

Review of the Replacement Project criteria

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Status of Paper	Final
Action Required	Decision
Resolutions	<p>97/1. The Council receives the report.</p> <p>97/2. The Council directs the Connexional Team, in consultation with the Connexional Grants Committee and the Property Development Committee, to bring options to the Council by April 2018 for revisions to the replacement project criteria and or a new system for classifying replacement projects.</p> <p>97/3. The Council authorises the Property Development Committee to consider exceptions to the replacement project criteria and to approve a project as a replacement where there is evidence of the project fulfilling the Council's property strategy and genuine need for the additional funds.</p>

Summary of Content

Subject and Aims	Review of the Connexional Priority Fund (CPF) Levy and the process for classifying a replacement project under SO 973.
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)	<p>[MC/15/48] Review of the Connexional Priority Fund (CPF) Levy Policy</p> <p>[MC/14/58] Replacement Projects (M19) Work to be Undertaken by the Council</p> <p>[SRC/15/9] M19 (2013) Review of the Connexional Priority Fund (CPF) Levy Policy</p> <p>[SRC/14/52] M19 (2013) Briefing Paper – Review of Connexional Priority Fund (CPF) Levy Policy</p> <p>[SRC/14/16] M19 Briefing Paper – Review of Connexional Priority Fund (CPF) Levy Policy</p> <p>Memorial (M19 2013) Replacement Projects</p>

Review of the Replacement Project criteria

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 for 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.
2. Part of the frustration on the part of some managing trustees is a lack of understanding as to what the CPF levy is utilised for, and a lack of appreciation of the connexional principle. Whilst it is recognised that a greater appreciation of the connexional principle might encourage managing trustees not to be so congregational in approach to property, it will not satisfy the angst that is caused where a project, that might be fully in line with the property strategy, cannot be classified as a replacement project and therefore the levy has to be paid. The levy is usually seen as reducing funds available for a local project, what is not understood is the boarder use of such funds, and therein may be a problem about how local church can gain access to grant funding for what are often smaller projects more orientated to improvement works. The development of a connexional property strategy will need to pay attention not only to how buildings are used, but how managing trustees are supported in thinking about future use, and of course who local churches can be supported financially in areas of severe deprivation.
3. There is also a growing inconsistency between the classification of replacement projects and the encouragement of managing trustees to be strategic with their property, developing property for mission and or income generation rather than disposing of property that has become unmanageable. There are occasions where innovative projects are being pursued to make the most of church property for mission, community and income, but the Circuit is not able to utilise the sale of properties without paying the levy. This point will need to be considered with some care as part of the development of a connexional property strategy.

Points for Consideration

4. There is provision in SO 970 for the levy not to be payable on investment property but the definition of investment property, set out in Standing Order 908 as “land held as an investment”:-

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.
For the purposes of this definition ‘land’ includes buildings (see the note to S.O. 006(1)).
5. It is rare for any property owned by a Methodist body not to have been used for Model Trust purposes at some point. For example, an office block built on an old Methodist burial ground cannot be designated as investment property, due to it having been used as a burial ground (paragraph 13(i) of the Model Trusts) in the past. This is despite the office block only having been built with the purpose of providing an income and long term investment for the local church.

6. Connexional and Conference properties are exempt from the levy and it does not appear to be clear as to the reasoning for this exemption. There are also properties not held on the Model Trusts eg Southlands and Methodist International Centre, which would not be subject to the CPF levy, if the properties were sold or a lease premium paid.
7. The replacement project criterion does permit amalgamated churches to sell one or more sites, to fund the purchase of or redevelopment of an existing church site, without paying the levy.
8. The replacement project criterion does not however provide for a replacement project where a local church has ceased to meet and the circuit decides that it wishes the proceeds from the closed church to be used for the redevelopment of a continuing local church in their circuit.
9. There is also no ability for a circuit manse to be sold in order to fund a local church redevelopment without the levy being paid.
10. Another inconsistency in the policy is that no levy is paid on annual rental income on a leased property. If a premium were paid for a lease, the levy would be charged but if rather than a premium a Methodist body receives a significant annual rent, the CPF levy is not payable.
11. The replacement project criteria currently takes no consideration as to the significance of the project that will be the replacement. It is quite common for a Circuit to sell three manses (two of which might have been let for a number of years) to purchase one larger and better located manse. However a replacement project will not be classified where a circuit has a project that is in line with the property strategy (once adopted) but they cannot use the sale proceeds from a manse or closed church to assist with the project without paying the levy. Nor does the classification of a replacement project take into account whether the managing trustees have received or been rejected for connexional grant funding.

Time for a Review?

12. It will never be possible to have a criterion or process that satisfies every managing trustee body across the wider connexion but it would appear to be that, in light of the work being undertaken on property and the review of the grants policy, it would be prudent to have a wholesale review of the replacement project criteria.
13. It is apparent that this review 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.
14. The Property Development Committee (or a small group if it so chooses to appoint) could be given authority to permit an exception where the replacement project complies with the property strategy and there is evidence of a genuine financial need/gap that can be filled by not paying the levy. The Property Development Committee could be authorised to produce its own criteria if it considers this necessary. It is hoped that allowing applications for exceptions to the criteria will not cause an influx of application to the Property Development Committee and evidently the sooner the criteria are produced, the easier it will be to filter the applications.
15. The Council will obviously want to consider the financial impact that any decision to expand, review or offer greater flexibility might have on the funds to the CPF levy. The below figures are not 100% accurate as the total number of refunds does not take into account that some will be

very small refunds but it is hoped that the figures below give some context to the consideration of the impact that any review might have:-

Levy Paid on the sale of

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

*****RESOLUTIONS**

97/1. The Council receives the report.

97/2. The Council directs the Connexional Team, in consultation with the Connexional Grants Committee and the Property Development Committee, to bring options to the Council by April 2018 for revisions to the replacement project criteria and or a new system for classifying replacement projects.

97/3. The Council authorises the Property Development Committee to consider exceptions to the replacement project criteria and to approve a project as a replacement where there is evidence of the project fulfilling the Council’s property strategy and genuine need for the additional funds.