the paper. Developments included the Church of England's Carbon Neutral goal and its associated financing, expected savings on clergy pensions as the historic deficit was cleared, and initiatives to implement the refreshed Vision and Strategy. Assumptions included the level of Parish (Mission

Community) Offer, the number of clergy, inflation, and the requirements that new work must be predominantly externally funded and that existing initiatives must work towards being sustainable in their own right.

At first, running the budget model with those ingredients showed a substantial and growing loss each year, approaching £600k by 2027 and cumulatively £1.9m across the five years. This was regarded as being immediately unacceptable and prompted the question as to what factors were driving the projected outturn. The answer was that it was due to three main negative factors: high inflation in terms of costs; the trend in Parish Offer and Parochial Fees being downwards in cash terms; and the hangover from Covid. These factors were partially offset by continued marginal reductions in clergy numbers and increased investment income.

On the expenditure side, and having made significant central cuts in 2020, it was hard to see where savings could be made other than by cutting deeper into local ministry. That would be inconsistent with the implementation of our current strategy for ministry in Mission Communities. There was limited scope to increase the DBF's non-local income beyond what was already factored into the budget because the projections for investment income and rent were based on stretching projections of what could be achieved.

Work had therefore focused on revisiting the scope for & impact of increasing the local church's contribution to DBF's income. The contribution from the local church remained fundamental. Although many churches had striven hard to maintain their contributions, the total annual Offer from the local church had fallen overall by 40% in real terms in just over a decade. The reality was that if the local church could not shoulder as least as much of the current financial burden in the future then the game would be up for the current model of church in Cumbria. Without a change in this underlying factor, within next 5 years we would reach a tipping point beyond which it was no longer realistic to sustain the Diocese in its current state.

The positive aspect of this however was that modelling the impact of Offer rising by same rate as stipends from 2024 to 2027 resulted in a budget that was slightly better than break even by 2027. Current assumptions were that this would mean a 3% increase in Offer in 2024 and 2% each year afterwards. As the paper stated in para 5.9, that would, to say the least, be noteworthy by the last decade's standards, but if we could achieve that level of increase then the budget would be sustainable over the period. It therefore made a lot of sense to try work towards this.

Achieving it would not happen without substantial investment of time and energy. It would need a strong focus of action and much greater local dialogue, and might mean taking tough decisions. A reason to be positive about achieving this outcome was that in 2022, on the back of a more engaging and dialogical approach, the Offers made for 2023 had gone up by 2.5%. It could be interpreted as implying that if you engage more deeply with people locally, they understand the issues better, leading to greater increases in Offer. On the other hand, there were reasons to be less positive, including the fact that over 10 years the trend had been strongly in the wrong direction, the significant inflationary pressure and the patchy pattern of Mission Communities in which these dialogues would need to happen.

On balance, the consultations undertaken in the run up to setting the budget suggested that by the grace of God and with hard work & a following wind we could achieve an increase in the Offer over the next few years. In terms of the Vision and Strategy and associated budget, we would effectively be saying that to, say 2025, we would need to squeeze more out of the system. In 2026 onwards we would expect our Vision and Strategy, the continued development of mission communities, church planting & revitalization to begin to have a positive financial impact on the baseline.

Running the model again on the basis of Parish Offer rising by 3% in 2024 and 2% in 2025, 2026 and 2027 showed a £165k loss in 23, turned around to £60k surplus by 2027 and a cumulative deficit of £420k or 1% of turnover across the five years. That was clearly a much better outturn that the £1.9 million loss described earlier. However, it was still a £420k deficit, which appeared at odds with our principle of balancing the budget over the cycle. This principle was one that had guided us over the last 15 years and adherence to it was one of the reasons why, although our financial position wasn't great, it was better than that of many dioceses.

It was however reasonable to bring into play the fact that over the previous budget period, we had made an undesignated surplus. This amounted since 2015 to £540k. It was over 15 years since we had sold assets to fund our ongoing costs. In terms of our principles, one could therefore make a case that drawing on that cumulative surplus would be a reasonable and prudent approach. Indeed it would be possible to go further and say that this approach honoured our covenant of trust with individuals and churches who had worked so hard to provide the Offer. If, over the last 5 years the DBF hadn't spent all the money given by the local church, then the DBF should feed it back into paying for local ministry in the coming 5 years.

If we adopted the approach that was being recommended we should not wait until 2027 to see whether things had turned out as planned. Instead, we should monitor and manage the situation each year. By the time we reached 2027 we should expect that things would be different again and we would need to be planning afresh.

In conclusion Mr Hurton said that what was set out in the paper was seen as the only approach that was consistent with implementing the Vision & Strategy while also sticking to our budget principles. The alternative was substantial further cost cutting at this stage, which risked losing the critical mass needed for the implementation of the Vision & Strategy, especially ministry in Mission Communities. It was a relatively high-risk approach as compared with previous budget period and was therefore offered to members of the Board of Finance as being ambitious but prudent, and hopeful but realistic.

Synod member approved the draft budget for 2023 and the outline budget for the following 4 years.

During the subsequent discussion the following questions and points were raised: