

# **Review of Circuit and other Advance Funds (The Methodist Council's Report to Conference 2004)**

## **Introduction**

Conference 2003 adopted the Report of the Connexional Property Committee in response to M28 (2002) and asked the Methodist Council to bring appropriate recommendations to the Conference of 2004 in the light of research carried out by the Property Committee.

## **1 Reasons for the Review**

This report is a response to:-

- i various memorials sent to the Conference in recent years seeking changes in the regulations affecting the use of Circuit Advance Funds,-most recently M111(2003) requesting that, to help circuits maintain their mission in difficult times, all the interest on such funds should be available to circuits for non-capital work, and
- ii the Connexional Property Committee's recommendation to the Methodist Council, in the context of the Committee's research into current and future mission strategy and the use of finance, personnel and property,

*"that the administration of Circuit and other Advance Funds be reviewed fundamentally in order to ensure appropriate use of such proceeds of sale in the resourcing of our mission."*

## **2 Purpose**

In this paper we set out our recommendations regarding;

- i An appropriate policy for Methodist mission as reflected in the use of the various Advance funds;
- ii A belief that the Church should comply not only with the word but also the spirit of Charity Law;
- iii The removal of the link with interest in determining the amount to be withdrawn from Circuit Advance Funds for non-capital purposes.
- iv An increase in annual contributions from Circuit Advance Funds to the District Advance Fund
- v The treatment of "excess reserves" wherever they are held
- vi The allocation of the 25% levy on the Connexional Advance and Priority Fund to the District Advance Funds.
- vii Simplification of Connexional Advance and Priority Fund levy bands
- viii Improvement in accessibility to Model Trust bequests

## **3 Background to this report**

The Resourcing of Methodist Circuits and Districts

The Conference 2002 report "Resourcing Circuits and Districts" states:-

"A key theme in the discussions around resourcing Circuits and Districts has been the inequality of resources across Circuits and Districts which has been felt at times to stifle new initiatives for mission in the places where these are most needed."

The report also highlighted areas of shared concern about the distribution of money throughout Methodism in the following terms:-

There was agreement over:

- i The desirability for a "more level playing field" in relation to resourcing mission opportunities
- ii The desirability of Districts holding some funds for grants
- iii The criteria for grants being open
- iv Those making bids for grants making their resources clear
- v The key role of Districts and the desirability of District Grants Committees in relation to Connexional and more locally allocated grants.

The recommendations which followed the report included the requirement for each Circuit to contribute 1% of the capital money held in its Circuit Advance Fund to the relevant District Advance Fund annually.

A further consequence of the report was to require the Connexional Advance and Priority Fund to distribute annually to the District Advance Funds a sum equal to 25% of the total net levies received in the previous year.

#### **4 The Main Task**

Conference 2003 replied to Memorial M28 (2002) Circuit Advance Fund and resolved as follows:-

The Connexional Property Committee, in presenting to the Methodist Council in due course the results of the Committee's research into current and future mission strategy and the use of finance, personnel and property, will bring a recommendation that the administration of Circuit and other Advance Funds be reviewed fundamentally in order to ensure appropriate use of such proceeds of sale in the resourcing of our mission.

#### **5 The Aims and Rationale of this Report**

The aim of the report is to reflect the principles and policy of the Methodist Church in the ways in which Circuit Advance Funds and other funds may be used. In particular the report aims to improve the way the use of such funds reflects the principle of connexionalism and the priority of mission as they are contained in the report adopted by the 1999 Conference on the nature of the Christian Church in Methodist experience and practice, Called to Love and Praise.

Connexionalism reflects the interconnectedness of the Methodist Church (see 'The Connexional Principle', section 4.6 in Called to Love and Praise). It is a principle by which we are responsible to and for each other in the Body of Christ. It is evident in our circuit system, the role of Districts and the co-ordinating and oversight role of connexional officers. It is a principle that is more than "the strong helping the weak", though it includes that. It recognises that our use of resources needs to be seen in a wider context and to be accountable within the whole church. Churches are accountable to Circuits and Circuits to Churches; Circuits are accountable to Districts and Districts to the Circuits and so on.

For too long it has been thought that saving all we can meant hanging on to savings and investments — often in preparation for a mythical "rainy day". 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." The priority for the use of our resources is not the maintenance of what we have, but the support of work in the service of God's mission in the world. (see 'The Triune God: God's Reign and Mission', section 2.1 in Called to Love and Praise).

Our Methodist policy is entirely consistent with Charity Commission requirements.

#### **6 Some Policy Guidelines**

Methodist Church Policy

It is recognised that monies are held by local Churches, Circuits and Districts and it is not always the case that those monies are available for mission projects and opportunities where a need is being expressed. The way in which money is distributed can be an enabling or an obstructing factor.

This report recommends that Methodist money be made more widely available to support ministry and mission throughout the Connexion.

#### **7 Charity Law Reform**

There is a current impetus under the Charity Law Reform process for all Charities to be accountable amongst other things for monies which come into their hands. The proposed Charities Bill is likely to require Charities with income greater than £100,000 to register with the Charity Commission.

The current Reform process relates to charities in England and Wales. Methodist Charities located in other jurisdictions in Scotland, Shetland, the Channel Islands and the Isle of Man will need to have regard to the particular requirements of their own jurisdiction.

Nevertheless the Connexional principle for sharing mission resources set out in this report will be relevant to all Methodist Charities.

Each of our Churches, Circuits and Districts is a separate charity currently excepted from having to register with the Charity Commission. This exception is expected to be removed where the annual income of the Church/Circuit/District exceeds £100,000. This will affect a number of our larger Churches and most of our Circuits and Districts.

## **8 The Charity Statement of Recommended Practice (SORP) requirements**

These guidelines contain a Kingdom principle as well as a Charity Commission requirement. The Church exists always for a greater purpose than to promote itself: the celebration of the in-breaking Kingdom of God. This purpose constantly moves the Church beyond self interest. It is therefore entirely proper that all Methodist charities examine the level of funds in their care, explain their policy for holding these funds and where money is held which is more than is needed to meet the Charity's requirements to seek appropriate uses for those funds to further the mission purposes of the wider Church.

Details of the SORP requirements are set out in Appendix 1

## **9 What are a Charity's reserves?**

The Charity Committee booklet Charities' Reserves (CC19) states "The term "reserves" has a variety of technical and ordinary meanings depending on the context in which it is used".

The guidance goes on to say that reserves are defined in SORP 2000 (Charity Statement of Recommended Practice) as that part of a charity's income funds that is freely available for its general purposes.

Money held in Circuit Advance Funds and District Advance Funds is available for particular purposes set out in Standing Orders. Much of this derives from the sale of property and is defined as Capital. The Charity Commission differentiate between capital which is permanent endowment and which cannot be spent, or expendable so that the trustees have the power to use it for the charity's purposes.

Our Standing Orders require capital in Circuit Advance Funds (CAFs) to be used largely for capital purposes and hundreds of property schemes benefit from CAF grants each year.

However, the Standing Orders also allow capital money held in CAFs to be transferred to the District Advance Fund (DAF) by agreement with the District to enable the District to make a grant for ministry purposes.

Thus, our trust rules allow capital money to be used for the wider purposes of the DAF.

Trustees must therefore recognise their capital funding needs while at the same time acting consistently with Charity Commission guidance in relation to reserves. The way in which Methodist Standing Orders are written provides greater flexibility of purpose than would normally be the case in the use of capital money.

Thus this proposal seeks to recognise our charitable obligations as Methodist trustees but also to promote a spirit of sharing as mission needs are identified across the connexion.

## **10 Methodist policy on use of capital money**

Methodist Standing Orders are currently written in a way that distinguishes between capital and income and thus very substantial amounts of capital money are currently held in Circuit Advance

Funds having emanated from the sale of Methodist property. (Total Circuit Advance Fund balances as at 31.8.03 - £70 million).

However, while Circuit Advance Fund capital is defined as being available for capital purposes it can also be used as stated for grantmaking for ministry projects. (SO 916, 955 and 963) while Circuit Advance Fund income may be used for very wide purposes (SO 917).

Very significant levels of Circuit Advance Fund capital are never touched because no purpose has been found for many years while many ministry projects and property schemes are deprived of funds elsewhere simply because that capital is not obviously available where it is needed. In fact, all model trust capital can be made available for projects in other Circuits and Districts through a porting arrangement for a scheme or by subvention to a District Advance Fund.

Because of the way the Methodist Connexion is structured large amounts of capital money are not being used effectively for Methodist purposes.

### **11 Circuit Advance Fund- Purposes**

The Working Party endorses the present policy of placing proceeds of sale of Methodist property in the Circuit Advance Fund.

It is felt there is no longer a need to restrict the amount available currently for non-capital purposes to the precise amount of income earned on the capital. It is proposed that all Circuits be allowed to withdraw up to £10,000 annually from the Circuit Advance Fund for non-capital purposes. This would bring greater equality than the present Standing Orders allow as they restrict Circuits with modest Circuit Advance Fund balances to a modest level of income.

A figure of £10,000 would represent more than 100% of the current income on a Circuit Advance Fund balance of £200,000. Additionally, the removal of the present 50% rule and the detailed approval process for Interest on Circuit Advance Fund (ICAF) schemes would reduce bureaucracy and create a more level playing field. Where a Circuit is currently reliant upon Circuit Advance Fund income to support ministry projects it may :-

- i see any remaining portion of the project through to completion (up to a maximum of 5 years)
- ii make a ministry grant application to the District to release further money

An outcome of this approach is that it removes a disincentive to use capital which currently exists. Where a circuit is currently reliant on the income from the Circuit Advance Fund any expenditure of capital reduces the subsequent level of income that is available. That will no longer be a concern as future ministry projects will not be dependent upon the level of income.

The Working Party also considered the possibility of asking Conference to widen the purposes of the Circuit Advance Fund to enable Circuits, for example, to make grants for ministry projects in the Circuit to avoid the need to subvent Circuit Advance Fund capital to the District Advance Fund for that purpose.

While the Working Party believes the wider distribution of capital money to the District Advance Funds has proved to be a positive and beneficial initiative it also considers the Connexional overview of grantmaking is a valuable part of the process. To widen grant making for ministry in this way to the Circuits would increase the number of grantmaking bodies within Methodism by a factor of twenty. The Working Party believes such a proposal would introduce the potential for greater inconsistency of approach in Connexional funding for projects and, significantly, would render impractical the current process whereby Districts report to the Resourcing Mission Grants Committee (RMGC) annually. To ask every Circuit to do the same would prove unworkable.

The working party therefore proposes that the present process remain unchanged to the extent that the District remains the approving body but that the grant be made direct from the Circuit Advance Fund once approval is given. Thus no funds are transferred between Circuit Advance Fund and District Advance Fund. Such a change would have a number of advantages:-

- i the archaic and unfamiliar term 'subvention' could be deleted from the Standing Order.
- ii the removal of the need to transfer money between CAF and DAF would create a more efficient process
- iii there would be a substantial saving in staff time at the Trustees for Methodist Church Purposes.

## **12 District Advance Fund – Purposes**

It is felt that the better option is to leave the ministry grant application process in the hands of the Districts and the Resourcing Mission Grants Committee in order to retain accountability and probably a more effective and efficient model.

The newly established re-distribution of funds reinforces a connexional principle of sharing and support.

The still new initiative of greater levels of grantmaking by Districts has it seems been successful and no undue problems have been reported. The Working Party wishes to endorse the present system rather than propose a new policy.

It is felt however, that the present 1% annual contribution from Circuit Advance Funds to the District Advance Funds is insignificant in relation to the total levels of capital held in the Circuit Advance Funds. We therefore propose that the annual contribution be increased from 1% to 2½% on all CAF balances and a further contribution of 2½% (i.e. 5% in total) on balances exceeding £100,000.

Where the annual contribution effectively removes money committed by way of future grants for property schemes in any circuit, the district should honour that grant (or part grant), provided such a project is initiated within five years

## **13 Connexional Advance and Priority Fund (CAPF)**

The Working Party looked at various options for the future use of the Connexional Advance and Priority Fund including the re-distribution of the total fund among the Districts. However there was a strong belief that the Connexional grantmaking process alongside the enhanced Districts grants facility is beneficial and should continue. The Connexional Advance and Priority Fund and the Fund for Home Mission are the most significant funding sources used for the support of Circuit and District Ministry projects. The Connexional Advance and Priority Fund also supports property schemes which fit the criteria of the fund.

This report therefore recommends the continuing use of the Connexional Advance and Priority Fund as a Connexional grantmaking fund and that the current annual distribution of 25% of levy income to the Districts should remain unchanged.

However, it was felt that the present arrangements for the calculation of the levy on sales of Methodist property are complex and inefficient. The tariff should be much simpler so that churches are able to estimate any levy without difficulty and without having to obtain a figure from the Resourcing Mission Office.

This report proposes that the levy on proceeds of sale exceeding £100,000 should remain at 25%, as now. However, the detailed banding levy tariff for proceeds up to £100,000 should be simplified by replacing all existing bands below £100,000 and charging a 15% levy on all amounts up to that threshold and 25% on any excess.

## **14 Bequests**

Whilst the main focus of this report is on Advance Funds the Working Party felt that in the context of making capital money more accessible it would be helpful to allow local trustees to withdraw up to £20,000 of any model trust bequest without formality. (Present limit £5,000)

This would equate approximately with the Charity Commission rule to allow the release of endowment funds where income is less than £1,000 per annum.

## **15 Reserves Policy - General Guidance**

Guidance on Reserves Policy is set out in Appendix 1

Methodist trustees must set out their policy on reserves. In practice many churches will not be in the position of holding more money than they require to meet their commitments. Their policy may simply conclude that the level of funds held is sufficient only to meet their current needs and future commitments.

The Working Party therefore proposes the following approach to reserves of any description whether they be held in Circuit Advance Fund, District Advance Fund, Central Finance Board accounts, Trustees for Methodist Church Purposes trusts or funds held in an ordinary bank account.

- Each trustee body (local church, Circuit, District etc) should set out its mission policy including its aims and objectives. Any financial implications would be estimated and taken into account.
- A Reserves Policy should be agreed in accordance with the guidance in Managing Trustees and Methodist Money and the Charity Statement of Recommended Practice (SORP)  
  
Any future projects or plans for the next five years should be considered and relevant costings assessed.
- Where there are still funds which are surplus to requirements the trustees should make proposals for their use elsewhere within the Methodist Connexion.

## **16 Working Party Recommendations**

The following recommendations are presented to Conference (via the Methodist Council).

- 16.1** That proceeds of sale of Model Trust property continue to be paid into the Circuit Advance Fund in accordance with the terms of the present Standing Order 955(1).
- 16.2** That Circuits wishing to promote a ministry project apply as now to the District for a grant which is within the wider purposes of the District Advance Fund. Where such a request involves the use of Circuit Advance Fund (CAF) money, once the District have approved the request the grant will be made from the CAF. The purposes of the CAF would need to be amended accordingly.
- 16.3** That the link with income be removed in determining the amount to be withdrawn from Circuit Advance Funds for non-capital purposes and that Interest on Circuit Advance Fund (ICAF) schemes be discontinued.
- 16.4** That up to £10,000 may be withdrawn annually from Circuit Advance Fund for any Methodist purpose.
- 16.5** That Standing Order 955 (4) be amended to increase the mandatory annual contribution (currently 1%) from the capital money held in each Circuit Advance Fund to the District Advance Fund **to**:
  - (a) Two and a half per cent on any balance up to £100,000 or the first £100,000 of larger balances;
  - (b) Five per cent on any excess balance over £100,000
- 16.6** That reserves policies be implemented at every level i.e. Church, Circuit and District. The proposal is that each Circuit will review the annual accounts of each Church within the Circuit at the time the accounts are reported under the Excepting Regulations. At present this

means via Schedule B. The full definition of reserves is set out in Appendix 1 but briefly defined they are monies held by the charity which are uncommitted.

As stated in Section 9 above money in Circuit Advance Funds is capital which is not available for the general purposes of the Church. However, Standing Orders allow the flexibility to widen their use in conjunction with the District. They can also be used to make capital grants to other Circuits and local Churches.

#### 16.7 Releasing Methodist Money for Mission

Where Methodist trustees have agreed their mission policy and established a reserves policy any funds surplus to requirements should be made available for the wider mission purposes of the Church.

This is a sound connexional principle and we outline in Appendix 2 some of the options open to each body.

These proposals must be agreed by the Circuit Meeting for each Church, the District Policy Committee for each Circuit and the Resourcing Mission Grants Committee for each District.

The recommendations relate to unrestricted general funds and to Model Trust money. Where trustees are holding a restricted bequest they should seek guidance from the Trustees for Methodist Church Purposes. Reserves policies do not apply to Permanent Endowment Funds.

#### 16.8 The annual distribution of Connexional Advance and Priority Fund 25% levy income to District Advance Funds.

That the Resourcing Mission Grants Committee in apportioning this amount annually between the District Advance Funds should take account of those Districts not expending their grant making monies. A contribution to a particular District Advance Fund may not be made in a particular year if in fact there are surplus funds in the District Advance Fund.

#### 16.9 Connexional Advance and Priority Fund

That the levy on proceeds of sale exceeding £100,000 should remain at 25% as now. However, the bands should be simplified by introducing a single levy tariff of 15% on all amounts up to £100,000.

#### 16.10 Bequests

That the amount available for withdrawal without formality on all model trust bequests be increased from £5,000 to £20,000.

#### 16.11 That all relevant Standing Orders be re-written and simplified to reflect these changes.

#### 16.12 These proposals are submitted for approval by Conference 2004 for implementation as at the end of the Connexional year 2004 – 05.

This will allow trustees to plan accordingly and for relevant Standing Orders to be revised

### Resolution 1 The Conference adopts the Report

1A the Conference resolves that this report shall be its reply to M111(2003)

Resolution 2 The Conference directs the Methodist Council to make appropriate arrangements for the implementation of these proposals including the necessary changes to Standing Orders.

# Appendix 1

## Charity Commission

### *Definition of Reserves*

#### **What are charity reserves?**

*The term “reserves” has a variety of technical and ordinary meanings, depending on the context in which it is used. As in SORP 2000, here we use the term “reserves” (unless otherwise stated) to describe that part of a charity’s income funds that is freely available for its general purposes. “Reserves” are therefore the resources the charity has or can make available to spend, for any or all of the charity’s purposes, once it has met its commitments and covered its other planned expenditure.*

Every Methodist Charity should establish a reserves policy. If it has money in the bank and investments over and above what is required to meet its commitments and to cover its other planned expenditure it must justify the holding of reserves within its policy. That policy will recognise that planned commitments for capital projects or work of ministry have already been taken into account.

If there remains a surplus after allowing for these commitments then the Methodist policy would be that the Trustees have a list of choices for redistribution of their resources to other Methodist purposes.

*The Charity Commission guidance on reserves states*

*Responsibility for establishing an appropriate reserves policy lies with the trustees of each charity, as does the responsibility for justifying and explaining what the charity is doing in that respect. It is not for us to substitute our own judgments for those of reasonable trustees who know the business of their charity, who have taken care to plan properly and who have justified their plans.*

*Underlying much public discussion of charity reserves is the belief that holding significant amounts of reserves is tantamount to hoarding. This belief is likely to persist unless charities justify and explain their reserves position. The giving public are not generally concerned with the legal and accounting technicalities. But they are entitled to be reassured that a charity with reserves has good reasons for keeping funds in reserve, and to know what those reasons are. Ideally, a charity would want to show donors and others that it would be irresponsible not to hold the level of reserves it holds.*

*The fact that a charity holds, or does not hold, reserves is not in itself, reason either to criticise or to commend the charity. In our view a charity should be judged on whether or not its level of reserves, whatever it is, is justified and clearly explained. Justifying reserves - a central theme of this guidance - does not mean excusing or being defensive about reserves. It means being able to demonstrate, by reference to a charity’s current position and future prospects, why holding a particular level of reserves is right for the charity at that time.*

### **Reserves Policy for Methodist Charities**

Guidance is given in the booklet *Managing Trustees and Methodist Money* which quotes the following Charity Commission description:-

“A reserve is an unspent pool of money for which no particular purpose has been identified for the time being”.

The guidance suggests that for most Churches there is probably no need to hold general reserves of more than say six months of routine expenditure (or income)

Those charities holding more than that level can also legitimately estimate their capital needs for property schemes and other purposes for, say, the next five years and discount that amount, plus covering any medium to longer term needs to support ministry projects.



## Appendix 2

### Releasing Methodist money for mission

The following suggestions are options open to Methodist charities. They are **NOT** directives. It is a matter for the trustees to decide how any money is used for the purposes of the charity or those of a different charity.

- a local Churches may decide to:
- transfer monies to another local Church in the Circuit for its General Fund
  - transfer money to the Circuit General Fund
  - transfer money to the District General Fund
  - transfer money to the Methodist Church Fund

- b Circuits may transfer surplus General Fund monies to:-
- another Circuit's General Fund
  - its District's General Fund
  - the Methodist Church Fund

Circuit Advance Fund monies may be transferred to:

- another Circuit Advance Fund
- its District's Advance Fund
- the Connexional Advance and Priority Fund

- c Districts may transfer General Fund money surplus to requirements to:
- another District's General Fund
  - to the Methodist Church Fund

Districts may transfer surplus District Advance Fund money to:

- other District Advance Funds
- the Connexional Advance and Priority Fund

## **Appendix 3**

Working Party membership (appointed by the Connexional Property Committee)

Revd Graham Carter (Chair)

Mr Ron Calver

Revd Helen Jobling

Mr Chris Linford

Mr Alan Pimlott (Connexional Property Secretary and convenor)