The Methodist Church: Draft Reserves Policy Guidelines

These guidelines have been written to assist church Councils and Circuit Meetings as trustee bodies with the preparation of their reserves policy; to assist them in managing their reserves well, and to ensure that the reserves benefit the mission of the church/circuit as part of the wider Connexion.
These guidelines support the Church's procedures and are in accordance with the Charity Commission's Statement of Recommended Practice (SORP).

Stewardship
As Christians and Disciples of Christ, being accountable for our buildings and money is an important part of being stewards. It is important not only that we are accountable, but also transparent.

The Direction of travel from the General Secretary's reports in the last few years has focused on stewardship and its relationship with discipleship and mission. An effective reserves policy is a useful tool in achieving this.

The Christian Stewardship Network captured the essence of what it means to be a steward when it said:

"We are followers of Jesus Christ, and we seek to enter into his thinking about wealth and its place in our life and actions both individually and collectively.
Continually looking to see if it is producing the fruit of the Spirit and the signs of the Kingdom. Having a sense of gratitude to God for the resources entrusted to us.
Applying wisdom in being good stewards of all resources.
Deepening a sense of trust in God's ability to provide for our needs rather than depending upon our own sense of financial security.
Sustaining a spirit of mutual care and the sharing of resources with one another."
Being faithful in using our resources in ways that release new possibilities and care for those who minister on our behalf."
Stewardship Network Good Practice Guide, Christian Stewardship Network

The Bible has many references to stewardship. In the book of Luke, the importance of planning and time management is highlighted:

Luke 14 v28-30 *'For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? [29] Otherwise, when he has laid a foundation, and is not able to finish, all who see it begin to mock him, [30] saying, 'This man began to build, and was not able to finish.'*

The parable of the rich man and his steward, In Luke 16, highlights the importance of being accountable for what you have responsibility for and not wasting resources.
Luke 16 v10 *[10] "Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much.'*

What are Reserves?

A reserve is an amount of money that is part of a church's unrestricted funds that is freely available to the church/circuit for its general purposes once provision has been made for its other commitments. Part of a reserve may be set aside for a specific purpose, which sets out what a church/circuit intends to do with the money that it has designated for this purpose.

Why should we hold Reserves?

Having a reserves policy is necessary because it highlights good planning of resources, time management, and consideration of the impact of risks on a church's/circuit's existing commitments. The practicalities of having a reserves policy in place ensure that the unforeseen is considered as part of the trustees' mission and developmental strategy.

Legal Basis for Holding Reserves

All local Methodist churches, circuits and districts are individual charities, whether registered or excepted (not required to register as their turnover is below the threshold) and as such are subject to charity law. There is no specific legal rule which states what proportion of funds may or should be held as a reserve. Trustees are under a general legal duty to apply charitable funds within a reasonable time of receiving them. If reserves are held without reasonable justification the trustees may be in breach of trust.

Trustees Annual Report

The Charities SORP requires trustees to include a statement in their annual report about the charity's reserves policy, the level of reserves held and the reasons for this.

The amount of time spent determining the policy, and the detail, should be in proportion to the scale and complexity of that body's affairs.

Reserves Policy Planning Process

The reserves policy should include, but is not limited to:

1. The reasons why the charity needs reserves
2. The level (or range) of reserves the trustees believe the charity needs
3. The current level of reserves held (and how this varies over the year)
4. The steps the charity is going to take to establish or maintain reserves at the agreed level (or range)
5. Arrangements for monitoring and reviewing the policy.

The Charity Commission states that holding up to six months expenditure for reserves is appropriate. However, in order to formulate a reserves policy for your church's/circuit's particular needs, you should take into account the following:

1. Likely income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources
2. Likely expenditure in future years on the basis of planned activity
3. Any future needs or opportunities not likely to be met out of income
   These factors should take into account the need to cover:
4. Usual running costs

5. Surplus funds to cover unforeseen expenditure
6. Property repairs and maintenance (including quinquennial inspection outcomes)
7. Planned developments in property, staffing and other resources

Circuit Model Trust Funds (CMTFs)

For Circuit trustees: Though CMTFs are restricted by internal Methodist rules (SO's 915, 916, 917) they can be used for a variety of purposes and the Charity Commission have agreed that it is also appropriate that trustees set a policy for the management of these funds too.

Legacies & Bequests

These can often be released for general use if the purpose for which they were originally given is no longer relevant or is so narrow that the chances of them being used is extremely low. The reserves policy should show how monies arising legacies and bequests are to be utilised for future mission. Application should be made to release restrictions on such funds if no longer relevant to needs of the Church**.**

Reserves Policy Examples (*will include example of policy that does not have six month reserves*)

(1) Church where no restricted/endowment funds are held - Trustees Annual Report Church Reserves Policy

This Reserves Policy relates to our General Funds only. This includes our Bank account and Central Finance Board (CFB) account. No designated, restricted or endowment funds are held. The Church aims to hold reserves amounting to approximately six months' average expenditure.

As at the end of the last financial year our General Fund balance was £2200. The CFB account balance was £3000. (Total reserves £5200).We have considered our mission plans for the future and have decided that in order to meet our Circuit Assessment and cover our normal expenditure and routine repair and maintenance costs for the building a higher reserve of around £10,000 would be preferred. In order to achieve a higher reserve we aim to hold a number of fundraising events during the coming year so that we can meet our Assessment and other costs as they fall due.

(2) Church Trustees Annual Report Church Reserves Policy

1. The Charity's Reserves Policy deals with:
(a) Our General Fund, Other funds also held which are NOT required to be included in our reserves are:
(b) Our Development Fund (Restricted)
(c) Betty Smith Bequest (Restricted)

Our Reserves

(a) Our General Fund We aim ideally to hold in reserve sufficient money in our general funds to cover six-month's expenditure i.e. £6,000. The reason for this is twofold:- (i) The church needs around one month's average expenditure in reserve as working capital to cover normal running costs.
(ii) Maintenance on church buildings and special outreach events are mainly funded from quarterly fundraising efforts and money is regularly spent in advance of being raised. To cover this, the Church needs a further five months' in reserve. As there are insufficient funds in our General Fund to cover this amount, we arrange fundraising activities each month. At the present time we can also draw upon monies held in the Betty Smith Bequest (£8,000) if necessary (This is held in trust 12789 with Trustees

for Methodist Church Purposes , Manchester). The Bequest Fund is currently £2,000 more than we require as a general reserve but we may need to use the balance towards our Development Fund.

Other Funds held for Specific Purposes

(b) Our Development Fund (Restricted) We maintain a Development Fund (held by The Trustees for Methodist Church Purposes) for the planned refurbishment of our buildings for community use. The estimated total cost is £75,000 of which £25,000 has been raised to date. Methodist and external grants are being applied for and are currently projected at £40,000. A further £10,000 (as a minimum) has still to be raised by: local fundraising events over the coming year, a members' Gift Day on our Church Anniversary, approaches to local businesses and charitable trusts, use of remaining balance in Bequest Fund The Development Fund will continue to be held by Trustees for Methodist Church Purposes until the property scheme is approved by the Circuit, District and Connexion.

Our Bequest Fund (Model Trust)

(c) Betty Smith Bequest – A model trust bequest available for any model trust purpose. Held by TMCP as custodian trustee. We aim to retain £6,000 as part of our reserves in line with Methodist policy being the equivalent of six months expenditure. We have checked with TMCP that the Bequest can be used to the extent of £2,000 to help fund our Development Project.

FAQ's

The Charity Commission has issued comprehensive FAQ on its website regarding reserves policy that churches/circuits/trustees may find useful: www.charitycommission.gov.uk

Websites & Documents for Reference

www.charitycommission.gov.uk

- Charities Statement of Recommended Practice (SORP) 2005
- Charities & Reserves June 2010

www.methodist.org.uk

- Reserves Policy Form
- Managing Trustees & Methodist Money

www.stewardship.org.uk/resources

www.**ctbi**.org.uk

- Churches Together in Britain & Ireland CTBI Stewardship Network Christian Stewardship work book

Contact Information

The Finance Office
Methodist Church House
25 Marylebone Road
London
NW1 5JR
Tel: 0207 486 5502
Website: www.methodist.org.uk