

Purpose

To explain what is required of Methodist trustees in order to comply with the Statement of Recommended Practice (SORP) issued by the Charity Commission and with Methodist procedures.

Aim

To set out clear guidelines for Church Councils, Circuit Meetings, District Trustees and other Methodist trustee bodies to enable them to fulfil their legal obligations as charity trustees.

Charities SORP

- * The Charities Statement of Recommended Practice (SORP) gives detailed information and is available to download free from the Charity Commission website at www.charitycommission.gov.uk or for £15 from CCH publishing (www.cch.co.uk)
- * information booklets are available direct from the Charity Commission
- * on the Methodist website at www.methodist.org.uk
- * from the Methodist Publishing House

The Need for a Reserves Policy

Charity trustees need to have a policy on reserves for two main reasons:-

- * To ensure trustees consider how they will secure and sustain the charity's viability and future.
- * To give reassurance to the general public that the charity intends to use all of the money coming into its care for the general purposes of the charity.

What are Reserves?

They are money (income) given to the charity which is freely available for its general purposes. For Methodist charities this includes money held in the general fund but does not normally include restricted or endowment funds.

Circuit Advance Funds are covered separately below.

3 Step Planning Process

The following steps are recommended as an appropriate means of setting a relevant policy for your charity

1. Set out your Charity's MISSION AIMS
2. Decide what FINANCIAL PLANS will be necessary to achieve those aims
3. Determine the appropriate level of RESERVES required to meet your financial plans.

Legal basis for holding Reserves

There is no specific legal rule which states what proportion of a charity's funds may be held as a reserve.

Trustees are under a general legal duty to apply charity funds within a reasonable time of receiving them. If reserves are held without reasonable justification the trustees may be in breach of trust.

Trustees' Annual Report

The Charities SORP requires trustees to include a statement in their annual report about the charity's reserves policy, the level of reserves held and the reasons for this.

The amount of time spent determining the policy, and the detail with which it is set down, should be in proportion to the scale and complexity of the charity's affairs.

Therefore, a small church with a simple, stable pattern of receipts and payments, few if any commitments, and little susceptibility to outside influences should be able to cover the matters above relatively quickly and to record briefly the trustees' conclusions.

Requirements for Methodist Trustees

The booklet *Managing Trustees and Methodist Money* (available from the Methodist Publishing House) recommends that all Methodist trustee bodies produce an Annual Report with their Annual Accounts. A Model Report is provided. This need not be a lengthy document.

The booklet also gives concise guidance on establishing a Reserves policy.

The Reserves Policy

The policy should cover (as a minimum) :

- * the reasons **why the charity needs reserves**
- * **the level (or range) of reserves** the trustees believe the charity needs
- * the **current level of reserves held** (and how this varies over the year)
- * the **steps** the charity is going to **take** to establish or maintain reserves at the agreed level (or range)
- * **arrangements for monitoring and reviewing** the policy.

Some useful reminders

- (a) Without a policy, how can you be sure your reserves match your needs?
- (b) Reserves that are too low may put the charity at risk

- (c) Too high a level of reserves may be a breach of trust

Guidelines in assessing the need for reserves

- A. Estimates of likely income over the next five years.
- B. Estimated general expenditure and costs of projects/commitments over a similar period.
- C. Action required for fundraising if B (expenditure) exceeds A (income)
- D. Plans for using surplus money if A (income) exceeds B (expenditure)

Methodist Policy on Reserves

As a general rule of thumb it is considered that the equivalent of six months' expenditure is an appropriate amount to be held in reserve for Methodist Churches and Circuits. Such an amount would provide working capital to cover fluctuations in income and expenditure and to meet emergency calls on cash, for example for emergency repairs.

Any special projects or capital commitments need to be taken into account separately.

Circuit Advance Funds (CAFs)

For Circuit trustees: Though CAFs are restricted by internal Methodist rules they can be used for a variety of purposes and the Charity Commission have agreed that it is also appropriate that trustees set a policy for the management of these funds too.

EXAMPLE OF A RESERVES POLICY (1) (CHURCH) - WHERE NO RESTRICTED OR ENDOWMENT FUNDS ARE HELD) TRUSTEES' ANNUAL REPORT CHURCH RESERVES POLICY

This Reserves Policy relates to our General Funds only. This includes our Bank account and Central Finance Board (CFB) account.

No designated, restricted or endowment funds are held.

The Church aims to hold reserves amounting to approximately six months' average expenditure.

As at the end of the last financial year our General Fund balance was £2200. The CFB account balance was £3000. (Total reserves £5200).

We have considered our mission plans for the future and have decided that in order to meet our Circuit Assessment and cover our normal expenditure and routine repair and maintenance costs for the building a higher reserve of around £10,000 would be preferred.

In order to achieve a higher reserve we aim to hold a number of fundraising events during the coming year so that we can meet our Assessment and other costs as they fall due.

EXAMPLE OF A RESERVES POLICY (2) (CHURCH)

TRUSTEES' ANNUAL REPORT CHURCH RESERVES POLICY

1. The Charity's Reserves Policy deals with:

- (a) Our General Fund

Other funds also held which are NOT required to be included in our reserves are:

- (b) Our Development Fund (Restricted)
(c) Betty Smith Bequest (Restricted)

Our Reserves

- (a) Our General Fund

We aim ideally to hold in reserve sufficient money in our general funds to cover six-month's expenditure i.e. £6,000.

The reason for this is twofold:-

- (i) The church needs around one month's average expenditure in reserve as working capital to cover normal running costs.
(ii) Maintenance on church buildings and special outreach events are mainly funded from quarterly fundraising efforts and money is regularly spent in advance of being raised. To cover this, the Church needs a further five months' in reserve.

As there are insufficient funds in our General Fund to cover this amount, we arrange fundraising activities each month. At the present time we can also draw upon monies held in the Betty Smith Bequest (£8,000) if necessary (This is held in trust 12789 with Trustees for Methodist Church Purposes, Manchester). The Bequest Fund is currently £2,000 more than we require as a general reserve but we may need to use the balance towards our Development Fund.

Other Funds held for specific purposes

- (b) Our Development Fund (Restricted)

We maintain a Development Fund (held by The Trustees for Methodist Church Purposes) for the planned refurbishment of our buildings for community use.

The estimated total cost is £75,000 of which £25,000 has been raised to date. Methodist and external grants are being applied for and are currently projected at £40,000. A further £10,000 (as a minimum) has still to be raised by:-

- * local fundraising events over the coming year
- * a members' Gift Day on our Church Anniversary
- * approaches to local businesses and charitable trusts
- * use of remaining balance in Bequest Fund

The Development Fund will continue to be held by Trustees for Methodist Church Purposes until the property scheme is approved by the Circuit, District and Connexion.

Our Bequest Fund (Model Trust)

(c) Betty Smith Bequest – A model trust bequest available for any model trust purpose. Held by TMCP as custodian trustee. We aim to retain £6,000 as part of our reserves in line with Methodist policy being the equivalent of six months expenditure. We have checked with TMCP that the Bequest can be used to the extent of £2,000 to help fund our Development Project.

The following are some further examples of funds which may be held.

The Circuit Mission Policy includes plans to employ a Youth Worker in a year's time and we plan to assist with fund raising and/or by setting aside £1000 from our general funds which will be sent to the Circuit Treasurer on 1st September next year.

i) **'Our Youth Worker Fund' (Restricted)**

This is a restricted fund to hold money raised by appeals and special collections.

The Church Council has also designated some of our general funds towards this Circuit Project.

ii) **Lady Spence Bequest (Endowment)**

This is an endowment fund with the capital invested through TMCP, Manchester. Only the income may be spent on maintaining the Memorial Garden.

EXAMPLE OF A RESERVES POLICY (CIRCUIT)

Trustees' Annual Report Circuit Reserves Policy

This document includes all funds held by the Circuit Meeting as charity trustees.

Our Reserves Policy relates to our general (unrestricted) funds which are freely available to be used for any or all of the purposes of the Circuit.

Other funds are also included for the sake of clarity and openness and to show that the Circuit has a policy for the management of all of its money not simply those which are defined as reserves.

Aims

Our aim is twofold:

- (1) To secure and sustain the Circuit's viability and future.
- (2) To give reassurance to the general public that the Circuit, which is a charity, intends to use all of the money coming into its care for the purposes of the charity.

3 Step Process

(1) Mission Policy

The Circuit's Mission Policy is set out in a separate document and was approved by the Circuit Meeting (as the charity trustees) on/...../.....

Essentially, it provides for:-

- (a) The ministerial oversight and pastoral care of the ten local churches in the Circuit.
- (b) The support of a ministry team of three presbyteral ministers and two supernumerary ministers. We also plan to employ a lay worker from next year.
- (c) The maintenance of the three Circuit manses.

(2) Financial Plans

- * The Circuit Assessment is reviewed annually and covers the costs of 1(a) and (b) above and is based on offers from each church towards a share in the total cost.
- * We make provision for our property maintenance programme by
 - designating £ per annum to maintain each manse
 - designating a further £20,000 for anticipated medium term property expenditure on the manses arising from the Quinquennial Inspection Report dated/...../.....

The Circuit Fund (Unrestricted general fund) (Balance at year end £)

Under Standing Orders the Circuit must meet its financial obligations in relation to the support of its ministers and the maintenance of the manses. The total cost for the last financial year was £

Our Reserves Policy is to hold at least six month's expenditure in hand.

Circuit Advance Fund (Restricted Fund) (Balance at year end £100,000). This fund derives from sales of chapels and manses and is restricted by the Conference. This restriction is an internal regulation though the fund can be used for a variety of purposes.

(3) Reserves Policy

The Charity Commission have agreed that it is appropriate for the trustees to set a policy for the management of this fund and that policy is set out below:-

Money held in the CAF has been earmarked by the trustees for the following purposes:

- * £35,000 for current property schemes
- * £40,000 for anticipated property schemes in the next two years.
- * £10,000 for general Circuit purposes, largely manse repairs and decoration (under SO 955(2))
- * £15,000 for future staffing (Lay Worker)

No resources had actually been paid out at the year end but the trustees believe it is likely that most of these funds will be required within the next 2 years.

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