

Diocese of Leicester
Diocesan Synod – 13th February 2021
Support for Leicester Cathedral Revealed

Resolution 1

The Synod agrees to make a grant of £500,000 from the funds of the Leicester Diocesan Board of Finance to the ‘Leicester Cathedral Revealed’ project.

Amendment 1

The Synod amends Resolution 1 by substituting ‘The Synod approves the purchase at fair market value by the Leicester Diocesan Board of Finance of one of the clergy houses belonging to Leicester Cathedral.’

The pages which follow set out the case for Synod to support Resolution 1 or Amendment 1.

0. Procedural note

0.1 The DBF trustees agreed to recommend to the Diocesan Synod, but subject to Bishops Leadership Team (BLT) endorsement of the missional priority of the project, *“that the Cathedral should be awarded a grant of £500k towards Leicester Cathedral Revealed (LCR). The trustees further agreed that, in the event that it were not possible to award a grant, then the option of buying one of the Cathedral clergy houses and leasing it back should be pursued.”*

0.2 Following consideration of this recommendation, there was a clear consensus amongst the members of BLT to endorse the recommendation of the DBF trustees. Accordingly, Synod is presented with Resolution 1, which encapsulates the preference of both the DBF Trustees and the members of BLT. However, Amendment 1 will be moved to enable Synod, should it not feel able to make a grant, to consider the alternative of supporting LCR by purchasing and leasing back one of the Cathedral clergy houses, thereby releasing its cash value for the Cathedral to put towards the costs of LCR.

0.3 Debate will proceed concurrently on both the amendment and the resolution. At the conclusion of the debate, the amendment will be moved. If approved by a majority, the amendment will replace the wording of Resolution 1, and a further vote will be taken on this as the substantive resolution. If the amendment is not approved by a majority, Resolution 1 will be voted on in the form set out above. It is open to members of Synod to use the procedure for moving further amendments, which should be sent in writing to jonathan.kerry@leicestercofe.org, preferably no later than noon on 11th February.

LEICESTER CATHEDRAL REVEALED – THE CASE FOR SUPPORT

1. INTRODUCTION – CATHEDRAL AND DIOCESE

1.1 The Cathedral story is interlinked with that of the Diocese and Shaped by God (SBG). Their relationship is akin to the image of the vine with branches of which John's Gospel speaks, and hence there is a deep and precious missional connection between Cathedral and diocese. The Cathedral isn't separate from the SBG vision and has always worked hard at being a major part – indeed often bringing the prophetic voice and action that holds the SBG impact in wider society.

1.2 To speak of a 'gift' or even 'grant' (although the latter is the correct formal and legal term) from Diocese to Cathedral implies a transactional relationship between diocese and Cathedral. A better way of speaking would be to talk of integration and mutual flourishing, in God in whom we all live and move and have our being.

1.3 To ground this in the present, and help us inhabit our current priorities, a thriving Cathedral offers us witness and missional opportunities that it uniquely can provide. If we look at the funding request through the lens of current diocesan priorities then we see the 'gift' to the diocese of the Cathedral as a reconciling community, developing significant intercultural intergenerational opportunities and also pushing the eco elements of the building. It is also, and most obviously, the place of rooted Anglican identity for us as a diocese.

2. MISSIONAL CONTEXT - A CONTINUING VISION FOR RENEWAL AND CHRISTIAN ENGAGEMENT IN THE PLURAL CITY OF LEICESTER

2.1.1 In the current extraordinary circumstances and as the Diocese starts to examine radically different ways of being the Christian Church in Leicestershire, it seems appropriate to ask does the vision, which was captured some 12 years ago, of what has become Cathedral Gardens as "*A place of confident Christian presence and generous hospitality*" still hold good, particularly as many of the leading figures at the time (Tim Stevens – Diocesan Bishop, Vivienne Faull – Dean, and Richard Atkinson- Archdeacon of Leicester) are no longer in Leicestershire?

2.1.2 We hope this narrative is also useful as we consider the commencement of the full reordering of the Cathedral and possible financial support from the Diocese, which is perhaps the final piece of the jigsaw, or this phase of it.

The beginning of the journey

2.2.1 What some now dare to believe was a Vision, started off merely as a defence of car parking space for the Cathedral at weekends, when the then Leicester Grammar School

(now St Martins House) was put up for sale in 2007. Andrew Granger (then chair of the Cathedral Council) made the suggestion to the Chapter, which some thought impossible i.e., that the second poorest Cathedral in the country (after the bankruptcy of the poorest - Wakefield), should buy the building for £2.3 million.

2.2.2 At the time what we now call Cathedral Gardens, and in particular the Cathedral precincts, was a semi derelict area by day and at night a very unsafe and disreputable place. What is now good quality housing for the Dean and two residentiary canons was the Diocesan offices and the Dean's residence. Two canons being housed remotely elsewhere in the city. The Cathedral offices were located in a very poor-quality building opposite what is now the Richard 111 Visitor Centre which was then vacant and also in poor condition. The Cathedral's financial position was unsustainable.

The journey

2.3.1 Throughout the events of the last 12 years, a number "coincidents" seem to have happened as a series of bold and risky steps (of faith?) have been considered tested and taken with almost unequivocal support from the authorising bodies (DBF Trustees and Cathedral Chapter). They were:

- i. The purchase and refurbishment of St Martins House at a cost of £8million which was made possible by donations of £3million (from Messrs. Samworth and Wilson) as well as funding from the Cathedral and Diocese in 2008.
- ii. The formation of St Martins Cathedral Properties Ltd to oversee and ring fence the project and the achievement of breakeven and then income generation for the Cathedral from the SMH enterprise within 3 years. The Diocesan and Cathedral staff moved into SMH, all vacant commercially third-party space was let, the conferencing centre, cafe and Christian bookshop were established. Outreach was also begun (funded by David Ross) and the Queen was hosted to lunch.
- iii. The discovery of the remains of King Richard 111 and the defence of the reinterment at Judicial Review following a challenge from "The Plantagenet Alliance" establishing much closer relationships between Civic Leaders (Mayor, County Council Leader and Lord Lieutenant), the Universities (Vice Chancellor) and Church (Bishop, Dean, DBF Chair). The eventual reinterment and partial reordering of the Cathedral was supported by the Diocese to the tune of £500k (nem. con. at Diocesan Synod) and subsequently generated significant income for local business and the Cathedral from the resulting boom in tourism. The reinterment was a national civic event.
- iv. The redevelopment of land owned by the Cathedral and Diocese to create Cathedral Gardens; the City having secured European Development funding.
- v. The relocation of Cathedral Clergy to refurbished housing adjacent to the Cathedral and Gardens.
- vi. The purchase and refurbishment of what became St Martins Lodge for £4million.
- vii. The purchase and refurbishment of what became the Community of the Tree of Life for £3million.

Where we are today

2.4.1 Today the area around the Cathedral is occupied by Church entities in a way which would have been unimaginable when the journey started in 2007. Very significant amounts of Diocesan and Cathedral funds have been committed, nevertheless the Diocesan financial resources in particular have grown during this period and the annual Diocesan budget has been little affected.

2.4.2 Working in partnership with the City and County, and the City Mayor in particular, the infrastructure of many of the surrounding buildings and the open space have been revived and saved from the nearly terminal decline and potential demolition which may have otherwise become inevitable. This is regarded by the civic authorities as a major achievement, adjacent and complementary to the new Greyfriars heritage area, and has created significant goodwill towards the Church.

Trading prospects for St Martins House and St Martins Lodge

2.5.1 As with most commercial ventures, and particularly those in the hospitality sector, the Lodge and St Martins House are currently loss making. However, following relatively minor capital refurbishments to SMH (costing no more than £80k) after 10 years use, both of these enterprises are forecast to produce surpluses post COVID-19 of around £170k and £70k per annum respectively. Therefore, the Lodge is still expected to be a satisfactory Glebe investment and SMH would continue to contribute to Cathedral finances.

2.5.2 Nevertheless, these returns cannot be certain and at some point, in the next 2 years, the performance of these enterprises may need to be revisited along with the future of 6/8 St Martins and alternative options considered.

Conclusion

2.6 The central question behind this paper, and for future planning, is do we wish to reaffirm what became the Vision for many involved on this journey?

3. A NOTE FROM THE DEAN

I wish to invite you to consider supporting the proposal by BLT and the DBF Trustees to give the Cathedral a gift of 500k towards LCR.

3.1 Leicester Cathedral Revealed seeks to repair, restore and re-order our building, community and our mission. It has already been more than four years in planning and development. This will include renewing services and utilities, installing a more Eco heating system, levelling floors to increase accessibility and opening up entrances to provide welcome. We will repair some fabric, renew lighting and AV systems and redecorate. We will also reimagine the Cathedral by building a new attractive Chapter House on the site of the Old Song School. This will provide much better facilities including exhibition and display space, toilets, a classroom sized meeting room for discipleship, governance and community functions. We will also provide 'back rooms' and storage to make daily operations work

smoothly for volunteers and staff given the multi-purpose demands on the space. We will therefore provide much enhanced facilities for worshippers and visitors alike. This project completes the first stage of re-ordering undertaken in 2015. It will provide the sorts of spaces and facilities everyone now reasonably expects from a cathedral for the 21st century.

3.2 We have raised £10,051,060 which means we have £3.66 million to find. Total costs are now at £13.7m. It is amazing we have got so far given the challenges and the scale at which we operate. We now face a 'now or never' moment. The National Lottery Heritage Fund (NLHF) have agreed that we can apply for an uplift grant which could be up to £1.9m but by mid-March we need to know where the rest of the money is coming from. NLHF have been absolutely clear that this is crunch time. So that is why this decision is required now. If the diocesan support is secured then that is another step towards the NLHF gift. Following from that the City and County are considering contributing a significant sum but they will only agree to that if the Diocese stands behind their Cathedral. Leverage of this kind has been a vital element in the way God's church has been funded down the centuries.

3.3 The gift of £500k is by far the simplest arrangement. It also does not have the effect of adding a new level of vulnerability to the cathedral long term since our houses are our only realisable significant assets. A sale would divest the asset and increase the base line cost of running the Cathedral putting pressure on staff to deliver more and more income. LCR is meant to be reducing that pressure by increasing opportunity and facilities.

3.4 The Cathedral is not just 'one of our churches'. The diocese has a responsibility towards it as do the Church Commissioners as do Chapter. Equally the Cathedral has responsibility towards the diocese and works closely e.g. the recovery plan for St Martins House (SMH) is based on using the White Rose Cafe which is a Cathedral building which we make available to SMH for no cost. It is the 'Cathedral Brand' which makes SMH and Lodge work in normal times.

3.5 Cathedrals hold the church's witness in the Public Square and common life of communities in a different way to churches. This is a vital element amongst the mix of distinctive ministries in the CofE. For example, vaccinations in Salisbury or Blackburn cathedrals spoke to the nation in a way Archbishops' statement don't quite manage. It is akin to the clear faith commitment of HMQ- confident, open and generous as a gateway and as a light.

3.6 Dioceses have Cathedrals and so the question is whether we want a functioning and attractive one at the heart of diverse Leicester or a shabby, less useful one having invested so much already with a clear vision. This is about completing that vision. This will shape our ability for witness in particular ways. As we head to marking the founding of the diocese in 2026, we could see this gift as the diocese making preparation for the next century.

3.7 We recognise that the diocese is engaged in major change. There are probably different views in the diocese - some people/parishes being very supportive, others perhaps may get the reasoning with reluctance and some may be opposed. However, we commend this to Synod with confidence. This is a capital spend as opposed to the revenue spend of

diocesan budget. The DBF have said this money can be available. It is a small percentage of their overall funds.

4. IMPACT ON DIOCESAN FINANCES - USING FINANCE FOR MISSION, LCR AND THE FUTURE

Introduction

4.1.1 Leicester Diocese has been very fortunate, particularly over the last 12 years to be able to make a range of major investment decisions to proactively use its growing capital assets to finance a wide range of activities in three particular ways:

- Entirely missional grants to parishes (growth and capital fund), and to associated institutions (Leicester Cathedral and Launde Abbey).
- Property investments to both diversify its portfolio, to strengthen its balance sheet (St Martins Lodge, St Martins House and 6/8 St Martins*) and to produce financial returns (SML and SMH*).
- Manage its Glebe estate and surplus houses, to generate capital gains to both increase investment income, to purchase assets and fund grants and now to fund operating deficits relating to the pandemic through total returns release.

** SMH is a hybrid investment housing Diocesan and Cathedral staff, facilitating mission related activities and intentionally producing modest financial returns. 6/8 St Martins has enabled the establishment of the Community of the Tree of Life.*

4.1.2 Without exception these, sometimes bold, initiatives have received very high levels of support from all the decision-making bodies (Diocesan Synod, DBF Trustee and Bishops Leadership Team).

4.1.3 Looking at these activities from an entirely financial perspective The Diocese Board of Finance's assets have increased from £57m (in 2008) to £81m (in 2017) and investment income has contributed to broadly balanced annual financial results during this time, which would otherwise not have been possible without the level of clergy reductions which have been experienced by the many less well-endowed Dioceses.

4.1.4 The purpose of this section is to explore what has happened in financial terms in recent years in order to help us consider our financial strategy to best support our mission in future years. The history of the establishment of Cathedral Gardens (2.3.1 above) is also relevant to the decision we have to make relating to the Leicester Cathedral Revealed project.

4.1.5 I hope this will also address questions that the members Diocesan Synod and Bishops Leadership Team may have, as well as facilitating constructive and informed debate when a number of choices will have to be made in the future.

The last three years

4.2.1 The period from 2017 to 2020 has seen significant financial and investment activity, particularly the purchase and refurbishment of St Martins Lodge and 6/8 St Martins. During this period the Diocese successfully bid for Strategic Development Funding from the National Church worth £6m over 5 years to support the Resource Church and BAME church projects. The extra clergy to be recruited required the DBF to invest in housing, for which a loan of £2.5m was taken out, the interest being funded by the SDF monies for the period of these projects.

4.2.2 One significant legislative change, made by General Synod, affecting DBF financing was enabling DBF's to use "unapplied capital gains" in the same way as other secular charities. This means that under defined conditions capital funds can be used to support the annual budget (we call this Total Returns Release). We have used this windfall in 2018 and 2019 to indirectly finance the annual grants to capital and growth funds and the Diocesan Board of Education. The recent budget decisions brought about by the pandemic have significantly reduced these grants. Most of this funding is now used to support the annual budget directly.

COVID-19 and its effect on our assets.

4.3.1 The pandemic and its aftermath have, and will continue to have, a material effect on our finances. Most obviously resulting in an estimated operating deficit for 2020 of over £1.3m and a 2021 budget deficit of £0.9m. Despite strong Glebe proceeds we will be selling shares worth over £2m shortly both to pay down short-term borrowings incurred in 2020 and to fund the 2021 deficit.

4.3.2 Financial losses on this scale reduce the strength of our balance sheet and will materially reduce, by around 25%, the portion of our Balance Sheet held in stocks and shares. Our Balance Sheet will be further reduced when our assets are revalued caused by the trading losses incurred by St Martins House and St Martins Lodge owing to closure during the lockdowns. The Lodge in particular is valued in our balance sheet as the property value plus as a trading business at a multiple of earnings.

Future financial prospects.

4.4.1 The key driver of our use of financial resources are our priorities for mission. However, it may help to assess what we are likely to have the financial capacity to support as together we seek to determine the way forward after the current crisis is over.

4.4.2 Shaped by God Together remains key to enabling the mission and ministry of Diocese, as many things will be different post pandemic and probably not better. In particular we cannot expect the long-term trend of reducing numbers of members to reverse, in fact there may be lower numbers as a result of the pandemic affecting income adversely.

4.4.3 The DBF's ability to provide emergency financial support in extreme circumstances by selling marketable assets has been reduced by 25%, and will be reduced further either by servicing the loan facility (taken out to buy houses for SDF funded clergy) or paying it down –

although under normal circumstances the houses purchased would increase in value, but this is not a given, if severe economic consequences follow as a result of government borrowings during the pandemic.

4.4.4 Therefore, it will be increasingly important that our annual operating budget balances. In the current uncertainties we are unable to forecast accurately what is likely to be required to achieve this. There are some positive early signs for example the parish giving for 2020 appears to have been higher than forecast. However, it does seem prudent to assume for the purposes of planning that some further cost reductions will be required.

4.4.5 Our ability to use fixed assets to support mission opportunities, either by realising Glebe land for development or selling surplus housing assets is likely to be unchanged which will continue to create capital gains and increase investment income or directly provide funding for growth initiatives in the medium to long term.

4.4.6 In respect of St Martins House and the Lodge, the former is forecast to continue to produce a moderate surplus (in line with its objectives) post lockdown. To this end a modest 10-year refurbishment will be completed in time for reopening. The Lodge is a purely financial investment to generate returns for the Glebe (and hence to contribute to clergy stipends). In its first year of trading the Lodge had reached breakeven when the pandemic struck. In January 2021 it was awarded the Traveller Review Award as the highest rated venue in Leicester. The forecast return post COVID-19 exceeds our stock market investment yield.

Leicester Cathedral Revealed

4.5.1 The decision as to whether or not the DBF / Diocese should support the Cathedral reordering project raises hard questions for us, not least how can we consider this bearing in mind the budget decisions we have just made? This is not the fundamental question.

The fundamental question is do we believe that the vision for a “confident Christian presence in Leicester” which we were called to a decade ago still holds good?

4.5.2 We are being asked to expend capital resources, on this project which are 0.6% of our total, so the effect on balancing our annual budget is not a material factor. Furthermore, the effect of Glebe sales this year are expected to replace the lost interest in 4 months (all other things being equal).

4.5.3 If, financially, this choice makes little difference to our overall finances, it does have significant reputational impact whatever choice we make. To make a decision not to support may cause the collapse of a project costing over £13 million and will be viewed negatively by the civic leaders and others outside the church and we will lose this opportunity probably for decades or more. Supporting this project gives a return of 26 times, hardly a poor return! To go ahead will be difficult to accept or understand for some in parishes.

4.5.4 Nevertheless, it should be noted that having considered the proposal in detail and debated the issue both BLT (having considered the missional priority) and the DBF Trustees (having considered the financial implications) strongly support going ahead with our share of the funding, to leverage further donations from others.

Conclusion

4.6.1 Our Balance Sheet continues to show a very sound company by any standards and demonstrates that our temporary problems to do with the losses being incurred during the pandemic are just that - short term. We do have more than enough general funds to cope with this, providing we return to our discipline of balanced budgets as soon as possible after this problem is resolved.

4.6.2 We have not just used our abundant resources to provide income towards the deployment of clergy, but have used some of what we have to be generous both to parishes and other entities (Launde and the Cathedral in particular) in making grants. We can continue to do this, albeit in a more modest way for the time being. It is notable that our balance sheet has continued to grow over the last 5 years (not withstanding grants in excess of £6 million in total), but with a small reduction in the last 2 years, probably due to the major investments in the Cathedral Gardens - the asset value of the Lodge in particular, until it starts to generate the returns we are forecasting, being understated. The balance sheet is also understated since most houses are held at their purchase, rather than, sale price.

4.6.3 In considering how we are doing in discharging our responsibilities for the stewardship of these financial resources, over the years these biblical texts provide a useful and challenging reference point:

- the Rich Fool (are we storing what we have in barns?),
- the Parable of the Talents (are we burying it in the ground and not taking enough risk to seek a good - missional - return)
- the Prodigal Son (are we like the father giving away some of what we have unconditionally in the hope others will use it well?).

It is, perhaps, quite easy to be drawn towards the first of these rather than the other two as it is the risk-free option.

4.6.4 Another useful lens through which to seek to understand the theology of money is *Dethroning Mammon* by the Archbishop of Canterbury.

5. OPTION OF PURCHASING ONE OF THE CATHEDRAL CLERGY HOUSES

5.1 Amendment 1 proposes an alternative to a grant from the DBF to LCR of £500,000. The rationale for this is that, to make a grant would require the use of Unrestricted Funds held by the DBF, whereas the house purchase would be funded from the (Restricted) Clergy Stipends Fund. (Despite its name, the Fund can legitimately be used to provide housing for clergy who hold the Bishop's licence and not merely stipends.)

5.2 All three of the clergy houses owned by the Cathedral have been valued, but it is only proposed that one of them ('The Chancellor's House'), which has been valued at approximately £400,000, would be purchased. The house would then be leased back to the Cathedral. Such a transaction would require the approval of the Church Commissioners, who have been consulted on the proposal.

5.3 The terms of the lease would need to be agreed by both parties. This would include clarity about responsibilities for maintenance, repairs and renewals. The Commissioners would require a lease of at least 50 years and preferably longer. There would also need to be an agreement on whether there was a right to renew for a further term, although the DBF Trustees are not in favour of this.

5.4 In order not to create an immediate burden on the revenue account of the Cathedral, they would require a minimal rent (say £100 per annum) for an initial term of at least 15 years. After this the rent would increase in stages to (perhaps) 50% of market value for the remainder of the term. It is agreed that the rent payable would be reduced pro-rata if the Cathedral Staff member was also performing Diocesan duties (as is the case with the current Canon Chancellor, who is also Diocesan Director of Ordinands). As a result of the lease, and reduced rent, the Balance Sheet value of the house for the DBF would be reduced to somewhere in the region of £25,000 - £50,000.

5.5 The Cathedral would have the right to surrender the lease in specified circumstances and possibly the right to purchase back the house at the prevailing fair market value.

5.6 Notwithstanding the considerable progress that has been made in discussing how this purchase and lease-back option might work, it is the clear view of the Cathedral Chapter, DBF trustees and BLT that such an arrangement is undesirably complicated and encumbering for the Cathedral and does not embody their vision for a healthy relationship between Cathedral and Diocese. Their recommendation is for Synod to make an unencumbered grant of £500,000.

Stephen Barney, Chair of LDBF

Jonathan Kerry, Chief Executive, Diocesan Secretary and Cathedral Administrator

David Monteith, Dean of Leicester

January 2020