# Discussion on proposed policy for the Connexional Priority Fund Levy and Replacement Project criteria

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| **Background** | MC/17/97 Review of the Replacement Projects criteria (CPF levy) |

1. Section 97 of the *Constitutional Practice and Discipline of the Methodist Church* (CPD) sets out that a levy for the Connexional Priority Fund (CPF) shall be paid on capital money arising from sales, lettings and other dispositions of local, circuit and district property. The levy is however not payable or will be refunded if there is a replacement project within 5 years of the disposition. The guidance and criteria for what can be classified as a replacement project has developed over a number of years and, despite the criteria being amended to reflect changing needs within the Church, it is still a source of frustration for local churches and circuits. It is also important to note that the existing criteria does not fully reflect *Our Calling*, the objectives of the Methodist Council or the connexional property strategy.

2. Consultation with the Connexional Leaders' Forum (CLF) and the Council has been undertaken on the CPF levy, what it should apply to and what should be a replacement project. There was overwhelming support for the levy continuing to be taken on disposals of property. This was felt to be an important demonstration of connexionalism although it was recognised that this is not well understood by many managing trustees who do not always know the purpose of the levy. Clearly there is a need for better communication about the benefits of the levy once a new policy has been agreed.

3. There was much focus in the responses to the consultations about the need for the criteria for replacement projects to reflect the connexional property strategy and to take into account District Development Mission Plans and Circuit Mission Plans when a project is being considered for a partial or full refund of the levy. There was also a recognition that any refund of the levy does not take into account other funds that the managing trustees and/or circuit might have available nor whether a connexional grant payment has been made. Other points considered as part of the consultation were that there is no levy taken on rent payments for leases despite this increasingly being favoured by managing trustees in light of the connexional property strategy, noting that this might disproportionately favour wealthier circuits who may not need to sell property to raise income.

4. This paper proposes a new policy for the application of the Connexional Priority Fund levy and new criteria for replacement projects. The views of the CLF, Property Development Committee, District Property Secretaries and members of the Council are being sought on this proposed policy.

5. It is important to be aware of the decline in the number of property sales since 2018 and therefore the decline in receipt to the CPF whilst at the same time the increase in the total amount of refunds.

**Report Showing CPF Levies Received - by Fiscal Year**

| FY | Total Amount (£) | Total No of Property Sales subject to the levy |
|---|---|---|
| Fiscal Year - 2015 | 7,453,864.15 | 175 |
| Fiscal Year - 2016 | 8,983,447.43 | 190 |
| Fiscal Year - 2017 | 10,409,848.15 | 185 |
| Fiscal Year - 2018 | 7,835,368.17 | 155 |
| Fiscal Year - 2019 | 7,760,224.51 | 142 |

**Report Showing CPF Levy Refunds made - by Fiscal Year**

| FY | Total Amount (£) | Total No of refunds made |
|---|---|---|
| Fiscal Year - 2015 | 1,768,103.96 | 39 |
| Fiscal Year - 2016 | 2,153,510.77 | 60 |
| Fiscal Year - 2017 | 1,603,488.75 | 46 |
| Fiscal Year - 2018 | 2,351,563.36 | 44 |
| Fiscal Year - 2019 | 2,103,882.05 | 46 |

**Proposed new policy for the contributions to the Connexional Priority Fund levy**

Levy on capital receipts (sell of whole or part of property or land)

The levy shall continue to be payable on any capital money received from the disposal of local church, circuit and district. One question is ***whether or not connexional property should be subject to the levy.***

The levy taken **shall remain at 20% for the first £100,000 and on any excess over £100,000**, it would remain 40%. Whilst consideration has been given to whether these figures should change, any increase in the percentages would be very unwelcome and be seen as contrary to the property strategy while a decrease in percentages would mean a further decline in receipt to the CPF.

Current Use of the CPF

45% Pension Reserve Fund (this may or may not be reviewed in the future)
27.5% DAF
6% MCF
21.5% Connexional Grants (or as the SRC decides)

Levy on rental income – New

**The levy would be paid at 5% of all rental income from assured shorthold tenancies or licenses of over 12 months of a local church, circuit or district property.** This would not include hiring of church premises or short term lettings of church premises. This **levy would be paid however to the District Advance Fund (DAF) rather than to the CPF**. The District would be in a much better position than TMCP finance staff to know the properties that are being let across the District. At the end of the financial year, each District would report to the Connexional Team the total sum received from the levy on rental income and this figure would be added to the total sum available for distribution from the CPF and therefore the share that each DAF received from the CPF would reflect the level of rental income.

Commercial leases – **levy at 7% of the net rental income received for lease** of local church, circuit, district or Connexional property (net rental income being the total rent minus loan repayments). Again this sum as above would be **paid to the DAF** and then taken into account when calculating the payments to the DAF from the CPF.

With the current information available from the online consents system and in discussions with a couple of District Property Secretaries it has not been possible to obtain even a rough estimate of how many leases, licenses and tenancies there are across the connexion and therefore the potential income that this would generate for the DAF. Work will continue to be undertaken on this in order to assess the impact that this policy proposal would have on managing trustees as well as the DAF.

***Thoughts on the feasibility of the the above proposal would be welcomed, particularly in terms of how Districts would administer the new policy***. There would clearly need to be discussions with District Treasurers before this is implemented.

<u>Retention of the CPF Levy for connexional grants and DAF</u>

It is proposed that there is **only ever a 90% refund of the CPF levy paid** from a capital receipt, on any property project even if there is a qualifying replacement project.

This will assist in ensuring that there is a consistent income to the CPF whilst also reminding all managing trustees of the Connexional nature of the Church and their contribution to it. Any amendment to the existing CPF levy contributions and replacement project criteria will need to be accompanied by a communication strategy that seeks to ensure all members of the Church understand the importance of the levy and how it is utilised.

The below calculations seek to demonstrate the difference that only offering a 90% refund would have made to the CPF if this policy had applied between 2015-2019. These calculations do however assume that all the refunds made between 2015-2019 were full refunds, and that 100% of the paid levy had been repaid. Whilst the vast majority of refunds of the levy are for 100%, it is not always the case. The calculations do however provide an indication that if only 90% had been refunded in the period 2015-2019, there would have been almost £1 million more available to DAF, connexional grants and the pension reserve fund.

Report Showing CPF Levy Refunds made - by Fiscal Year

| FY | **Total Amount of refund at 100%** | **Refund made if only 90%** |
|---|---|---|
| Fiscal Year - 2015 | 1,768,103.96 | 1, 591,292.70 |
| Fiscal Year - 2016 | 2,153,510.77 | 1,938,159.00 |
| Fiscal Year - 2017 | 1,603,488.75 | 1,443,103.20 |
| Fiscal Year - 2018 | 2,351,563.36 | 2,116,406.70 |
| Fiscal Year - 2019 | 2,103,882.05 | 1,893,493.80 |

**Key Principles for new Replacement Project Criteria**

- Only property projects would receive a refund of the levy (this is the current policy)
- Decisions on what should be a replacement project and how much of a levy refund should be provided would be made by the District Policy Committee (or delegated) with all decisions reflecting the District Development Mission Plan;
- A replacement project would be any property project which sought to further *Our Calling* through the redevelopment of a church property, further detail would clearly need to be included;
- The District Policy Committee would decide if the project fitted within the criteria for a replacement project and if so, whether the project fitted within the District Development Mission Plan and furthered the Circuit Mission Plan;
- The District would have discretion as to the level of the levy that should be refunded;
- The District Policy Committee in deciding the level of any refund would consider what other funds the Circuit or managing trustees have available, grants received, grants that might be otherwise be available, what difference the refund of the levy would make to the viability of the project and whether a Connexional grant has already be offered ***(Question – if a connexional grant has been made, should there still be a refund of the levy or vice versa?)***
- There should only ever be a one manse for one manse replacement project;
- Only the Circuit can apply for a refund of the levy, not the local church managing trustees. The Circuit Meeting would therefore need to support the levy refund, in the knowledge of funds held by the local church and offer justification to the District as to how this is a replacement project and should receive X amount of the levy refund, being clear in this justification how the replacement project furthers *Our Calling* and the Circuit Mission Plan.

***Thoughts welcomed on the proposed principles for a new policy***

**Beyond Property**
One possible option is that the full levy would not have to be paid where a property is being sold by a circuit that has been designated as a "priority circuit." Once every 3 years each District would provide a list to the Methodist Council of "priority circuits" which reflect the areas in most need in light of the District Development Mission Plan. Where a **priority circuit sells a property, they would only ever pay 50% of the usual levy.**

The aim of this proposal would be to ensure that there is parity between those circuits that have more in terms of assets and income, and therefore might not even need to sell property and those that do need to sell property to support mission but are then subject to the levy.

***Thoughts welcomed.***