



## **A Simple Guide to Parish Reserves Policies**

### CONTENTS

A	Why have a Reserves Policy?	Page 2
B	What exactly are reserves?	Page 2
C	Hallmarks of a good reserves policy	Page 3
D	Some theological implications	Page 4
E	Frequently Asked Questions	Page 7

This “Good Practice” contained in this guide has been developed by a group of Stewardship Advisers :

- o Paul Winstanley, Diocese of Ripon and Leeds (Chair)
- o Kevin Ogilvie, Diocese of London
- o Jim Pendorf, Diocese of St Edmundsbury and Ipswich
- o Mary Spredbury, Diocese of London
- o John Preston, National Stewardship and Resources Officer.

## A. Why have a Reserves Policy?

The principles of accountability and transparency make it important that the members of a PCC are aware of the 'free reserves' for which they are responsible.

It is good stewardship to ensure these reserves are used to gain maximum benefit for the parish as a whole in its pursuit of the whole mission of their church. The idea of simply keeping some money for a 'rainy day' is no longer adequate as a policy.

Determining the level of reserves necessary to meet both the current and future needs of the church, will take thought and prayer. The time spent in devising such a policy is likely to be dependent on the level of reserves the PCC holds rather than the size of the congregation or where the church happens to be located. The importance of taking care of reserves applies equally to the small rural parish as well as the large suburban one.

This good practice guide is just that, a guide to assist PCC's in managing their reserves well. It aims to give a PCC an indication of what is required and it may lead to some stimulating discussion as you look afresh at this issue. It could be that you delegate this task to a small sub group who put together the policy for review and confirmation by the whole PCC.

The PCC should be clear it is their policy, and own it as such, and note that an annual review will be required to take into account any change in circumstances that may occur.

The adoption of a policy on reserves will help to identify situations where a PCC may need to consider either reducing or increasing the level of reserves that it holds and the action it needs to take to achieve this. It will also give interested third parties an insight into the church's finances and assist when seeking outside grant funding e.g. for certain projects.

Charity Commission guidance on accounting and reporting by charities (SORP2005) requires all PCCs to include a brief statement of their reserves policy in their Annual Report.

## B So what exactly are reserves?

The term 'reserves' has a variety of technical and ordinary meanings, depending on the context in which it is used. The term 'reserves' in this document (unless otherwise indicated) is used to describe that part of a PCC's income fund that is freely available for its general purposes. 'Reserves' are therefore the resources the

### Example Reserve Policy 1.

Church A is a large church in a reasonably affluent area. The annual income is about £120,000 which includes £15,000 from the hall. The church employs two part time members of staff at a total cost of £25k p.a. The condition of the buildings is generally good. There is a quinquennial inspection due next year. The church currently has general reserves of £50,000.

The PCC discussed the following factors in arriving at their reserves policy:

- Money should only be kept in reserve for specific reasons – whilst the Bible clearly indicates that we should not hoard it is also clear that sensible planning for know events and responsibly for others (including employees) is important.
- A wish to have two months running costs in cash reserves in case of a major problem (£20k)
- In addition to have a further month's salaries in reserves (£4k)
- The quinquennial is not expected to reveal any major works, but minor ones are likely to need doing and it would be prudent to allow for this now (£5k)
- A major ecumenical local mission is planned for next year and Church A is likely to be heavily involved in this. They wish to allocate some funds now to this project although at this stage it is unclear what form the mission will take. They will review this later in the year when the project becomes clearer.
- There was a general wish that more should be spent on outreach to the community.

**Policy:** It is the policy of this church to hold in reserves the equivalent of two months general running costs and an additional one month's salary costs. It is also our policy to hold an amount for likely building works at the next quinquennial inspection. In view of the forthcoming mission next year we have allocated £10,000 to reserves to cover our involvement. This policy will be reviewed in Twelve month's time apart from the mission project element which will be reviewed in six months time when the situation is clearer.

The PCC believe that, at present, we have £10,000 in reserves above what is required and will consider how these funds might be used for local mission and outreach.

## Example Reserve Policy 2.

Church B is a church in a small town with annual income of around £75,000. Of this about £25,000 comes from their hall. The church building is Victorian and little recent work has been done on it. There has just been a quinquennial report indicating that urgent work is needed to the building costing around £25,000. The church has reserves of £30,000.

The PCC discussed the following factors in arriving at their reserves policy:

- Money should only be kept in reserve for specific reasons – whilst the Bible clearly indicates that we should not hoard it is also clear that sensible planning for known events and responsibly for others is important.
- The PCC's main concern at present is the forthcoming building works which could potentially use most of their reserves. It was agreed to allocate £20k of the reserves to the building works and fund raise for the rest. It was also agreed that an annual amount of £5k should be added to the reserves from next year to cover future building costs.
- There was concern about the reliance on the church hall income and a feeling that two months income should be kept in the reserves in case the hall tenant got into financial difficulties (£4k).
- It was felt appropriate to keep two months general running costs in reserve (£12k)

**Policy:** it is the policy of this church to keep two months running costs and two months hall income in reserve to cover unforeseen emergencies. In view of the state of the building the PCC will also add £5k to reserves each year to cover work due at quinquennial inspections. In view of the present necessary work the reserves will be reduced to £10k this year and it is our aim to increase them next year to the desired level. This policy will be reviewed in twelve months time.

PCC has available to spend for the church's purposes once it has met its commitments and covered its other planned expenditure.

The definition of reserves therefore normally **excludes the following funds:**

- Permanent endowment
- Expendable endowment
- Restricted
- Designated and
- Income funds, which could only be realised by disposing of fixed assets held by the PCC.

There is an argument that expendable endowments and designated income funds ought to be counted as reserves. The reason being that the PCC is free to choose how it uses such funds, however there are practical reasons why they should not be included.

The advantage of an expendable endowment is that as well as providing an income stream from the capital, the PCC also has the option of spending all or part of the endowment itself. The income from the fund is usually used to fund core or continuing activities. Expending part of the endowment will reduce the level of income received which would then have to be met by other income or a cut back in activities. If the PCC has that degree of dependence on the income it cannot be regarded as free funds.

The PCC will need to think carefully about the justification for simply building up a fund by reinvestment of the income, especially when the income should normally be spent. It is worth noting that the reinvestment of income generated from a capital fund back into the fund itself does not add to the principal and needs to be kept as a separate income fund.

Designated funds are funds set aside for a particular purpose, with an identified time-frame. Funds can be re-designated or can revert to general funds as the PCC desires. It is recommended that designated funds are not included in a general reserves policy, but are listed separately in the Annual Report.

Parishes should not designate money out of general funds solely for the purpose of reducing the level of reserves.

The parish's policy on reserves should be communicated to members of the congregation in order that they can see the rationale behind the policy adopted and ask any questions they might have. Otherwise they may be reluctant to give to a parish which appears to be sitting on large reserves. Equally funders approached for grants will look closely at reserves policies.

## C Hallmarks of a good reserves policy

Any reserve policy that is adopted by the PCC needs to have a clear rationale behind the decision. There are certain hallmarks that a good reserves policy will need to contain:

- It identifies and explains the level of reserves currently held
- It explains how that level is to be maintained or achieved over time
- It links with the mission of the church
- It sets out any aspirations for the future
- It is communicated clearly to members of the church

There is no particular formula as to the setting of the level of reserves; it is up to the discretion of the PCC. It is commonly thought that three months' expenditure might be a prudent level to set for general running costs. PCCs with employees may wish to hold some contingency for salaries. Foreseeable future expenditure such as quinquennial reports, future projects and their support, and likely income streams all should be considered when determining the level of reserves.

Good management of reserves will require Parishes to prioritise, and expenditure critical to a church's mission such as salaries or parish share should not be missed in order to maintain a certain pre-subscribed level of reserves.

### Key Points

Developing a reserve policy is the whole responsibility of the PCC, not just the treasurer. It should be included in the annual report and accounts, where the PCC should justify the level of reserves that is set and the reasons behind it. It is the working capital required to fund the work of the church.

This document may have raised a number of issues - some will be theological, others practical. The following pages aim to provide some help in reflecting on the theological implications of wealth, reserves and trustee-ship; and in answering a number of the more practical questions.

#### Example Reserve Policy 3.

Church C is a small village church with income of £25,000. The building is in generally good repair. There is occasional income from hall lets. The church has reserves of £580.

The PCC discussed the following factors in arriving at their reserves policy:

- Money should only be kept in reserve for specific reasons – whilst the Bible clearly indicates that we should not hoard it is also clear that sensible planning for know events and responsibly for others is important.
- It would be prudent to keep two/three months running costs in reserve (£5,000).
- It would also be good to have some funds in reserves to cover future building work.
- The PCC have not put any money into reserves in reserves in recent years.

**Policy:** Church C aims to keep approximately three months running costs in reserves. This is also to cover emergency building work. To achieve this we will aim to put £1k per year into reserves from income until that level is achieved.

#### Example Reserve Policy 4.

Church D is a smaller urban church with income of £25k. Due to the sale of a piece of land a few years ago it has reserves of £35k. A congregation member left the church a restricted legacy of £20k which can only be used for building works.

The PCC discussed the following factors in arriving at their reserves policy:

- Money should only be kept in reserve for specific reasons – whilst the Bible clearly indicates that we should not hoard it is also clear that sensible planning for know events and responsibly for others is important.
- The building fund is likely to cover work to the building needed at the next quinquennial
- The PCC has no immediate use for the £35,000 in reserves.
- It would be sensible to keep a few months running costs in reserves (say £5k)
- The PCC agreed to hold an open meeting to consider how they could use the remaining £30k for a local community project.

**Policy:** Church D has agreed a reserves policy of holding £5,000 in reserves to cover running costs in the event of a major problem. We will consult with the congregation and others locally to consider how we use the remaining £30k.

## D : Some Theological Implications

The following points blend the stewardship, theological and legal implications of being a Christian charity to offer some reflections on what it means to be trustees of a Christian organisation.

- 3.1 All Parochial Church Councils are lawfully constituted and are thereby obliged to act as stewards and custodians under Charity Law and the Parochial Church Councils Measure 1956 (as Amended). This means there is a dual accountability of their use of resources on behalf of members of the Church of England in a particular locality. There is no mandate for a Church Council to stockpile resources above a level commensurate with its objects outlined below, and indeed Jesus' Parable of the Talents (cf. Matthew 25:14-30) reinforces statutory obligations to use funds appropriately.
- 3.2 The basic function of a PCC is *to co-operate with the incumbent in fostering the whole mission of the church pastoral, evangelical, social and ecumenical*. In the light of this, a Church Council should periodically review its reserves policy and consider whether its assets, or at least a part of them, should be used for positive and practical purposes. This section outlines some elements of a "theology of wealth" which can assist a Church Council in reconciling scripture and the practice of the early church, with a large accumulation of wealth.
- 3.3 ... *all things come from you, and of your own have we given you.* (1 Chron 29:14b) These familiar words from make it clear that God is the owner of all things, and that both individuals and Church Councils are trustees seeking to manage that which the Creator has entrusted to us.
- 3.4 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 corporately.
- ✦ 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.
- 3.5 Church Councils enter each new situation, just like the early church that had to face new and unprecedented challenges, trusting that they have been given sufficient resources to work with, but also recognising that they have to be willing to claim and use those resources for themselves. The annual budget is a matter of faith, because spending plans are agreed in the expectation that the Lord will provide through his faithful servants.
- 3.6 Wealth is good. It is God's gift to humanity, particularly the land. It also includes human labour, development of the land and care of it, animals, and equipment for creating products. From the beginning this has been in the heart and mind of God (cf. Genesis 1:28-30) and is meant to stimulate our trust in Him.
- 3.7 Wealth is more than money.  
(A) Where a person regards money as actual wealth this is condemned as foolish and dangerous, leading to complacency and idolatry: (cf. Luke 12:16-21)

(B) Money is a (Gospel) means of changing things for the better and relieving the needs of others. For individual Christians and Church Councils, it can never be an end in and of itself. (cf. 2 Corinthians 8:13-15 also 2 Corinthians 9:1 & 9-15)

(C) The biblical pattern of discipleship is based upon dependence on God's provision; not building up sufficient resources to make trust in God a theoretical nicety, for our desire for security can undermine our practice of the Kingdom value. (cf. Matthew 6:31-33)

### 3.8 Wealth brings opportunities and responsibilities.

(A) The Church has to challenge the assumption that the creation of wealth involves a process whereby the rich get richer whilst the poor grow poorer, or that rich nations or groups can amass more, so long as some of it "trickles down" to the poor.

(B) Christians believe that all involved in the chain of creating wealth need to be treated with fairness and equity (for example in the prices paid to farmers and charged by supermarkets).

(C) The Church has to remind those involved in the creation of wealth today that if it has no thought of how this affects the world tomorrow, then it is not only foolish but faithless. We have lost the Biblical emphasis on mortality and a nation's future being in what it bequeaths to its own descendants. Thus, caring for the land and giving it and its people periods of rest safeguarded the interests of future generations.

(D) Wealth brings opportunities to make a difference and change situations, so that they move towards their proper place in the Kingdom of God. The young boy who brought five loaves and two small fish (John 6:9) found that his offering enabled Jesus to satisfy the needs of many people. The early church had the confidence to act boldly and with generosity, resulting in new resources being found to sustain church growth and programmes of practical caring and compassion.

3.9 As a Church Council considers its accumulated resources, they should be used prudently and more effectively in practical ways, which support the whole Mission of the Church. Rather than accruing greater reserves for the proverbial rainy day, Church Councils should initiate programmes for the resourcing of capital projects, for example, church growth, ministry, world mission, and local based development projects.

3.10 Historically, income has been regarded as the amount available for spending, and capital gains have been retained to prevent capital eroding through inflation. Furthermore, because share values can go down as well as up, it has long been regarded as good practice to retain capital gains to offset capital losses when markets turn down.

3.11 PCC members as trustees have a duty to ensure that they get a good return on the investment of their reserves. This should be considered from both a financial and an ethical viewpoint. The Church of England's Ethical Investment Advisory Group produces policy statements which may be of help to parishes. Their resources can be accessed through the Church of England website. ([www.cofe.anglican.org/info/ethical](http://www.cofe.anglican.org/info/ethical))

3.12 If a parish has generated surpluses, either from good investment returns, or from a sudden windfall, it would not be unreasonable to use the surpluses to create a "Mission Opportunity Fund" to provide a cushion in years of poor Stock Market performance and to fund capital expenditure.

## **E : Some Frequently Asked Questions**

**1. Why does the PCC need to have a reserves policy?**

The Charities Act requires charities to have a purpose in holding on to money. A reserves policy shows the purpose for which reserves are held and in some instances the amount that should be held.

**2. What will happen if a PCC doesn't comply?**

Whilst the Charity Commission could insist that large reserves held without a policy be spent on meeting the charitable objects of the PCC, this is unlikely. It is however, good practice for a PCC to be clear how it is going to use the money entrusted in it. Without such a policy, the PCC may find it difficult to make decisions on expenditure. It could also affect the giving of church members if they felt that the PCC was sitting on large sums of money without a reason for doing so.

**3. We have no money so why do we need a reserves policy?**

If the PCC aspires to hold greater reserves than it currently has, it can work towards this over time.

**4. What if a PCC has very large reserves (say, over £100,000)?**

There is no limit on the reserves that a PCC can keep, but they should be split into identifiable or designated chunks. For instance, there may be a general reserve set at so many months of operating expenditure, plus a building reserve to meet anticipated costs of maintaining the church. There may be designated projects that have been approved by the PCC, but where the money is waiting to be spent. If a PCC is holding large reserves, members have a duty as trustees to ensure they are satisfied that the reserves have been invested appropriately, and that there is a reasonable return on their investment.

**5. We have more than we need – what should we do?**

Here, the policy should both identify the appropriate level of reserves, and also how the surplus reserves will be spent. Whilst reserves must be spent on meeting the charitable objects of the PCC, there is no rush to spend them – a clear plan identifying spending plans and timescales should be developed.

**6. We know the roof will need replacing eventually. Should we build up reserves for this?**

It is advisable to have some sort of fabric/maintenance fund. Into this fund monies from specific fund raising events (restricted funds) could be put. It may also be possible to add some money from the annual budget (designated funds). This fund should not be allowed to grow to an extent that it holds more money than would reasonably be needed to effect such repairs for which a timescale is known.

**7. What are designated funds?**

Designated funds are sums of money that are available for general purpose spending, but which have been earmarked for some specific future purpose, ideally with a timescale for spending them. Funds can be undesignated (or re-designated) at a later stage.

**8. Why should we consider having a mission opportunities fund?**

One of the main aims of our churches is to spread the word of God i.e. mission. If funds allow it is advisable to allocate some money to a Mission Opportunities Fund, which becomes a designated fund, so that mission opportunities are not stifled by the lack of funds.

**9. How do I handle property assets in a Reserves Policy e.g. church halls, houses?**

Property would not usually be part of a reserves policy, which is more concerned with liquid, rather than fixed, assets. However, the PCC might develop a property policy, regularly reviewing whether it is best to receive income from renting the property or it would be better to sell the house and invest the income.

**10. What about unrestricted legacies?**

When an unrestricted legacy is received, it is advisable for the PCC to put together a proposal that shows how the money will be used. It might be advisable to designate some if not all of the money to a specific project. The money can always be undesignated at a later date if the need arose.

**11. What if the PCC employs staff?**

If the PCC employs staff, it is advisable to allocate some reserves to meet the costs of salary to cover any notice period should the PCC lose the income needed to pay for these staff.



## Acknowledgements

Diocese of Bath and Wells, also "*On Creating Wealth*" – J D Davies

Produced by the Christian Stewardship Network of the Church of England.

