

BUC GUIDELINES

F9 Charity Reserves (06/2005)

What reserves should be held by a church?

There are no simple answers to this question, since each charity's circumstances are different, and each set of Trustees has a duty to consider in detail their own situation.

The Managing Trustees of every charity are required to establish and record a reserves policy for the charity. By reserves, we mean those funds which could be available for use quickly to meet an emergency situation where a significant source of income has gone or been reduced. The definition of reserves does not include for example assets held for capital purposes or whose use is restricted by the conditions imposed by the donor. It may include funds designated by the charity for particular purposes since this designation can be reversed by the church if necessary and appropriate. The reserve policy should cover as a minimum, the following four areas:

- the reasons why the charity needs reserves
- what level of reserves the trustees believe the charity needs
- how the charity will establish or maintain reserves at the agreed level
- and arrangements for monitoring and reviewing the policy

The Charity Commissioners stress however, that the detail within the policy and the time spent on it need only be in proportion to the scale and complexity of the charity's affairs.

A church's financial affairs are relatively simple and it should therefore be possible to arrive at a policy relatively quickly and easily. At the end of the document there are comments about what happens where a church does not have the reserves it calculates are necessary.

The principal steps are these:

1 Income

It is unlikely that the church's income would cease completely without a reasonable period in which decline would be apparent. It could however reduce under particular circumstances, so the Trustees must consider the Church's income and assess how far they can depend upon it to meet their planned expenditure. If the income is from a lot of different sources, it will be more reliable than if it comes predominantly from one source; if it comes in regular monthly giving it will be more reliable than if it comes in a very volatile pattern.

The Trustees need to consider to what extent they rely on income other than freewill offerings and how they would cope if say rental income suddenly ceased. Where significant income is from investments, what would happen if interest rates or the stock market fell sharply?

Where the main income is from freewill offerings, is it rising as fast as expenditure, and what would happen if a few significant givers moved away from the area? Are a lot of givers dependent on one major employer in the locality?

The church might have financial difficulties if its income dropped suddenly or consistently. If the fall were of a temporary nature, the reserves would need to cover the income lost during the temporary period, less whatever savings could quickly be made from the expenditure. If the fall is a longer term loss of income, then more significant cuts in expenditure would need to be made.

2 Expenditure

The Trustees need to consider the pattern of the charity's expenditure and the need for reserves to cover that expenditure in the event of a serious shortfall of income.

The largest expenditure for most churches will be the Minister's Stipend, national insurance and pension contributions. If the normal Terms of Appointment are followed then the church will have a potential need to pay these costs for a period of nine months after notice has had to be given to the Minister. The potential cost of this can easily be ascertained. Similarly, the Manse would need to be made available for that nine-month period, so that the costs of paying rent or repayments on a mortgage can be calculated if appropriate until it is possible to sell the Manse and redeem the mortgage. In most cases the remaining expenditure will normally be on an annual cycle (eg insurance premiums), on a three monthly cycle (eg quarterly utility bills), or on a monthly payment basis. The condition of the building and the likely need for repairs will also need to be assessed. The Trustees however must look at their own situation and ensure that they have considered the expenditure relevant to that particular charity.

Similarly, where there are loans on the church premises, reserves will not be held to cover the amount of the loan, and in certain circumstances, perhaps because of planning restrictions, the value of the building may be less than its cost. In these circumstances the Trustees need to consider how they can ensure that sufficient repayments can be made to give them time to scale down the repayments by negotiation with their loan provider (if this is possible at all).

3 Assessment of Reserve Level

Having examined the patterns of income and expenditure in detail, the trustees then need to make a decision about what level of reserves are required to match the two in the period between their income suddenly falling and the time when they can significantly reduce their ongoing expenditure. They also need to consider what other funds might be available at this time to supplement those reserves. Perhaps members could give interest free loans to cover the Minister's notice period, to be repaid when there is no longer a stipend to be paid, or perhaps an emergency Home Mission Grant could be obtained to help during that period.

Having calculated a figure for the reserves they think they will need, the Trustees need to think about that figure carefully. For example, if the result of the calculation is say £20,000, but the church has never had more than £2,000 in its existence and has managed well enough, then there is no need to panic – perhaps the calculation has understated the reliability of the income or insufficient account has been taken of alternative ways of meeting the expenditure, or the church has been blessed by an absence of crises over the years. It is not a legal obligation to hold reserves, and the Charity Commission recognise that many charities can properly demonstrate the need for a greater level of reserves than they actually hold, but the acquisition of reserves should not be a greater priority than fulfilling the other charitable objects of the church.

While the Charity Commission are anxious that charities should have sufficient reserves to allow their affairs to wind down in an orderly manner (if that is what has to happen), they are particularly anxious that charities do not hold excessive reserves since that is storing away money that should properly be used for furthering the charitable objects of the charity. Few churches are in the position of having too many reserves, though some probably are.

What the Charity Commission require is that the Trustees recognise the issue, assess the needs of the charity, plan to reach an appropriate level in an appropriate timescale, and report their reserves policy in the annual report accompanying the accounts. (Most churches are currently excepted charities which are not required to publish a formal annual report. This does not mean that there should not be a reserves policy, but that it does not need to be reported formally).

4 Where does faith come into this?

We are taught to believe that God will provide and we all know that this is true and that there are many instances large and small in which it can be demonstrated. God does not however expect his people to be foolhardy, but to count the cost of a project before they proceed with it. The Trustees need to balance their faith in the ongoing provision of God through his people, with the contractual obligations they have to their Minister, other staff and other suppliers. They need to be aware of, though not unduly anxious about, the fact that in certain circumstances they could become personally liable for debts contracted by the church which cannot be met.

There will undoubtedly be times when churches are called on to make specific commitments in faith. This is fine where there is a widely held conviction that this is the route that God is demanding, but not where the concept of faith is a shorthand for failure to consider, plan and rearrange. In these circumstances prior consideration needs to be given to a contingency plan in the event that faith is not realised – what other good things will need to be stopped or sold if the finances do not work out as planned? Where building work is being planned it is important to assess whose faith is being tested – is it the faith of the church or is it the faith of the builder who has every right to expect full payment on the due dates? A church that is not contemplating a new project should also be considering its reserve position carefully.

It would be detrimental to the advance of the Kingdom of God for a significant proportion of churches to defer their evangelistic and social work in order to build their reserves beyond the point which has traditionally proved to be appropriate. The issue of the reserves must be kept in proportion. Nevertheless, the church should consider the issue in relation to its own circumstances, formulate a policy, and review it from time to time.

This is one of a series of *Guidelines* that are offered as a resource for Baptist ministers and churches. They have been prepared by the Baptist Union of Great Britain and are, of necessity, intended only to give very general advice in relation to the topics covered. These guidelines should not be relied upon as a substitute for obtaining specific and more detailed advice in relation to a particular matter.

The staff at the Baptist Union of Great Britain at Baptist House will be very pleased to answer your queries and help in any way possible. It helps us to respond as efficiently as possible to the many churches in trust with us if you write to us and set out your enquiry as simply as possible.

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