

## 26. Unified Statement of Connexional Finances

<b>Contact name and details</b>	Maureen Sebanakitta Director of Financial Operations sebanakittam@methodistchurch.org.uk
<b>Resolution</b>	26/1. The Conference receives the Report as the Unified Statement of Connexional Finances required by SO 360.

### Summary of content

<b>Subject and aims</b>	Summary extracts of the full consolidated accounts of the Methodist Church in Britain for 2015/2016 which were adopted by the Methodist Council and are presented to the Conference as the unified statement of connexional finances required by Standing Order 360.
<b>Main points</b>	These accounts consolidate figures for a wide variety of Methodist activities and entities. They are the first set of accounts drawn up under the new FRS 102 SORP.
<b>Background context and relevant documents</b>	When the Methodist Church in Great Britain was registered with the Charity Commission it was agreed that the accounts of the registered charity would be those of the Methodist Council. The full consolidated accounts were presented to the Council and adopted by the Council under SO 21.2(1). They are available for scrutiny on the Methodist Church website and in printed form from the contact named at the head of this Report. Under SO 360 the Council is required to present to the Conference a “unified statement of connexional finances ... so as to give an overall view of those moneys and other assets for which the council is responsible”. This Report consists of extracts from the full consolidated accounts which provide a summary of them to meet that requirement. It is submitted to the Conference as the trustee body of the registered charity.

### Unified Statement of Connexional Finances

#### 1. Link to the financial statements

The accounts can be viewed online by following this link: [www.methodist.org.uk/](http://www.methodist.org.uk/)

ministers-and-office-holders/finance-and-treasurers/financial-accounts-trustees-report.

### 2. **Strategic objectives, aims and purposes of The Methodist Church in Great Britain**

The activities covered in these accounts fall within the work of The Methodist Church. The strategic objectives of the Methodist Church in Great Britain (“the Methodist Church”) are directly linked to its aims. They are:

- Worship – to increase awareness of God’s presence and to celebrate God’s love;
- Learning and Caring – to help people to learn and grow as Christians, through mutual support and care;
- Service – to be a good neighbour to people in need and to challenge injustice; and
- Evangelism – to make more followers of Jesus Christ.

### 3. **Public Benefit Requirement**

The trustees of the Methodist Church had due regard to the public benefit guidance published by the Charity Commission in compliance with its duties under section 17 of the Charities Act 2011. This guidance sets out two key principles:

- the organisation must have an identifiable benefit
- the benefit must be to the public or a section of the public.

The Church exists, inter alia, to:

- increase awareness of God’s presence and to celebrate God’s love;
- help people to learn and grow as Christians, through mutual support and care; and
- be a good neighbour to people in need and challenge injustice.

The trustees consider that for these reasons the charity meets these public benefit requirements.

### 4. **Financial review**

The activities covered in these consolidated financial statements are those under the oversight of the Methodist Council. The Methodist Church in Great Britain is the registered charity and the Charity Commission has agreed that these financial statements can properly serve as the financial statements of the charity.

This is the first year that the financial statements included in the annual report have had to comply with Financial Reporting Standard 102 (FRS 102) and the new Statement of Recommended Practice (SORP). Changes to accounting policies on adoption of the new SORP have resulted in a major increase in reported net assets compared with last year, but the main impact has been an increased level of disclosure about the defined benefit pension schemes and the financial risks associated with them.

## 26. Unified Statement of Connexional Finances

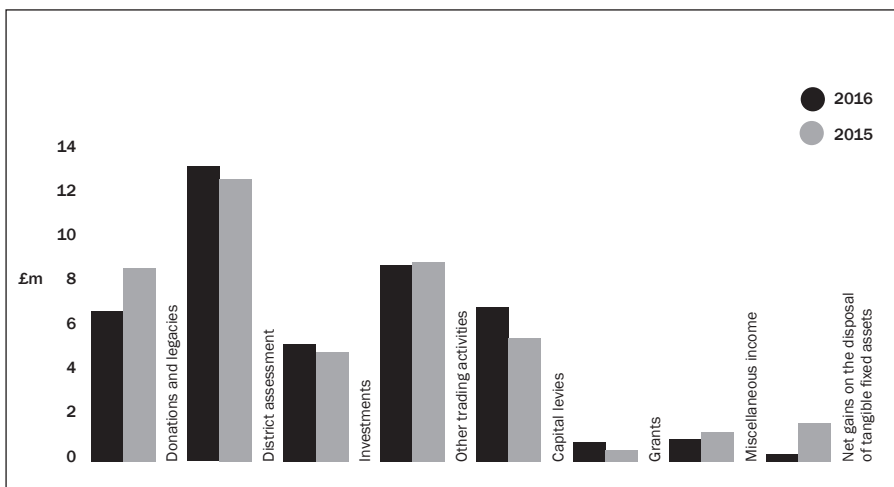
The total income for the year was £43 million, a decrease of 2% compared to the previous year (2015: £44 million). Total expenditure increased by 18% to £46 million (2015: £39 million). At the end of the year, the Church recorded a net surplus of £14 million (2015: £10 million), an increase of 40%. The surplus includes net investment gains before other recognised gains and losses of £17 million (2015: £4 million).

The “other recognised gains and losses” for the year of £12 million (2015: £111k gain) include actuarial losses on the Pension and Assurance Scheme for Lay Employees of the Methodist Church. This was caused by changes in the assumptions used to value the Scheme’s liabilities, the result of changes in market conditions and resulting in an overall increase in the Scheme’s deficit.

### 5. Incoming resources

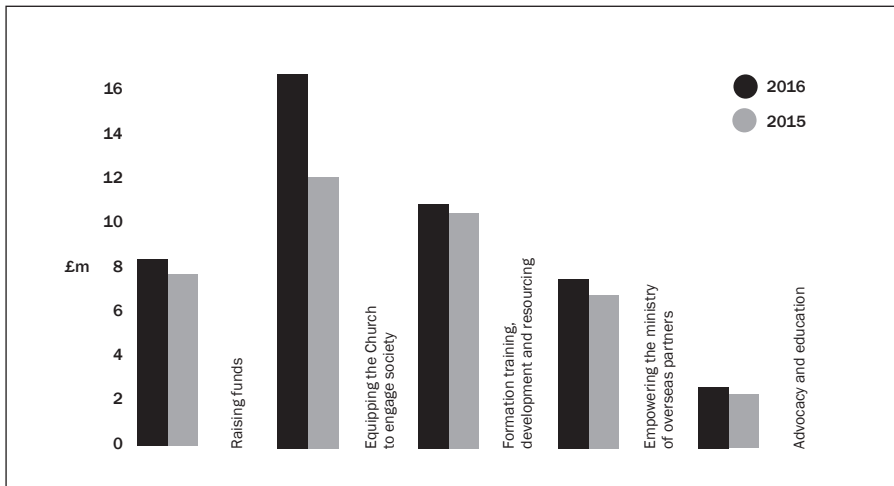
Total income fell by 2% this year due firstly to legacy income, which was significantly less than that received in 2015, and secondly to there being fewer property disposals compared to last year. This decline was partially offset by the increase in the income from property levies which increased by 28% compared to last year.

Investment income and interest rose by 12%, building the success from 2015 and a real achievement in a tough economic climate. The value of investments held on behalf of the Council increased by £13 million to £164 million (2015: £151 million). A detailed analysis of the income is provided in Notes 2-5 (pages 58-59) of the financial statements.



### 6. Resources expended

Total expenditure increased by 18% to £46 million (2015: £39 million). Of this, £38 million was spent directly on charitable activities. This includes all amounts spent in furtherance of our mission including grants and direct programme activities. A detailed analysis of expenditure by activity is presented in Notes 6-7 (see page 60 of the financial statements).



### 7. Investments

The total value of funds held at 31 August 2016 was £248 million (2015: £246 million). There are restricted reserves of £182 million (2015: £175 million); unrestricted reserves of £49 million (2015: £56 million) and endowment reserves of £17 million (2015: £16 million). A detailed breakdown of the funds is set out in Notes 20, 21 and 22 on pages 81-87 of the financial statements.

As at 31 August 2016, the Church held fixed asset investments with a market value of £164 million (2015: £151 million). The Investment Committee regularly reviews the investment portfolio and performs an annual review of the investment policy. The Church's investment objective is to seek an optimal return from income and capital combined. The Investment Committee is satisfied with the overall performance of the investment portfolio against agreed benchmarks.

## 26. Unified Statement of Connexional Finances

	Notes	Unrestricted £000	Restricted £000	Endowment £000
<b>Income and endowments from:</b>				
<b>Donations and legacies</b>	<b>2a</b>	785	5,963	-
<b>Charitable activities</b>				
District Assessment		13,067	-	-
<b>Investments</b>	<b>3a</b>	1,296	4,160	-
<b>Other trading activities</b>	<b>4a</b>	887	7,987	-
<b>Other</b>				
Capital levies	<b>5a</b>	7,035	-	-
Grants	<b>5b</b>	-	757	-
Miscellaneous income	<b>2c</b>	415	744	-
Net gains on the disposal of tangible fixed assets		-	322	-
<b>Total income</b>	<b>20a, 21a, 22a</b>	<b>23,485</b>	<b>19,933</b>	<b>-</b>
<b>Expenditure on:</b>				
<b>Raising funds</b>	<b>6a</b>	1,517	6,632	13
<b>Charitable activities</b>				
Equipping the church to engage society	<b>6a, 21a, 22a</b>	10,853	6,225	-
Formation, training, development and resourcing	<b>6a, 21a, 22a</b>	7,113	3,745	2
Empowering the ministry of overseas partners	<b>6a, 21a, 22a</b>	1,560	6,115	-
Advocacy and education	<b>6a, 21a, 22a</b>	2,376	118	-
Net loss on the disposal of tangible fixed assets		10	-	-
<b>Total expenditure on charitable activities</b>		<b>21,912</b>	<b>16,203</b>	<b>2</b>
<b>Total expenditure</b>	<b>21a, 22a</b>	<b>23,429</b>	<b>22,835</b>	<b>15</b>
Net gains on investments	<b>15a</b>	4,383	11,010	1,440
<b>Net income</b>		<b>4,439</b>	<b>8,108</b>	<b>1,425</b>
Transfers between funds	<b>20a, 21a, 22a</b>	946	(1,131)	185
<b>Net income after transfers</b>		<b>5,385</b>	<b>6,977</b>	<b>1,610</b>
<b>Other recognised gains and losses:</b>				
Actuarial gains/(losses) on defined benefit pension schemes	<b>13</b>	(12,226)	(115)	-
<b>Net movement in funds</b>		<b>(6,841)</b>	<b>6,862</b>	<b>1,610</b>
<b>Total funds at 1 September as restated</b>		<b>55,789</b>	<b>174,755</b>	<b>15,836</b>
<b>Total funds at 31 August</b>	<b>20a, 21a, 22a</b>	<b>48,948</b>	<b>181,617</b>	<b>17,446</b>

## 26. Unified Statement of Connexional Finances

2016 Total £000	Unrestricted £000	Restricted £000	Endowment £000	Restated 2015 Total £000
<b>6,748</b>	642	7,674	-	<b>8,316</b>
<b>13,067</b>	12,810	-	-	<b>12,810</b>
<b>5,456</b>	1,251	3,629	-	<b>4,880</b>
<b>8,874</b>	663	8,293	-	<b>8,956</b>
<b>7,035</b>	5,515	-	-	<b>5,515</b>
<b>757</b>	23	606	-	<b>629</b>
<b>1,159</b>	546	924	-	<b>1,470</b>
<b>322</b>	-	1,764	-	<b>1,764</b>
<b>43,418</b>	<b>21,450</b>	<b>22,890</b>	-	<b>44,340</b>
<b>8,162</b>	1,545	6,051	25	<b>7,621</b>
<b>17,078</b>	8,576	3,550	-	<b>12,126</b>
<b>10,860</b>	6,206	4,147	2	<b>10,355</b>
<b>7,675</b>	1,485	5,408	-	<b>6,893</b>
<b>2,494</b>	1,988	121	-	<b>2,109</b>
<b>10</b>	-	-	-	-
<b>38,117</b>	<b>18,255</b>	<b>13,226</b>	<b>2</b>	<b>31,483</b>
<b>46,279</b>	<b>19,800</b>	<b>19,277</b>	<b>27</b>	<b>39,104</b>
<b>16,833</b>	68	4,285	74	<b>4,427</b>
<b>13,972</b>	<b>1,718</b>	<b>7,898</b>	<b>47</b>	<b>9,663</b>
-	765	(949)	184	-
<b>13,972</b>	<b>2,483</b>	<b>6,949</b>	<b>231</b>	<b>9,663</b>
<b>(12,341)</b>	91	20	-	<b>111</b>
<b>1,631</b>	<b>2,574</b>	<b>6,969</b>	<b>231</b>	<b>9,774</b>
<b>246,380</b>	53,215	167,786	15,605	<b>236,606</b>
<b>248,011</b>	<b>55,789</b>	<b>174,755</b>	<b>15,836</b>	<b>246,380</b>

## 26. Unified Statement of Connexional Finances

	The Methodist Church in Great Britain	The Connexional Funds		Restated	Restated
	Notes	2016	2015	2016	2015
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible Assets	<b>14c</b>	171	65	171	65
Tangible fixed assets	<b>14a, b</b>	93,101	90,463	85,931	83,348
Investments	<b>15a, b</b>	164,250	150,765	148,763	138,684
		<b>257,522</b>	<b>241,293</b>	<b>234,865</b>	<b>222,097</b>
<b>Current assets</b>					
Stocks	<b>18</b>	145	189	145	178
Debtors	<b>16</b>	6,986	5,668	6,231	5,224
Short term deposits		20,518	17,511	16,810	15,361
Cash at bank and in hand		1,349	3,430	1,078	2,519
<b>Total current assets</b>		<b>28,998</b>	<b>26,798</b>	<b>24,264</b>	<b>23,282</b>
<b>Creditors</b>					
Amounts falling due within one year	<b>17a</b>	(15,964)	(11,085)	(14,323)	(9,406)
<b>Net current assets</b>		<b>13,034</b>	<b>15,713</b>	<b>9,941</b>	<b>13,876</b>
<b>Total assets less current liabilities</b>		<b>270,556</b>	<b>257,006</b>	<b>244,806</b>	<b>235,973</b>
<b>Creditors</b>					
Amounts falling due after more than one year	<b>17b</b>	(6,343)	(6,899)	(6,341)	(6,685)
<b>Net assets excluding pension liability</b>		<b>264,213</b>	<b>250,107</b>	<b>238,465</b>	<b>229,288</b>
Defined benefit pension scheme liability	<b>13</b>	(16,202)	(3,727)	(16,202)	(3,727)
<b>Net assets including pension liability</b>	<b>23</b>	<b>248,011</b>	<b>246,380</b>	<b>222,263</b>	<b>225,561</b>
<b>The funds of the charity:</b>					
Unrestricted funds					
General funds		25,507	23,882	25,287	23,882
Designated funds		39,776	35,899	39,776	35,899
Defined benefit pension scheme liability	<b>13</b>	(16,335)	(3,992)	(16,335)	(3,992)
<b>Total unrestricted funds</b>	<b>20,24</b>	<b>48,948</b>	<b>55,789</b>	<b>48,728</b>	<b>55,789</b>
Restricted funds	<b>21,24</b>	181,617	174,755	156,089	153,936
Endowment funds	<b>22</b>	17,446	15,836	17,446	15,836
<b>Total funds</b>		<b>248,011</b>	<b>246,380</b>	<b>222,263</b>	<b>225,561</b>

### 8. Accounting estimates and judgments: Defined benefit pension schemes

The Methodist Council participates in three main pension schemes: the Methodist Ministers' Pension Scheme (MMPS); the Pensions and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC); and the Superannuation Scheme for Lay Mission Partners of the Methodist Church (SSMP).

The PASLEMC scheme is treated as a group plan for accounting purposes, with the Methodist Council as the sponsoring employer with legal responsibility for the plan. There is no contractual arrangement or stated policy for charging the net defined benefit cost of the plan as a whole to individual group entities and therefore the Council has recognised the entire net defined benefit cost and the relevant net defined benefit liability in its financial statements.

The MMPS is also a group scheme as all of the participating entities, mainly the circuits and the Council, are under the common control of the Conference. However, the Council has agreed with the auditors that it is more appropriate that a different accounting policy be adopted for this Scheme set out in detail in the paragraphs that follow.

At the end of the year, the Scheme is in deficit by approximately £46 million and whilst making full disclosure for this liability, it has not been included in these financial statements for the reasons set out below:

- a) There are approximately 1,600 ministers who are active members of MMPS of whom the Council is responsible for the pension contributions of around 70, the majority of 'employer' contributions coming from the Circuits to which they are stationed annually by the Conference. The actual contributions made by the Methodist Council for the year were £1.5 million compared to £9 million paid by the circuits.
- b) The diagram on page 51 of the financial statements shows a simple structure of the Church - the entities that have been consolidated and the reasons for that as well as the entities that have been excluded. Hence, the Church as generally recognised, comprising the individual Local Churches and Circuits and other entities reporting to the Conference, does not prepare consolidated financial statements. Each Local Church/Circuit/District is an individual charity (those with annual income over £100k being registered as such) which shares the same governing document as the Methodist Church in Great Britain.
- c) According to the Scheme rules, the MMPS is a single-employer scheme and the Methodist Church is the sole statutory employer for the purposes of pension law. The Scheme Rules further require member contributions to be paid by the person



## 26. Unified Statement of Connexional Finances

responsible for the Member's remuneration. This is effectively the circuits where the individual ministers are stationed. As such, the responsibility for current payments and for the deficit in the pension scheme is shared between the Council and the circuits with the bulk of the contributions coming from the circuits. There is no contractual agreement or stated policy for charging the defined benefit cost of the plan as a whole to individual circuits and other participating employers; such a decision would be made by the Conference.

- d) The Recovery Plan to reduce the MMPS deficit comprises 9.8% per annum of stipends paid by the employing bodies plus a fixed lump sum contribution of £1 million per annum from the Pension Reserve Fund. As stated in the reserves policy section of the Trustees' report on page 30, the Pension Reserve Fund was set up following a Conference decision to establish a fund outside of the pension schemes which could be used to meet future funding deficits for them both under SO 974(iA). The fund was designated by the Conference (see Note 20c of the financial statements) and is funded by a transfer of 45% of net property sales income levy into the Connexional Priority Fund. Hence, the liability is not funded solely from general funds of the Council. It is probable that, if the deficit were to be required to be settled in full, the cost would be allocated at the discretion of the Conference across the Connexion and not from funds of the Council, except to the extent of the Pension Reserve.

**The defined benefit pension scheme liabilities in respect of the MMPS that would have been charged to these financial statements had the Scheme been included are set out below:**

- a. The amounts that would have been charged to the Statement of Financial Activities are as follows:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Service cost</b>	4,743	5,188
Interest cost on scheme liabilities	15,294	15,613
Expected return on plan assets	(14,195)	(14,099)
<b>Net finance costs</b>	<b>1,099</b>	<b>1,514</b>

- b. The amounts that would have been charged to the Statement of Financial Activities as recognised gains and losses are as follows:

## 26. Unified Statement of Connexional Finances

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Actual return on scheme assets	63,661	9,616
Amounts included in net interest on the net defined liability	(14,195)	(14,099)
Other actuarial gains/losses	(102,684)	13,469
<b>Re-measurement gains and losses recognised in SoFA</b>	<b>(53,218)</b>	<b>8,986</b>

c. The changes in the present value of the defined benefit obligation were:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Opening defined benefit obligation</b>	<b>423,064</b>	<b>431,811</b>
Service Cost	4,743	5,188
Interest Cost	15,294	15,613
Cost of benefit changes	(40,710)	-
Contribution by members	3,432	3,570
Benefits paid	(19,445)	(19,649)
Actuarial (gains)/losses	102,684	(13,469)
<b>Closing defined benefit obligation</b>	<b>489,062</b>	<b>423,064</b>

The cost of benefit changes arose due to the 2016 Conference decision to base the MMPS pension increases on the increase in the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) resulting in a reduction of the liabilities by £41 million.

d. The changes in the fair value of the plan assets during the year were:

	<b>2016</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Opening fair value of scheme assets</b>	<b>386,691</b>	<b>384,043</b>
Interest received	14,195	14,099
Contributions by employer	9,916	10,086
Contributions by members	3,432	3,570
Benefits paid	(19,445)	(19,649)
Administration expenses	(775)	(975)

## 26. Unified Statement of Connexional Finances

Actuarial gain/(loss) on plan assets	49,466	(4,483)
<b>Closing fair value of scheme assets</b>	<b>443,480</b>	<b>386,691</b>

The total assets and liabilities of the MMPS 31 August were:

	2016 £000	2015 £000
<b>Closing defined benefit obligation</b>	<b>(489,062)</b>	<b>(423,064)</b>
<b>Closing fair value of scheme assets</b>	<b>443,480</b>	<b>386,691</b>
<b>Net defined benefit scheme obligation</b>	<b>(45,582)</b>	<b>(36,373)</b>

### The mortality assumptions for the Methodist Ministers' Pension Scheme

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 89 if they are male and until age 90 if female. For a member currently aged 55 the assumptions are that if they attain age 65 they will live on average until age 90 if they are male and until age 92 if female.

### The major categories of plan assets as percentage of total plan assets for the Scheme were:

	2016 %	2015 %		2016 %	2015 %
Equities	58.2	59.5	Property	5.4	6.0
Gilts	6.4	6.9	Cash	3.9	4.0
Corporate Bonds	15.7	16.8	Liability driven investment	3.6	-
Index linked Bonds	6.8	6.8			

### 9. Statement of trustees' responsibilities

The law applicable to charities in England and Wales requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and the group and of the income and expenditure of the charity for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any

## 26. Unified Statement of Connexional Finances

- material departures disclosed and explained in the financial statements; and
- e) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the trust deed. They are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Auditor**

A resolution proposing the re-appointment of RSM UK Audit LLP as auditor to the charity was approved by the Methodist Council.

RSM UK Audit LLP has indicated its willingness to continue in office.

### **\*\*\*RESOLUTION**

**26/1. The Conference receives the Report as the Unified Statement of Connexional Finances required by SO 360.**

## 26. Unified Statement of Connexional Finances

### **Independent Auditor's Report to the Trustees of the Methodist Church in Great Britain**

#### **Opinion on financial statements**

We have audited the accounts ("financial statements") of The Methodist Church in Great Britain (the "charity") and its subsidiaries (the "group") for the year ended 31 August 2016, which comprise the Consolidated Statement of Financial Activities, the Connexional ("parent charity") Statement of Financial Activities, Consolidated and parent charity Balance Sheets, the Consolidated and parent charity Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the group's and charity's affairs as at 31 August 2016 and of their incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

#### **Emphasis of matter – early adoption of the Charities SORP (FRS 102)**

In forming our opinion, which is not modified, we have considered the disclosure in note 1a) concerning the charity's early adoption of the Charities SORP (FRS 102) issued in July 2014, rather than applying the Charities 2005 SORP which has been withdrawn but is still referred to in the extant Charities (Accounts and Reports) Regulations 2008. This departure has been necessary for the financial statements to show a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice effective for accounting periods beginning on or after 1 January 2015.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Charities Act 2011

requires us to report to you if, in our opinion:

- the information given in the Trustees' Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept by the parent charity; or
- the parent charity financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

### **Independent Auditor's Report to the Trustees of The Methodist Church in Great Britain (continued)**

#### **Respective responsibilities of trustees and auditor**

As explained more fully in the Statement of Trustees' Responsibilities set out on page 39, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditors under section 151 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the charity's trustees as a body, in accordance with the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinion we have formed.

RSM UK Audit LLP  
Statutory Auditor  
Chartered Accountants  
Hartwell House  
55-61 Victoria Street  
Bristol, BS1 6AD

Date:

RSM UK Audit LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.