

Review of the Replacement Project criteria

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| Status of Paper | Final |
| Action Required | Discussion and decision |
| Resolutions | 41/1. The Council recommends to the Conference that SO 908 be revoked. 41/2. The Council recommends the proposed amendment to Standing Order 973 is adopted by the Conference in 2018. |

Summary of Content

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| Subject and Aims | Part 1 – for discussion To enable the Council to have a discussion about the classification of a replacement project under SO 973. This paper gives the Council an opportunity to contribute to the discussions which are under consideration prior to the presentation of a connexional property strategy and a connexional financial strategy. Part 2 – for decision To recommend changes to the standing orders relating to replacement projects. |
| Main Points | <ul style="list-style-type: none"> Identifying inconsistencies in the process and revisions required. The need for a wholesale review of the replacement project criteria. Suggested interim arrangements while the review takes place. |
| Background Context and Relevant Documents (with function) | [MC/15/48] Review of the Connexional Priority Fund (CPF) Levy Policy [MC/14/58] Replacement Projects (M19) Work to be Undertaken by the Council [SRC/15/9] M19 (2013) Review of the Connexional Priority Fund (CPF) Levy Policy [SRC/14/52] M19 (2013) Briefing Paper – Review of Connexional Priority Fund (CPF) Levy Policy [SRC/14/16] M19 Briefing Paper – Review of Connexional Priority Fund (CPF) Levy Policy Memorial (M19 2013) Replacement Projects SRC/18/7 Connexional Financial Strategy |

Review of the Replacement Project criteria

Part 1 – For discussion

1. The Council will recall the paper to its meeting in October 2017 which directed the Connexional Team to bring options to the Council by April 2018 for the revision to the replacement project criteria and/or a new system for classifying replacement projects. Unfortunately other work that has arisen has meant the detailed review that had been envisaged in October has not occurred. This discussion paper is presented to the Council with suggestions about the classification of replacement projects, with the aim of supporting the work being undertaken to prepare a connexional property strategy and a connexional financial strategy.
2. These suggestions also seek to reflect *Our Calling* reminding us that the Church exists:
 - To increase awareness of God’s presence and to celebrate God’s love (*Worship*);
 - To be a good neighbour to people in need and to challenge injustice (*Service*);
 - To help people learn and grow as Christians, through mutual support and care (*Learning and Caring*); and
 - To make more followers of Jesus Christ (*Evangelism*).
3. The levy on proceeds of sale must be seen to be supporting the mission of the Methodist Church, as expressed in *Our Calling* and should seek to encourage good stewardship of property and the capital released when property is disposed of as well as a better understanding of connexionalism. It is the principle of connexionalism which leads to the application of the levy and managing trustees must be encouraged to not seek to hold onto their capital or property just for a “rainy day.” The Releasing Resources for Mission: Review of Circuit and other Advance Funds report to the 2014 Conference considered the future mission strategy and the use of finance, personnel and property. This report stated:

The priority of mission ought to mean that the focus of the use of our resources is an outward movement, more in tune with John Wesley’s “give all you can.” A key feature of the Methodist Church, as a connexional Church, is the sharing of money and resources. It is not a model based on individual churches acting in isolation. This view is echoed in A Generous Life’s ‘Theological Foundation’ paper which states: ‘Connexionalism itself can be seen as an example of generosity. Connexionalism is about sharing resources, rather than local churches pursuing their own growth and development in isolation from other churches and without concern for the wellbeing of other communities within Christ’s Church. Connexionalism also enables the distribution of resources in a way that recognises and responds to the greatest areas of need within the Church. This can make Paul’s teaching on the Body of Christ (1 Cor 12) a greater reality.’
4. Work is underway to bring a connexional property strategy and a connexional financial strategy to the next meeting of the Council. The financial strategy seeks to address the issue of funds being held onto for “rainy days” through the promotion of recommended reserves policies for Local Churches, Circuits and Districts. This paper seeks to address this by presenting a suggestion that the classification of a replacement project might take into consideration managing trustees bodies’ need for a refund of the levy.
5. This paper does not question the policy of there being a connexional levy on proceeds of sale. This policy has not itself been the subject of much debate even in recent memorials to the

Conference. It is rather the question of what should be considered a replacement project that has been the subject of much debate. This paper therefore focuses on whether:

- there should be an expansion of what can be classified as a replacement project;
- there is a need for a clear link to be established between the building being sold and the replacement project;
- the Property Development Committee should continue to have the discretion to grant exemptions to the replacement project criteria;
- there should be any considered of managing trustees ability to fund a replacement project with funds held, without the levy being refunded.

History to the Connexional Priority Fund and Replacement Projects

6. In considering any review of the Connexional Priority Fund levy or replacement projects it is helpful to be reminded that the levy was introduced in 1969 and was to be taken on all Methodist properties with the ability of managing trustees to apply to the Connexional Advance Fund Committee where there was a replacement scheme. The Advance Fund was intended to provide for special and new work, special and new ministries. Interestingly it is in this report that it is noted that the Committee had judged the levy should not be paid on investment property (see below Second Area of Review) although without any explanation as to the reasoning.
7. It was in 1972 that the Connexional Advance Fund Committee was encouraged to re-examine the strict limitations on the fund eg for work in new areas. The Committee was encouraged within the report of the President's Council to consider granting funds to support the re-planning of work in old areas.
8. In 1986, a report on the Future of the Connexional Advance Fund was considered by the Conference and this concluded that the purpose of the fund should be to enable the work of the Church that had been determined as a priority under the new stationing policies and procedures. The fund would also support work of connexional significance that had District approval as well as offering grants for urgent and essential property schemes.
9. The Fund is currently distributed to the District Advance Funds and a proportion is allocated to the Pension Reserve Fund for the Ministers' and Lay Employees' scheme. The Connexional Grants Committee also make grants out of the Fund to support new work which will constitute an advance and be of connexional significance or for urgent and essential property schemes to be carried out.
10. The fund is currently distributed as follows:-
 - 45% to the Pension Reserves Fund
 - 27.5% to District Advance Funds
 - £1 million towards the Discipleship and Ministries Learning Network costs
 - Around £150,000 per annum in total to the core heritage sites (Overseen by the Connexional Grants Committee and administered by the Grants team)
 - Balance is allocated to the Connexional Grants Committee for distribution or as agreed by the SRC.

Money held in the fund which is in excess of the reserves policy is being utilised as agreed by the SRC and detailed in the Connexional Central Services Budget report to this meeting of the Council.

Discussion point 1

Should “need” ever be a factor in considering classification of a replacement project?

11. When classifying a replacement project, the criteria only requires a project to fit within one of the “boxes” and no questions are ever asked about whether the managing trustee body could afford to cover the cost of the project through their own funds or those of the Circuit or District without the refund of the levy. Asking a question about other sources of funding that might be available would make the request for a replacement project (currently a tick box on the online consents system) more complicated but the Council is asked at this stage whether it wishes to explore the possibility for the reasons set out below.
12. One reason for considering whether “need” should be a factor, is in light of the ongoing conversations around the level of unrestricted funds that are being held by local churches, circuits and districts.
13. The Trustees for Methodist Church Purposes report to the 2017 Conference reported that it held investments as the custodian trustee of £342 million. This will in the majority be funds that TMCP is holding as custodian because this money is capital and income held on the Model Trusts and therefore must be held by TMCP. Some of this money will be legacies that TMCP is holding as custodian either on the Model Trusts or for restricted purposes as set out in the Will. All the capital and income held on Model Trusts will be money that can be used for projects that would be classified as a replacement. The figure of £342 million will not even include the general funds held by managing trustees in local bank accounts or invested directly with the Central Finance Board.
14. The implications of requiring managing trustees to disclose their financial resources at the point of seeking a replacement project needs further exploration . If the Council wishes to support such a principle, the Connexional Team will bring a further report to the Council outlining the required application and assessment process.

Discussion point 2

Replacement Project requests by Circuits

15. There are occasions when despite a Circuit’s best efforts to develop a mission plan , a Local Church is resistant to a merger with another local Methodist Church when consideration is being given to the question of ceasing to meet. Where a Local Church has decided to cease to meet or sell their premises and a merger is not appropriate (or not favoured by the Local Church), there is no ability under the current replacement project criteria for another project within the Circuit to be classified as a replacement project. There is currently a need for the Local Church selling their premises to have resolved to amalgamate with the Local Church undertaking the property project, in order for the levy to be refunded on the premises being sold.
16. In light of the work of the Property Development Committee and a renewed focus on circuit and district mission plans steering decisions in respect of property it would seem appropriate to consider again whether the Circuit Meeting should be able to make a request for a replacement project to be classified for a local church site being sold. A Circuit Meeting would need to be committed to the whole of the net proceeds (including the levy) being used to fund the replacement project, and be able to demonstrate that the redevelopment or building project furthers both the circuit and district mission plans. The replacement project would clearly need to be occurring within the same Circuit as the local church site/land being sold.

17. ***The Council is asked to consider whether, where a request is made by a Circuit Meeting for a replacement project in the above circumstances, the requests should be passed to the small group already appointed by the Council to consider the more complex replacement projects.***

Discussion point 3

Continued Ability to seek Exceptions

18. The only permitted replacement project for a manse being sold is the purchase of another manse. It is possible to sell more than one manse to purchase a new manse where there has been a review of mission and the manse being purchased is more expensive due to size or location. It was this strict criteria for manse replacement projects that in part led to the paper to the Council in October 2017. The Council in October 2017 authorised the Property Development Committee (PDC) to consider exceptions to the replacement project criteria where a project does not fall within the replacement project criteria but would be a project that the PDC would want to encourage and there is genuine need for the levy to be refunded. Criteria for such exceptions have been approved by the PDC and to date one exception has been granted which was for a significant redevelopment of a church building as a replacement for a manse that had been sold by the Circuit in order to assist the Local Church.
19. There is a general concern that permitting a replacement project for a manse to be anything other than the purchase of another manse would open up the possibility of a large number of refunds and severely reduce the Connexional Priority Fund.
20. ***The Council is asked to consider whether it wishes work to be undertaken to explore the options for replacement projects for manses being anything other than the purchase of a new manse and the implications of widening the criteria.***

Conclusion

21. Some of the suggestions presented to the Council will potentially increase the number of projects that can be classified as replacement projects although the inclusion of genuine need when considering a replacement project request may act as a counter to any increase in refunds. The classification of replacement projects has expanded in recent years to permit the levy to be refunded on more than one manse being sold, even if there is only one being purchased. The Conference also directed in 2011 that the levy could be refunded on more than one church site where only one church site is being redeveloped or purchased. The figures below demonstrate that despite the number of properties actually being sold, not increasing since 2012, the amount of levy paid has increased and despite the widening of the definition of a replacement project, other than in 2016, the number of replacement projects classified has been consistent.
21. The Council will be aware that the Connexional Priority Fund has accrued significant income over and above the necessary reserves and widening the classification of replacement projects may be one way to ensure that such excess income is not accrued in future. Clearly a careful eye will need to be kept on how any change in policy in respect of the levy and replacement projects affects the balance of the fund. The Connexional Central Services Budget report to this meeting of the Council provides further detail at paragraph 5 on the money held in excess of the reserves policy and the income to the Fund last year.

Levy Paid on sales

| Fiscal Year | Total Amount (£) | Total No |
|--------------------|-------------------------|-----------------|
| Fiscal Year - 2012 | 7,532,139.04 | 205 |
| Fiscal Year - 2013 | 7,206,965.67 | 167 |
| Fiscal Year - 2014 | 7,019,836.65 | 165 |
| Fiscal Year - 2015 | 7,453,864.15 | 175 |
| Fiscal Year - 2016 | 8,983,447.43 | 190 |
| Fiscal Year – 2017 | 10,232,082.67 | 182 |

Levy Refunded

| Fiscal Year | Total Amount (£) | Total No |
|--------------------|-------------------------|-----------------|
| Fiscal Year - 2012 | 1,067,914.20 | 34 |
| Fiscal Year – 2013 | 2,040,618.45 | 42 |
| Fiscal Year – 2014 | 2,114,451.02 | 37 |
| Fiscal Year – 2015 | 1,768,103.96 | 39 |
| Fiscal Year – 2016 | 2,153,510.77 | 60 |
| Fiscal Year - 2017 | 1,518,690.16 | 42 |

Part 2 - For Decision

Investment Property

22. The levy is not currently payable on “land held as an investment” as defined by SO 908.
- 908 Interpretation – Investment Property.** In this Part ‘land held as an investment’ means land which is church property but which either is let or for other reasons is not used for any of the purposes specified in heads (b) to (m) of paragraph 13 of the Model Trusts (in this Part called ‘Methodist trust purposes’) and which in either event has not at any time while it has been church property been used for Methodist trust purposes.
23. In practice it is very rare for any property owned by a Methodist body on the Model Trusts to have not been used for some purpose of the Model Trusts at some point in its history. Whilst it is possible that some managing trustees will have purchased property purely to provide an income the majority of applications for the exemption from the levy for investment property is church buildings or land that have been converted to provide an income eg shops built underneath.

24. The investment property or land is still held on the Model Trusts, the managing trustees are still part of the Connexion and the income from the property is being used for the purposes of the Methodist Church. It is not clear why property that has been purchased for or converted in order to provide income for the Local Church, Circuit or District should be exempt from the levy. Consideration of this point does not appear to have been explored within any report to the Conference previously.
25. The narrow definition of investment property causes a great deal of confusion and frustration for managing trustees who think their property is clearly investment property but will often not meet the definition of SO 908. The definition of "land held as an investment" only provides a definition for the purposes of seeking an exemption from the levy, there is no other reference to it within Standing Orders. Given the frustration this causes and the lack of a clear reason as to why property that has been purchased as an investment should be excluded from the levy, the Council is asked to remove this exemption.
26. Should the Council agree to the exemption for investment property being removed, work will be undertaken to explore whether the connexional property strategy would support other types or uses of property that should be exempt from the levy. This would include exploring the question of why Conference and connexional property are exempt from the levy.

Standing Order Amendment

27. Standing Order 973 states that where replacement projects are classified, there shall be no levy paid (or it will only be paid on the surplus). However, the Standing Order makes no reference to the Council adopting criteria for replacement projects which has now been the policy for a number of years. It is suggested that reference to the Council adopting a policy would assist managing trustees at an earlier stage that it is not their interpretation of a replacement project that applies.

973 Replacement Projects

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(1A) The Methodist Council shall adopt criteria for the classification of replacement projects.

*****RESOLUTIONS**

- 41/1. The Council recommends to the Conference that SO 908 be revoked.**
- 41/2. The Council recommends the proposed amendment to Standing Order 973 is adopted by the Conference in 2018.**