

Implementation of the Pension Reserve Fund

Basic Information

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Status of Paper	Final
Action Required	Decision
Draft Resolution	The Council endorses the approach set out in paragraph 11 of the Paper.

Summary of Content

Subject and Aims	This Report explores an unintended consequence of a late revision to the drafting of one of the 2009 Conference resolutions regarding the Pension Reserve Fund (PRF). It aims to find a way forward which is consistent with the governance of the Church and respect for the interests of a variety of stakeholders.
Main Points	<ul style="list-style-type: none"> • The Conference Resolutions on the PRF achieve their intention from 2010/11 onwards but have created an anomaly in 2009/10 • A consequence of this anomaly is that the distribution to the District Advance Funds (DAFs) will be lower in 2009/10 than the districts would otherwise have received. • It is suggested the Conference Resolution should be respected but the districts assured that recommendations are brought to 2010 Conference to make some compensating adjustments to the calculations in 2010/11.
Background Context and Relevant Documents (with function)	Minute 09.2.7 of the May 2009 SRC Report 31 to the 2009 Conference (Agenda page 242) Resolutions 31/4, 31/5 and 31/6 (the latter on page 53/4 of the Order Paper) Standing Order 974
Consultations	Assistant Secretary of the Conference Law and Polity Committee District and Connexional Treasurers SRC

Summary of Impact

Standing Orders	A possible revision to percentages applicable to SO 974(1)(i) and SO 974(1)(iA) at the 2010 Conference
Faith and Order	Not applicable
Financial	The anomaly will mean that in 2009/10 the DAFs and CPF receive less money than they would otherwise have done and the PRF receives circa £1.4m
Personnel	None
Legal	Law and Polity would resist any refusal to implement a Conference decision.
Wider Connexional	DAF income is known to be volatile from one year to the next, so a reduced top-up from the CPF in 2009/10, while unwelcome, would not be critical. The requirement on districts to practice commitment accounting means that it should not jeopardise existing grant commitments.
External (e.g. ecumenical)	None
Risk	<ul style="list-style-type: none"> • If the Conference decision is not implemented, the standing of the Conference and the behaviour of the Connexional Team would be questioned. • If reassurances are not given to the affected Districts about offsetting the impact of the Conference decision, they would feel improperly deprived of some income.

IMPLEMENTATION OF THE PENSION RESERVE FUND

Background

1. At the May 2009 SRC, the Committee agreed formulae for establishing the Pension Reserve Fund in the light of discussion at the April Council and the desire to share the impact between the circuits, the districts and the Connexional Priority Fund (CPF) (Minute 09.2.7).
2. Subsequently, the Connexional Team prepared a paper for Conference embodying these proposals (Agenda page 242). The Law and Polity committee faced a substantial build up of work before the Conference and did not undertake their standard scrutiny of this report until after it had appeared in the Agenda. L&P felt the draft Resolution should be reworded for the Conference. A revised form of words was agreed with the Connexional Treasurer and was printed on the Order Paper for the Tuesday of Conference when the Pensions business was due to be taken.
3. Unfortunately, the drafting proposed by L&P and which the Conference duly adopted has created a problem for the calculations in 2009/10.

The Calculation

4. Members of SRC will remember that there are two stages in the proposed new arrangements to provide funding to the PRF. The first stage is to increase the proportion of CAF income arising from sales that is passed on as a levy to CPF. The second stage is then to divide this larger income flow to the CPF in three directions rather than two as previously. Previously, it was divided between (i) a redistribution to those districts that had more limited DAF income directly from their own circuits and (ii) the remainder staying in the Connexional CAPF (now CPF) to fund grants. To fund the PRF, this increased CPF income would in future be divided three ways between the DAFs, the CPF and the PRF.
5. The Conference Resolutions 31/5 and 31/6 changed some parts of Standing Order 974 in ways that will effect this change cleanly for the calculation relating to the income flows to the CPF in 2009/10. However, the wording used means that the calculation done at the beginning of 2009/10, to share out the income arising from 2008/09 levies, must also divide it three ways instead of two, giving some of it to the PRF. In addition, the income arising in 2008/09, and thus available for this division, is the lower level of income generated by the old level of levies on CAF income, and so is smaller than the income would have been if the whole of the new system had been applied in 2008/09.
6. Therefore the net impact of the Conference applying the new formula for distributing money to income received centrally on the basis of the old levy formula in 2008/09, is a net reduction in redistribution to the DAFs and a reduction in the money left over in the CPF for grant making. These two reductions fund the initial money coming in to the PRF.

Table 1: Illustration of Impact

Suppose an eligible sale of a £200k property in preceding year. The levy on the CAF and the distribution of this money would then be as shown.

Old formula = pattern before PRF proposals

2009-10 Formula = pattern from implementing Conference decision in 2009-10

New Formula = pattern from Conference decision after this interim year

<u>£k</u>	<u>Old Formula</u>	<u>2009-10 Formula</u>	<u>New Formula</u>
Levy to CPF	40	40	60
Shares:			
DAFs	20	11	16.5
PRF	0	18	27
CPF (grants)	20	11	16.5

Options

7. There was no discussion at Conference about how passing Resolutions 31/5 and 31/6 would impact on the distribution of money in 2009/10. The Connexional Treasurer has made the point that those District Treasurers present at the Conference who are familiar with the details of the calculations will have assumed that the Resolution would only take effect on the basis of income from the circuits in 2009/10 and, therefore, the first money on the new formula to the PRF would have been paid over at the beginning of 2010/11. They would not therefore have expected any adverse impact on the DAFs in 2009/10 from voting for these Resolutions.
8. There is, however, no way of knowing what the majority of Conference were assuming, given silence about the impact on 2009/10. If they had read the full Standing Order that they were amending, and it was available to them in a different part of the Conference Agenda because of the wholesale revision of Part 9 of CPD, it would have been evident that there would be an impact in 2009/10. It may be optimistic to assume that members of Conference do their homework that thoroughly. It is certainly true that unfortunately none of the Connexional Team, when seeing the revised Resolution on the Order Paper, spotted this consequence, but members of Conference may well have thought they were setting up the Pension Reserve Fund immediately, which could only be achieved if some 2008/09 money is put into that Fund in 2009/10.
9. The Assistant Secretary of the Conference and Law & Polity are absolutely clear that what the Conference has decided is that a calculation on the new basis should be made in 2009/10, on the basis of the 2008/09 income to the CPF.
10. The Strategy and Resources Committee has considered the issues and agrees with the Strategic Leaders of the Connexional Team that it would place the Team in an impossible position if, in the light of the clear advice from Law and Polity about what the Conference decided, the Team deliberately refused to implement what the Conference has directed. It is not the role of the Team to decide which Conference resolutions were passed with adequate consideration of their implications by members of Conference.
11. Therefore, the SRC agree that the following is the least bad way forward from where we now are:
 - i The Team implements the Conference decision and calculates the allocation to the DAFs in 2009/10 on the basis of the Resolutions of the Conference.
 - ii The Team make full shadow calculations on the basis of the 2008/09 income but using the old formula, so that it is quite clear what the DAF distribution would have yielded had the Conference not directed that the new formula for distribution be applied in 2009/10.

- iii As part of the budget process for 2010/11, the Team bring to the SRC in early 2010 some suggestions for addressing the problem that has been created. Bearing in mind that there is no intention of spending the money placed in the Pension Reserve Fund in 2009/10, one option would be to ask the 2010 Conference to make refunds. As Resolution 31/6 made it clear the Conference could change the percentages in the formulae on any occasion it wished, a second alternative would be to adjust the formulae for distribution to DAFs in 2010/11 to offset the unexpected negative impact in 2009/10.
12. In terms of actual numbers, we can make estimates based on data to the end of June; there may be some variation in the final figures for the year. Implementing the proposals in paragraph 11 using this provisional data would mean that the redistribution from the CPF to the DAFs would amount to £839k whereas under the formula used previously, the distribution in 2009/10 would have been £1,525k, a reduction of £686k. When the formula for distributing this amount between the districts is applied, using the new formula makes a difference of less than £3k to nine districts. At the other end of the scale, the four most affected districts would each receive around £40k less than if the previous formula had been applied again to 2008/09 income.
13. The annual meeting of the District Treasurers in August was briefed on this issue and were understanding of the solution proposed.

Recommendation

14. The Council endorses the approach set out in paragraph 11 above.