Stewardship
Active generosity

How to set a church reserves policy

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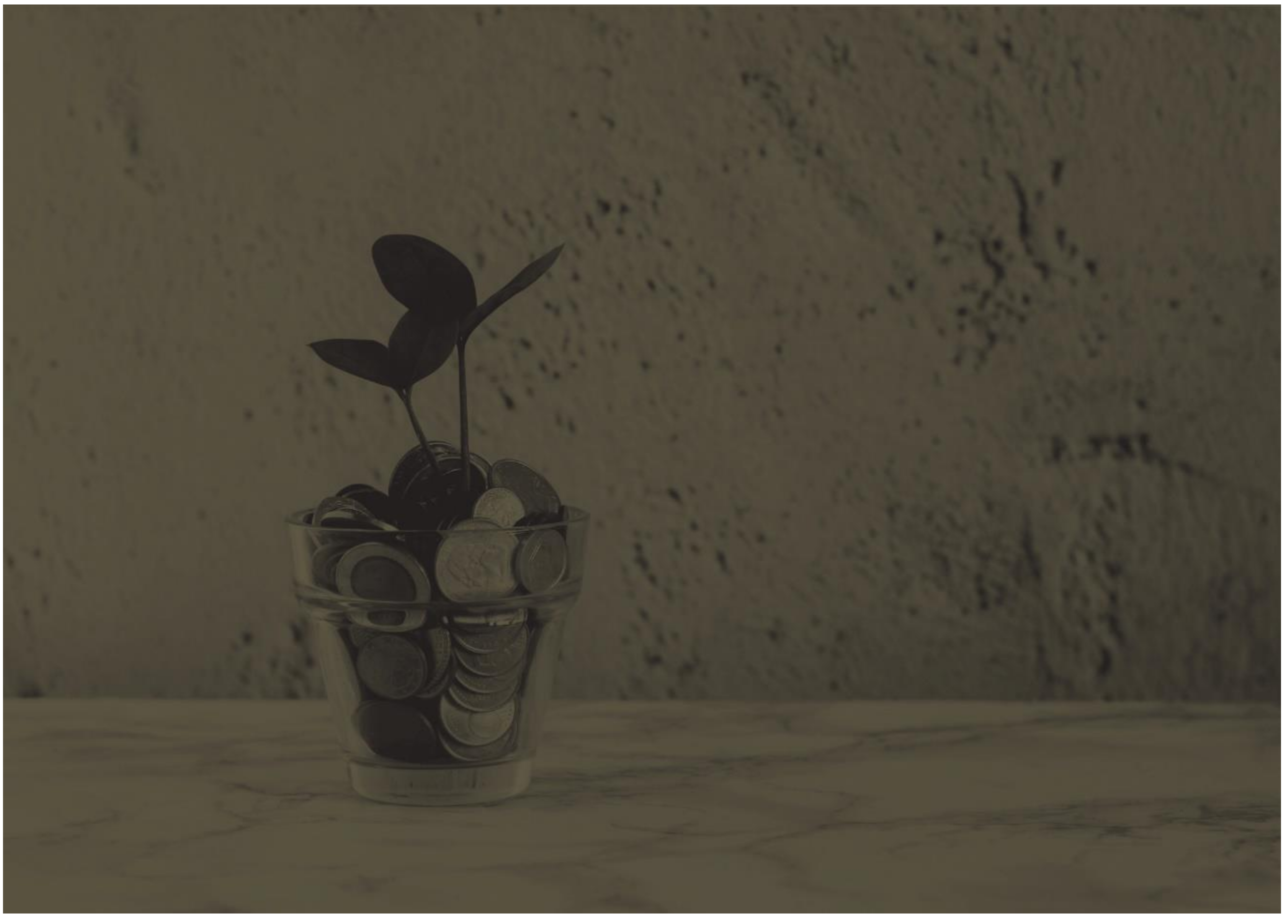

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- Subscribe to receive our email bulletins at our website, **stewardship.org.uk**; and
- Tell others in your church or charity about our resources.

If this resource has been of particular help and significance to your church or charity, you may consider making a financial gift to Stewardship in appreciation. Please feel under no obligation, but should you wish to do so, you can make a one-off donation at **stewardship.org.uk/support-stewardship**.

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About Stewardship

Stewardship is here to help the Christian community in the UK to give and receive.

We help over 30,000 people to give generously and sacrificially to support the causes they love, and connect them into a growing community of 4,000 churches, 6,000 charities and 2,800 individual partners creating positive change, and being responsible stewards, in Jesus' name.

For more than a century we have actively served those pioneering Christian mission. Together, we are driven by our desire that the wider world will encounter Jesus through the generosity of his people and the transformational work of the causes they support.

We call this **Active Generosity**.

1 Introduction

Often churches have great systems in place for handling smaller amounts of money on a day-to-day basis but struggle far more when considering:

- Whether to hold reserves (savings) or surplus funds;
- How to calculate levels of reserves;
- How to look after and invest any surplus funds that they may have.

This, and an accompanying paper what to do with your church reserves fund, offer churches both a Biblical and practical perspective on how to think about reserves and then what to do with them. This paper concentrates on the first two questions, considering firstly whether churches should hold reserves at all before addressing what might be an appropriate level of reserves to hold. The other paper ("What to do with your church reserves fund") tackles the third question.

Different churches place the responsibility of looking after its finances with different people - church leaders, trustees, elders, pastors - but for the purpose of this paper, we will refer to the 'leadership team' as the decision-making group.

2 Everything comes from God

There can be a tendency for a church or its leaders to think about its reserves as belonging to them in some way. As a charity, there is a legal obligation to act as a custodian of the funds. We believe that, because everything comes from God, so do the reserves. And this is regardless of the way they came to be.

The underlying assumption in this and the accompanying paper What to do with your church reserves fund is that the leadership team acknowledges that everything it has comes from God and that they act as stewards of the generosity of the congregation. This means that the money is used solely to achieve the aims and objectives of the church and in the furtherance of God's Kingdom and for His glory.

3 What are reserves or surplus funds?

Churches tend to go through peaks and troughs of financial provision, often mirroring the wider economic situation locally and in the country. There will be times when money is short and the decision-making is about where to find savings and cut back on costs. But there are other times when income exceeds spending and it is wise to think about how much of a surplus to run and what to do with it.

There are also times when the church has a substantial amount of capital at hand (maybe through a campaign, a legacy or through many years of surplus) and their leadership team has decisions to make about how this surplus should be used and, in the meantime, how it should be looked after and invested.

4 How much in reserves? A Biblical perspective

In Genesis chapter 41, we are told of Pharaoh's strange dreams and of the interpretation of those dreams given by God through Joseph. Verses 28-31 explain the dream and speak of the coming years of abundance followed by the years of famine, mirroring today's economic cycles. Verse 35 then gives a practical response to this situation: food should be stored up in the good years for use in the years of famine. This was not hoarding food for its own sake, rather it was storing food for future use "so that the country may not be ruined by the famine".

Our understanding of what the future holds may not be received in quite the same way as it was for Joseph, as scripture tells us, "What has been will be again, what has been done will be done again; there is nothing new under the sun." (Ecclesiastes 1:9). At the time of writing, we have experienced pandemic and war and a cost of living crisis, so we can be sure that some form of financial 'famine' or economic downturn will happen from time to time.

Churches that currently find themselves paying additional pension contributions to plug a pension fund deficit are experiencing one form of financial famine; those whose congregations are ageing and are largely reliant on pensioners' income are perhaps facing a different sort of financial famine. Joseph was clearly a man ahead of his time, as this approach seems in keeping with the principles of contemporary UK Charity Law and practice (see section 5 below). The reserves (in this case food) were held back for later use but the plan was to use them within a reasonable timeframe.

As we move from the Old Testament into the New Testament, we hear the words of Jesus saying in Matthew 6:19-20 "do not store up for yourselves treasures on earth, where moths and vermin destroy, and where thieves break in and steal. But store up for yourselves treasures in heaven…" In this passage, Jesus is as much speaking to churches as he is to individuals. He strongly advocates against the hoarding of cash, riches and other resources for their own sake, but challenges us to use our personal and collective resources to store up treasures in heaven.

These treasures include worshipping the living God; preaching the Gospel; generously demonstrating God's love on earth and pursuing justice. In fact, all the things that brought your church into existence in the first place. The teachings in the Old and New Testaments are complementary. Hoarding riches and treasures for their own sake is not encouraged.

However:

- Using those riches (either now or in the future) for the benefit of the Kingdom of God; or
- Storing some to safeguard the church in harder financial times are both considered sound Kingdom principles.

Church leaders would do well to hold in balance these teachings as they grapple with the question of how much should be held in reserves. Neither significant hoarding nor running the finances 'close to the bone' constitute good stewardship.

5 What does the Charity Commission say about reserves?

The Charity Commission makes it clear that, under Charity Law, income that is received by a charity must be spent within a reasonable timeframe and that trustees should be able to provide justification for holding income as reserves. This overarching principle is encouragingly in accordance with the Biblical principles set out above.

The Commission recognises that charities should have a reserves policy; that any policy should take account of the charity's financial circumstances and other relevant factors; that such a policy is kept under review and that any policy (or reason for not having one) is stated in the accounts. If you are required, or choose, to report under the requirements of the FRS 102 SORP, then the need for a reserves policy is strengthened even further[1].

The Commission gives no guidance on the level of reserves to be held or the types of funds that a charity should hold, leaving that to the discretion of the trustees. Nowhere does it suggest holding either three months or six months expenditure as reserves, recognising (as we will see in the next section) that situations differ from church to church and perhaps even from time to time.

1 The 2015 charities SORP states that a charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.

6 How much in reserves? A practical perspective

In seeking to apply these principles, it is generally considered good practice for churches to operate with some reserves (see below) but not to hold too much without good reason.

Case study

I was in discussion with the leaders of two large churches recently. Both had congregations of about 1,000 people. Church A had need of a bigger, better building now and had just enough money to pay its way. Church B was well settled but expected to need to spend money on buildings at some future time and had £1,000,000 (about a year's income) in the bank. So Church A had no meaningful reserves whereas Church B had reserves of one year's predicted income. Which was handling its money in the most appropriate way for a charity?

We would probably conclude that Church A needed to focus on building reserves and that, on the face of it, Church B probably had more than it needed. Generally, trustees are careful people. Whilst this is often a good thing, when considering reserves (perhaps Church B) it can result in what might be termed over-zealous risk protection or put more simply - hoarding. Whilst reserves are necessary (see later) a sensible balance must be struck; hoarding is most certainly not the desired response to either Genesis 41 or Matthew 6.

Running reserves too low: case study

Case study

A church had a relatively steady income of around £100,000 per year that was just meeting its general operating expenditure requirements, including hiring its Sunday venue. The church tended to fund some of its 'looser commitments' (such as mission support) from special appeals. It usually ran its finances with only a small amount at the bank (normally £3,000-£5,000) and did not consider it needed more.

Then two events combined: one of their larger givers lost their job and stopped giving around £1,000 per month and at the same time they had an unexpected increase in the cost of its Sunday venue. They were unable to raise enough from a special offering to cover the shortfall from these two events and, because of difficulties changing to a suitable lower cost venue, were unable to give to others as it had before, or to pay staff and suppliers, resulting in 'bounced cheques' and loss of reputation. Neither of these two events were 'expected', but both were 'foreseeable' (these kinds of things do happen) but they had not thought it important to anticipate by building any kind of buffer.

6.1 Calculating reserves

Reserves, although normally expressed in the accounts as a single unrestricted fund perhaps supplemented by some restricted or designated funds, generally contain three component parts:

(1) Money placed on one side to cover ongoing church costs in the event of a loss of income or an increase in running expenses;
(2) Money set aside for a specific future projects (e.g. building funds);
(3) Money set aside for anticipated but unknown future events

For the purposes of this paper we will call them 'running reserves', 'project reserves' and 'unforeseen event reserves' respectively.

6.2 Running reserves

For most churches, most of the time, income and expenditure is relatively constant. Generally, donation income is spread across a high number of committed regular contributors, and may be supplemented by some other forms of income e.g. property letting. Expenditure patterns are normally well established varying little from month to month.

In this context, a steep and unforeseen drop off in income such that a church is suddenly unable to pay its expenses as they fall due is unusual. Even the lockdowns of 2020-21 rarely led to instant financial crisis. Falls in income will tend either to be known in advance (e.g. the end of a property lease) or will taper off more slowly, allowing the church time to make decisions on how to reduce expenditure and giving it time to serve notice on its staff or to terminate other types of contracts where this becomes necessary.

However, each church will operate in a different environment and may have specific issues that are important considerations in determining reserves. For example, churches with a tighter concentration of donors or with property leases may wish to hold higher running reserves than churches with a broader donor base (see example 1).

Example 1

- A church in a well-off area with a congregation of established home owners is likely to be able to raise finance far quicker than a church full of younger families, perhaps in a student or rental area. Knowing this level of 'off balance sheet' finance is available is likely to lower the level of running reserves held.

- A church that is heavily reliant on a small number of donors is more susceptible to a quicker erosion of income in the event that those donors' circumstances change or they move away.
- Churches which have longer-term leases that are difficult to break without incurring significant penalties might want to factor that into any reserve decision-making.

Because circumstances vary, it is not possible to provide definitive guidance but in the main, because of the well-established cash flows evident in most churches, running reserves do not normally need to be very large. They should however be flexible in the event that operating conditions change. There is also the exceptional and unhappy situation of a church split or other unforeseen significant event that impacts church finances to a greater extent, but reserves set aside for this type of event will more normally fall into the 'unforeseen events' element.

Example 2

Church C is well established. It has a sizeable congregation and receives almost all of its income (£200k per annum) from its congregation. The church meets in a local school and its staffing and operational costs are consistent from year to year (also running at around £200k per annum). In the normal course of events, such a church will not require significant 'running reserves'. However, were this church to relocate to a building on a 15-year lease, or if much of its income is concentrated in just a few donors, then the trustees may need to consider increasing the level of running reserves as they may need time to react to one of the more significant donors moving away from the church.

Where reserves are the result of annual surpluses or a windfall, church trustees will need to make decisions based in part on the Biblical principles already discussed and make plans for the use of the funds over the medium to longer-term, bearing in mind anticipated but unknown future events (see 6.3 below).

6.3 Project reserves

Project reserves are generally the result of planned saving for a specific project (e.g. new building or new ministry). These funds, sometimes raised from specific appeals, are often held in either restricted or designated funds until sufficient money has been accumulated for the project to commence.

They are not to be confused with monies held for upcoming specific events (e.g. a church weekend away) which will generally form part of running reserves.

Example 3

Church D feels restricted working from a school where it struggles to hire rooms during the week. The church leadership has decided that a move into owned premises would be a sensible next step and has started to set aside some reserves to enable this to happen. As the trustees have set the money aside, it is held in a designated building fund. In order to boost the available funds, the trustees launch a building project appeal, with resulting donations held in a restricted building fund.

It is perfectly acceptable for the trustees to build up reserves in this way, knowing that they have a plan for their ultimate use. If, after a reasonable timespan, it becomes clear that the purchase of a property is unlikely, then continuing to hold onto designated reserves may no longer be appropriate and can be released.

The "restricted" fund however, money given by donors for a specific purpose, has to be handled differently and carefully. (See our briefing paper: How to make a successful appeal for churches and charities.)

6.4 Unforeseen event reserves

From time to time, unknown future events come along which adversely impact churches and other organisations. When the then US Secretary of State for Defence, Donald Rumsfeld, once famously spoke about "known unknowns", he did not have COVID-19 in his thoughts, but it could be argued that the COVID-19 pandemic was indeed a "known unknown". The world's scientists had long been expecting a pandemic of some sort, but did not know what form it would take.

Future unforeseen events may not be quite as dramatic as a global pandemic or European war, but history tells us that events will continue to come our way. Trustees would be wise to consider setting aside some reserves for these unknown future events. COVID-19 is a dramatic, large-scale example of an unknown future event. Churches that have set aside some reserves for such events have a buffer; buying them time to react to what may eventually turn out to be a very different financial landscape. This is an example of Genesis 41 in action; storing up in the good years for the years of famine to follow.

Deciding just how much to store up for future unknown events is a difficult question and to some extent will be informed by a church's risk appetite. Risk appetite is covered in greater depth in the paper 'What to do with your church reserves fund'. Fear of the unknown should not be the main driving force, as this will result in organisations hoarding excessive levels of reserves, but having a sensible buffer that gives a time window in which to act is wholly appropriate. COVID-19 has provided first-hand experience of how your organisation's income may be impacted in the event of a future unknown event and has also provided an opportunity to draw up financial contingency plans. The COVID situation has provided a valuable experience able to help inform an answer to the ‘how much’ question.

As a result of COVID-19, many churches have seen reserves depleted significantly as they seek to cover essential expenditure when perhaps experiencing falls in income (either short-term or perhaps for the foreseeable future). This is completely right; reserves are there for just this type of situation.

The war in Ukraine has highlighted a different type of unforeseen event which impacts on the cost of living, with the knock-on effect of lower incomes to churches, while incurring higher running costs.

During less disruptive seasons, the church should seek to replenish reserves for the future. Hopefully whatever comes next will not be as devastating and far-reaching as recent events, but be in no doubt, a future local or national challenge will come our way; a “known unknown” or perhaps even an “unknown unknown”. Only God knows.

7 Conclusion

Monies held by the church have been provided by God and are provided for the furtherance of His Kingdom and for His glory. Furthermore, under UK Charity Law, they must be used in accordance with the charitable purposes of the church and within a reasonable timeframe (unless the funds in question are held as capital endowment). Reserves represent funds held by the church and whilst it is considered wise that churches do not run their finances ‘down to the bone’, it is not right that they accumulate and hoard reserves for no reason.

The level of reserves held should be determined by the trustees after taking into account the specific conditions in which the church operates, and should be reviewed on an annual basis or in cases where conditions change. When required, trustees should not be frightened of dipping into reserves, perhaps with an intention of seeing levels rise again once the immediate need or challenge has passed. The associated paper to this one, What to do with your church reserves fund, offers some guidance for churches that do have significant reserves to look after.

8 Further information

Next Steps

For further information regarding reserves, please see:

- Our accompanying briefing paper What to do with your church reserves fund
- The Charity Commission guidance provided at https://www.gov.uk/guidance/charity-financial-reserves

Contact us

Contact us at Stewardship on **0208 502 8590**

Or **enquiries@stewardship.org.uk**

As part of our policy pack which can be acquired from our online shop, we have drafted a reserves policy wording that churches may like to tailor and then adopt.