

## Stewardship of Property for Mission – Part 2

<b>Contact Name and Details</b>	Doug Swanney, Connexional Secretary, <a href="mailto:swanneyd@methodistchurch.org.uk">swanneyd@methodistchurch.org.uk</a> Joanne Anderton, Conference Officer for Legal and Constitutional Practice <a href="mailto:lcp@methodistchurch.org.uk">lcp@methodistchurch.org.uk</a>
<b>Status of Paper</b>	Final
<b>Action Required</b>	Discussion
<b>Resolution</b>	91B/1. The Council receives the report.

### Summary of Content

<b>Subject and Aims</b>	To invite the Council to engage in discussion regarding the property levy and the future of replacement projects
<b>Background Context and Relevant Documents (with function)</b>	MC/20/40 Property, Mission, and Money (not discussed due to pandemic) MC/19/78 Connexional Priority Fund levy and replacement project MC/18/41 Replacement projects MC/17/97 Review of the Replacement Project Criteria MC/16/87 Exemption to 5 year limitation CPF

## Stewardship of Property for Mission – Part 2

### Introduction

The Connexional Priority Fund ('CPF') levy ('the levy') is applied to capital money arising from dispositions of local, circuit and district property. The levy is 20% for the first £100,000 and 40% over £100,000. It is taken on the net proceeds of sale, i.e. the sum that remains after 'allowable expenses' have been deducted. The relevant provisions relating to the levy are set out in Section 97 of Standing Orders.

Previous discussions of the Council and the Connexional Leaders Forum looked at a number of options for a rethinking of the levy (see Appendix 1) but there was no consensus on the way ahead; thus the issue and the way to gain a refund on the levy still need to be addressed.

One option not considered so far is to reduce the overall amount of the levy for all, but to charge it on *all* disposals – including City Centre list properties - with no refunds available at all. This would at least mean that every sale is treated fairly across the Connexion. Another option to explore is the wider promotion of external fundraising opportunities to unlock grants available from external bodies, thus reducing the need for levy refunds in order to help fund projects.

The purpose of this paper is to highlight the following key issues relating to the levy in order to encourage meaningful debate:

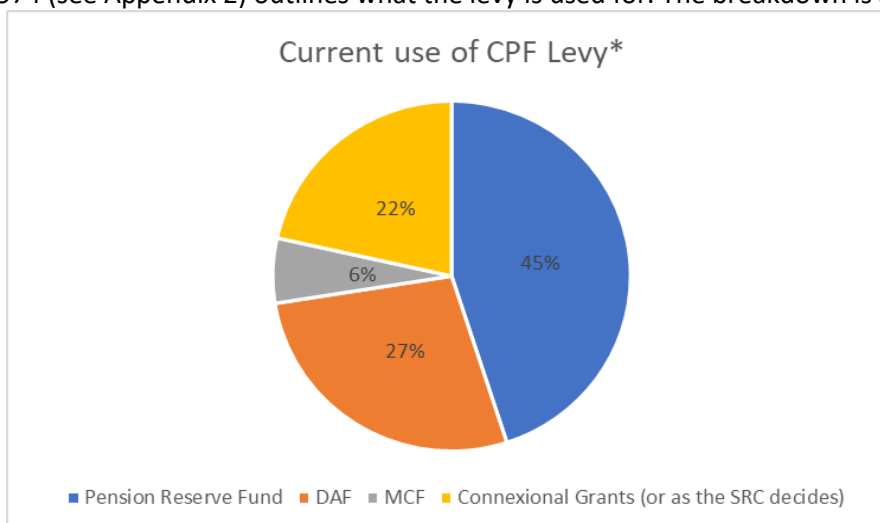
- (1) Lack of understanding as to the levy's purpose
- (2) The City Centre list exemption
- (3) The future of Replacement Projects
- (4) Revision of guidelines in relation to Standing Order 955

### 1. Lack of understanding as to the levy's purpose

A large number of Methodists see the levy as an unfair tax taken by 'them in Connexion' and then used for undisclosed purposes. This means that any opportunity given to reclaim this money is seized by managing trustees, and the numbers of applications for a refund are growing.

During the previous conversations about the levy it became clear that there was a general misunderstanding about how this money was used - an issue which in itself needs addressing.

Standing Order 974 (see Appendix 2) outlines what the levy is used for. The breakdown is as follows:



\*Source - MC/19/78: Discussion on proposed policy for the Connexional Priority Fund Levy and Replacement project criteria

If the levy were not used to fund some of these important items the impact on local churches and Circuits would be significant; each levy allocation means there is either more money available to churches and circuits to apply for grants or that the assessment is kept lower by not having to pass on some costs in that way (eg, the MCF percentage is used to fund ministerial formation and training).

In the case of the Pension Reserve Fund, if the 45% of the total levies collected were not placed into this Fund then the costs to Circuits for the contributions to the Methodist Ministers' Pension Scheme would be significantly higher.

Therefore, any thinking that the levy is an unfair tax to be avoided is missing the point of how the whole Connexion works together to ensure that mission and ministry are supported.

## 2. City Centre list exemption

At present properties on the official 'City Centre list' under Standing Order 440(1) are exempt from the levy if sold (Standing Order 970(2)(ii)). This means that some of our most valuable city centre assets are exempt from being part of this connexional recirculation of Methodist resource.

One option could be to remove the exemption currently afforded to the City Centre properties and apply the levy in the same way as for all other properties.

## 3. Future of Replacement Projects

Property projects which fit the 'replacement project' criteria are exempt from the levy under Standing Order 973. They must be expressly classified as exempt by the 'appropriate connexional authority' currently the Conference Officer for Legal and Constitutional Practice or the Assistant Secretary of the Conference. The current replacement project criteria were adopted by the Methodist Council and are dated November 2017 (see Appendix 3).

Replacement projects broadly fit into two categories: (i) direct or 'like for like' replacement projects; and (ii) 'Review of Mission' replacement projects.

The Council authorised a review of the current criteria in October 2017 (see MC/17/97: Review of the Replacement project criteria). The most recent paper to the Council (MC/19/78: Discussion on proposed policy for the Connexional Priority Fund Levy and Replacement project criteria) did not receive much feedback, other than a negative response to the idea of a levy on rental income paid to the District Advance Fund. As a result, the review has yet to be undertaken.

The Levy by numbers

Fiscal year	No. of sales 'taxed'	No. of refunds	Total value of levy	Value of refunds	Average value of refund
2015	175	39	£7,453,864.15	£1,768,103.96	£45,336.00
2016	190	60	£8,983,447.43	£2,153,510.77	£35,891.84
2017	185	46	£10,409,848.15	£1,603,488.75	£34,858.45
2018	155	44	£7,835,368.17	£2,351,563.36	£53,444.62
2019	142	46	£7,760,224.51	£2,103,882.05	£45,736.56

The number of refunds and average value of levies have remained fairly steady. There are no discernible trends in the figures.

There is a number of issues with the current criteria for 'Review of Mission' replacement projects:

A. It is not clear **how formal the 'Review of Mission' should be**. Current practice seems to take Circuit and District approval to a sale project on the Consents system as tantamount to fulfilment of steps (1) to (3) under the current criteria:

- 1) The Church Council has resolved that following a review of mission, the local Church needs to rationalise its premises with the aim of providing a more effective witness in the community;
- 2) The Circuit Meeting must have agreed to the rationalisation of the local Church premises and agreed the mission policy of the local Church.
- 3) The District Policy Committee or body to whom it delegates such decisions must have agreed to the rationalisation of the local Church premises and agreed the mission of the local church.

The pre-2017 criteria required the managing trustee body to pass formal resolutions to evidence the Review of Mission, rather than to resolve 'to rationalise its premises' following a review of mission that had taken place. It is suggested that something more formal should be required under the new criteria, albeit with a transitional dispensation for managing trustees whose redevelopment projects began within a certain time period prior to the new criteria taking effect.

B. Classification of Review of Mission replacement projects is currently **purpose-blind**: the missional value of a project is mentioned nowhere in the criteria. Taken at face value, managing trustees undertaking very deserving property projects are no more entitled to refunds of the levy than those undertaking very undeserving property projects, provided that both fit the criteria.

Leaving open the possibility of funding for redevelopment projects without interrogating their worth is difficult to defend in light of the number of property and missional projects that will have to go without support given the suspension of all grant funding in the forthcoming connexional year. This is all the more so when managing trustees are entitled to request the *full amount* of the levy regardless of how high its value is. While requests for partial refunds can be made, in practice this almost never happens.

This 'purpose blind', indiscriminate approach is driven by a legitimate practical concern: that determining the value of every individual Review of Mission replacement project would require a considerable amount of Connexional Team time.

This is partly why the former Conference Officer for Legal and Constitutional Practice recommended in the last report (MC/19/78: Discussion on proposed policy for the Connexional Priority Fund Levy and Replacement project criteria) that decisions on what should be classed a replacement project and the value of a levy refund **should be made by the District Policy Committee** (or other District-delegated body) with all decisions reflecting the District Development Mission Plan.

Outsourcing the task to Districts instead of trusting that the Circuit's and District's approval will by default 'filter' out unworthy redevelopment projects would potentially build into the process the greater flexibility for obtaining a levy refund that managing trustees desire, while ensuring that projects had a clear missional value. If fewer levies were for their full value and the new criteria were otherwise stringent enough, this could offset the loss to the levy caused by a greater number of refunds.

C. The levy is a **blunt tool**. When consulted on proposed reforms to the system in October 2018, the Council broadly favoured an option with a form of 'means testing' on the basis that the flat rates of 20% and 40% indirectly discriminated against poorer Circuits and Districts which need to sell properties to raise income. A more structured/phased application of the levy would be more connexional, and in keeping with the idea that the Church's resources should go where they are needed most.

D. When the Council authorised the Property Development Committee ('PDC') to approve exceptions to the normal replacement project criteria in October 2017, this was on the condition that there was a '**genuine need for the additional funds**'. It is recommended that classification of 'normal' replacement projects should also be subject to this condition, not just exceptional ones.

As it stands, for neither type of replacement projects – like-for-like or Review of Mission - are pertinent questions asked about (i) what the refund of the levy will be used for; (ii) whether alternative sources of funding have been sought; or (iii) how much money a local church or Circuit has in reserve. This favours wealthier managing trustee bodies and undermines the message of the Connexional Financial Strategy: that holding on to money 'just in case' is poor stewardship of charitable funds.

A means-tested approach could benefit local churches and Circuits in genuine need. Dispensations from the levy for direct 'like for like' replacement projects could be made for those who are selling their building specifically to raise income, and who can convince their District that they simply cannot do without the funds.

Naturally it takes time to determine this, hence an indiscriminate approach having been taken historically for practical reasons. This is another problem which could be solved by shifting classification of replacement projects from the Connexion to Districts.

E. As previously noted, the Council authorised the PDC to consider **exceptions to the replacement project criteria** in October 2017.

It is clear that this process, by which three-member panels of the PDC consider exceptions in line with criteria approved by the PDC in October 2018 was only ever intended to be temporary:

*13. 'It is apparent that this review [i.e. a wholesale review of the system proposed] will take some time to undertake and, in order to provide some scope for flexibility in the interim, the Property Development Committee could be asked to consider applications that fall outside the exception.'*

If we had a better system overall, there would not be a need for the PDC and the Connexional Team to administer a time-consuming parallel appeals system.

***The question remains though: given the uses that are made of the CPF, if the levy was applied to all and was a lower amount – would a refund process still be needed?***

#### **4. M4 (2019) - Revision of guidelines in relation to Standing Order 955**

In response to a memorial to the 2019 Conference, the Methodist Council was asked to consider the policy issues raised regarding payments from circuit model trust funds to the District Advance Fund in light of Standing Order 955(6)(b)(iii), which states: "*a contribution is not payable on any disposition completed within the last five years, so far as they are employed in or towards a replacement project and consent to the disposition has been granted under Section 93 on that basis*".

The intent of Standing Order 955 (6)(a) is wealth redistribution and a deterrent to holding onto funds for unspecified purposes. There should be no change in this intent.

It is proposed that, wherever possible, replacement projects should be considered as part of the plan for disposal of any property. Circuits should not be able to withhold contributions to their District Advance Fund if a replacement project is not to be implemented forthwith.

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

**91B/1. The Council receives the report.**

## Appendix 1 – Options for changes to the current levy

### Option 1

- The levy will be paid on property disposals (freehold and leasehold premiums)
- It will still be the case that only property projects can be refunded
- The criteria for doing so will be amended to link with *Our Calling* and the Connexional Property Strategy
- Higher threshold in terms of evidencing that the project furthers the District Mission plan
- A means-tested approach will be used: only a partial refund will be issued if there are sufficient funds available elsewhere.
- The process will involve assessing whether there are funds other than the levy that could plug the gap left by it

### Option 2

- The levy will be paid on property disposals (freehold and leasehold premiums)
- Mission and outreach projects not involving property can also be refunded
- This would impact funds for distribution to DAF, the Pension Fund and to the Connexional Grants Team because in practice, there will be few Churches that won't seek a refund.
- A possible way around this is funding a maximum of 70%, the remainder retained for distribution.
- We have yet to consider who would determine whether refunds are granted under this model

### Option 3

- The levy will be paid on property disposals (freehold and leasehold premiums)
- The levy will not be refunded under any circumstances
- A higher proportion of the levy will go to the District Advance Fund (equivalent to average refund of levy per annum circa £1.7 million)
- Local Churches and Circuits apply for grant funding for the projects from DAF
- The District will make decision as to which projects to support with grant – they don't have to be property projects
- Will assist in ensuring District Mission plans supported
- *Possibility – also allocate more to Connexional Grants from levy*

### Option 4

- The levy will be paid on property disposals (freehold and leasehold premiums)
- The levy will not be refunded under any circumstances
- It will be used to fund salaries of District Property Secretaries/ Regional Property Support roles
- Where sufficient funds are received, they will be distributed to DAF, the Pension Fund and the Connexional Grants Team
- This wouldn't always be feasible and potentially limits funds available for the roles above

#### Other options not yet explored:

- reducing the levy percentage and applying it to all sales
- removing the City Centre list exemption
- wider promotion of external fundraising opportunities to unlock grants available from external bodies, thus reducing the need for levy refunds to help fund projects

## Appendix 2: Standing Order 974

**974 Purposes.** (1) The purposes of the fund are:

- (i) to distribute annually to some or all of the district Advance Funds the appropriate proportion of the balance between the total received and the total refunded in the previous year through the levy charged under Standing Order 970(1), the amount (if any) payable to each such fund being determined by the Connexional Grants Committee;
- (iA) to allocate the appropriate proportion of that balance to such fund as the Conference may designate as a Pension Reserve Fund to be held in respect of the liabilities of the Methodist Ministers' Pension Scheme and the Pension and Assurance Scheme for Lay Employees of the Methodist Church;
- (ii) subject to (i) and (iA) above, to make grants out of income or capital to Local Churches, Circuits and Districts in cases which are within one or more of the following categories and are beyond the normal resources of the Circuit and District, namely when:
  - i. new work is to be undertaken which will constitute an advance and be of connexional significance;
  - ii. *[deleted]*
  - iii. an urgent and essential property scheme is to be carried out;
- (iii) subject to (i) and (iA) above, to make payments out of capital to the Mission in Britain Fund when so directed by resolution of the Conference to support the payment of grants from that fund to Local Churches and Circuits for the furtherance of the Church's mission in cases which are beyond the normal resources of the Local Church or Circuit and are judged to be a priority;

and for the purposes of heads (i) and (iA) above, 'the appropriate proportion' means in each case such proportion as may be determined by the Conference from time to time.

For the Connexional Grants Committee see S.O. 213B.

The Conference of 2009 determined 'the appropriate proportion' for the purpose of heads (i) and (iA) above to be 27.5% and 45% respectively.

(1A) If the requirements of clause (1) are satisfied a grant may be made for ecumenical work within the purposes of the relevant Local Church, Circuit or District or for Methodist Action on Poverty and Justice.

As to ecumenical work see S.O. 604, 650(6)(iii) (Local Churches), 500, 532(1)(iv) (Circuits) and 434(4) (Districts). For the meaning of the phrase see S.O. 008(viii).

For Methodist Action on Poverty and Justice see S.O. 1004.

(2) A grant under category (iii) of clause (1) shall consist of a single amount payable in a lump sum or by instalments, and any other grant shall consist either of such an amount, or of an annual sum for a limited period, or of both.

(3) All grants shall be at the discretion of the committee.

The committee referred to is the Connexional Grants Committee (see S.O. 971 and cl. (1) above).