

**Guidance for Parishes involved in a Pastoral Scheme
on the Accounting and Financial Issues which might arise**

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SECTION A

Introduction and what this Guide does / doesn't cover

1. Around 50 Pastoral Schemes uniting, creating, dissolving or transferring parishes take effect each year. There are naturally many practical implications for the parishes involved and many of these will be covered by the provisions of the Pastoral Measure 1983 [PM83] itself.
2. This Guide presents a list of **specifically financial and accounting issues** that parishes involved in a Scheme may wish to consider. It will not cover all issues or questions that might arise and nor will it provide definitive answers, not least because often there are none; many matters will be for the local people involved to decide on a pragmatic, case-by-case basis. **This Guide does not aim to deal with the pastoral issues involved in mergers or the process of applying for a Pastoral Scheme.** It is intended simply as an overview of the sorts of practical financial issues you may need to deal with. It will probably add little that your own common sense has not already told you.
3. Please note that this is intended as **guidance only**. Professional advice should be sought when necessary. Your first resort should be your Diocesan Pastoral Officer / Committee or your Diocesan Registrar. National Pastoral Division staff in Church House Westminster, the Charity Commission, lawyers or accountants may also be able to help.
4. This guidance deals with mergers of PCCs through a Pastoral Scheme; it does not deal with the formation of team ministries, group ministries, LEPs [Local Ecumenical Partnerships] or DCCs [District Church Councils] which are different cases. When team ministries etc are formed, the individual PCCs will almost always remain in existence and will continue to be the legal entities responsible for producing the Annual Report and Financial Statements, entering into contracts, operating bank accounts etc etc. There is more information on team ministries, group ministries, LEPs and DCCs in *The Charities Act and the PCC 2006 (3rd edition)* at <http://www.cofe.anglican.org/info/finance/charitiesact.pdf>. The Pastoral Measure Code of Recommended Practice also gives information on these areas: <http://www.cofe.anglican.org/about/churchcommissioners/pastoralandclosedchurches/commonresources/cop/pm1983code.doc#section5>.

Different types of merger

5. The type of merger will affect many of the practical actions you take relating to bank accounts, contracts with suppliers and so on. There are three main types, defined by PM83 as follows:

Part II, Section 17: Creation, alteration or dissolution of benefices, parishes and extra-parochial places

- (1) *A pastoral scheme may provide for any of the following matters:-*
- (a) *for the creation, whether by union or otherwise, of new benefices or parishes;*
 - (b) *for the dissolution of existing benefices or parishes;*
 - (c) *for the alteration of the areas of existing benefices or parishes (including the transfer of a parish from one benefice to another) or the definition of their boundaries*

6. In simple terms, these three main types may be understood as

- (a) **‘by union’** where, for example, the parishes of St X and St Y merge to become one new parish (probably the Parish of St X with St Y), with parishes X and Y ceasing to exist separately;
- (b) **‘by dissolution’** where, for example, the parish of St X ceases to exist, its area being divided between the parishes of St A, B and C, (which may themselves be either existing or newly created parishes);
- (c) **‘by transfer’** where, for example, the area of parish X is transferred or absorbed into parish Y, with parish X ceasing to exist.

‘Transfers’ can also include boundary alterations where just a small part of parish X is transferred to parish Y whilst the remainder of parish X remains as before. In that event, much of this Guidance will not be necessary.

SECTION B

Financial issues which may be relevant in the event of parishes merging

7. Banking arrangements and bank accounts:

For a union, usually all parishes’ bank accounts will be closed and one new one opened in the name of the newly-created PCC. For a dissolution or transfer, parishes ceasing to exist will usually close their bank accounts and their closing balances will be transferred to the parish(es) which are remaining. Where a dissolved parish is to be divided between

a number of remaining parishes, cash balances in default of other arrangements will probably be transferred to the PCC which is to take over the dissolved parish's church building, but this will usually be locally negotiable depending on other factors.

The dissolution of an existing parish and its PCC technically takes place on the day the Scheme takes effect. The establishment of a PCC for a new parish takes place by a Special Parochial Church Meeting held under Rule 7(5) of the Church Representation Rules as soon as possible after the Scheme comes into operation. There may be a hiatus between the dissolution of one PCC and the establishment of another. Until the new PCC is established existing accounts will usually remain in use with their current signatories.

8. Restricted Funds

PM83 (Schedule 3 Paragraph 7) sets out what will happen to a dissolving / transferring parish's property and PM83 (Schedule 3 Paragraph 11) sets out what will happen specifically to its trust (restricted) funds property, in most eventualities. These provisions are automatic and therefore do not need to be specifically referred to in the Pastoral Scheme itself. Typically, restricted funds managed by a PCC, church wardens or incumbent of a PCC which is ceasing to exist simply transfer to the PCC, church wardens or incumbent of the new PCC. However, it can be more complicated if, for example, there is a fund was restricted for use in a parish which is being divided between a number of remaining parishes; it may not be immediately clear which PCC might best take over the management of the fund. Where the provisions of Schedule 3 would not lead to the desired outcome it may be necessary for the Bishop to decide or for a Charity Commissioners' Scheme to be made alongside the Pastoral Scheme.

If the reorganisation of parishes also involves the closure of a church for regular public worship, funds restricted to the upkeep of that church will often remain attached to it rather than reverting to other parish use (see s.63 of the PM 1983).

9. Transfer of other property

This will be covered by the provisions of Schedule 3 to the PM83. Transfers of ownership for all sorts of property (the church itself, the parsonage, any church halls or similar, property owned for rental to others, property rented by the parish, land) will automatically be given effect by the coming into operation of the Scheme, which again does not itself need to make specific provision for such transfers.

10. Investments

As with bank accounts, in a union, all investments will be transferred into the name of the new PCC whilst in a dissolution or transfer, the investments of parishes ceasing to exist will be transferred into the name of one or more of those remaining. Assuming the

investments of all parishes are held in the CCLA CBF Investment Funds, this can be done fairly easily; contact CCLA (0800 022 3505) to ascertain the procedure.

11. Giving

Regular givers will need to be advised of new bank account details so that they can amend their standing orders.

12. Gift Aid

In the case of a union, the newly-created PCC will need to register with HMRC for Gift Aid reclaims, obtaining its own Gift Aid Reference Number to use in making claims. In the case of a transfer where parish X transfers in its entirety to parish Y, the PCC of Parish Y can continue to reclaim tax through Gift Aid for regular givers who have now become part of the Parish Y; it simply needs to write to HMRC giving its own Gift Aid Reference Number and the Gift Aid Reference Number of Parish X which is transferring to it. There will then be no need for givers to sign new Gift Aid Declarations since their original Declarations to Parish X will be recognised by HMRC as applying to Parish Y. In the case of a dissolution where a parish is to be divided between a number of other parishes, it may be more complicated and you are advised to seek advice from HMRC (0845 302 0203, option 6)

13. Retention of Financial Records

All financial records must be retained for the statutory 6-year period regardless of whether the parish is ceasing to exist. Where a parish is ceasing to exist, all of its financial records should be held by the newly-formed PCC or by one of the remaining PCCs. This should include deeds, contracts, Gift Aid records, audited accounts etc etc.

Non-financial records (baptism, wedding and funeral registers, for example) are covered by the Parochial Registers and Records Measure 1978.

14. Mortgages and Debts

If a parish which is ceasing to exist has any mortgages or debts in its name secured against its property (or indeed any unsecured loans), these of course need to be discussed and suitable arrangements for their transfer or settlement made with the bank and the relevant remaining PCCs before the transfer of property. PM83 Schedule 3 refers to loans outstanding with the DBF in the event of merger.

15. Trade creditors and liabilities

Parishes which are ceasing to exist will need to settle outstanding accounts with suppliers, utilities companies, bills, insurance etc. Some parishes may have long-standing agreements with utility companies, auditors or other providers which might also need to be terminated. Where a property is being transferred to a different PCC, it might be simpler to transfer the insurance, utilities etc to the new PCC rather than terminating existing contracts and entering into new ones. But all of these matters are for local parties involved to determine between them as they think best.

16. Local Agreements

Parishes ceasing to exist may wish to discuss the implications with any local groups with whom they have had long-standing relationships. For example, perhaps there is a crèche that rents the church hall regularly; if the property is transferring to a new PCC, the crèche will want to know the situation as regards the booking terms and conditions etc.

17. Related Parties

A 'related party' is defined in the Glossary of *The Charities Act and the PCC 2006 (3rd edition)* (available at: <http://www.cofe.anglican.org/info/finance/charitiesact.pdf>). A related party might be, for example, a charity set up by a PCC to run a community centre or undertake youth work, where the PCC has a significant interest in or power over the running of the charity. There may also be less significant relationships where, for example, a charity's Trust Deed provides that the parish priest shall be *ex officio* a trustee of the charity. If a PCC with such interests or connections is ceasing to exist, it will need to make sure that all such relationships, connections, responsibilities or provisions are transferred to the appropriate new parish or to another appropriate body.

18. Payroll and other Employer Arrangements

If a parish which employs any lay staff is involved in a union, dissolution or transfer, the parishes involved will need to ensure that staff's contracts, pay arrangements, pension liabilities etc are transferred to the new employing body where appropriate. It is possible that TUPE [the Transfer of Undertakings (Protection of Employment) Regulations 2006] will apply in this event. The TUPE regulations are designed to protect the rights of employees in the event of a transfer, enabling them to enjoy the same terms and conditions as they had formerly. These regulations and their applications are very complex and parishes involved in any transfer of employees are strongly recommended to seek professional advice.

19. Grants Receivable

If a parish ceasing to exist has been awarded a grant receivable in instalments over, say, 3 years but that parish will cease to exist before it has received the grant in full, it should contact the donor to explain the situation and negotiate a sensible solution. If, for example, the grant was to parish X for youth work, parish X is becoming part of parish Y and parish Y will carry on the youth work in place of parish X, the donor should simply be asked to pay the grant to parish Y for the original purposes.

20. Legacies

A parish which has ceased to exist could be named as the beneficiary of a will. In that event, it is just possible that the wording of the bequest will enable the new or remaining parish to receive the legacy (for example, if it is left 'to the PCC of St X or any valid successor body to it'). Alternatively, if the bequest is 'for the upkeep of the parish church of St X' and the PCC of St Y now manages that parish church, it should be possible for St Y to receive the legacy and apply it for the upkeep of the X parish church. However, the wording of the bequest may be ambiguous and it may not be easy to ascertain the donor's wishes. In that case, advice from the Charity Commission should be sought. See also the note below on the Charity Commission Register of Mergers.

21. Final Accounts

The Pastoral Scheme will specify a coming-into-effect date (usually the 1st day of the month following the month in which the Scheme was made). Final Accounts should usually therefore be prepared to that date for any parishes which are ceasing to exist. In the event of a union creating a new PCC, its first accounting period will usually begin on the same date.

Where a transfer has taken place, parishes which have received new people, property etc as a result will naturally make reference to that in their next Annual Report.

22. Usual accounting requirements

It is worth noting that all the usual accounting requirements (cf. *The Charities Act and the PCC 2006 (3rd edition)*): <http://www.cofe.anglican.org/info/finance/charitiesact.pdf> – and likewise non-accounting requirements (e.g. in the Church Representation Rules or secular legislation e.g. as in the Charities Act 2006) will apply to all new and remaining PCCs. In addition, if a merger pushes a PCC over the £100k threshold, it will now need to register as a charity and follow the appropriate guidance for audit requirements etc.

SECTION C

PCCs as Charities - Implications

23. All PCCs are charities, whether or not they are required to register with the Charity Commission. This means that all PCCs must comply with the Charity Commissions requirements regarding mergers. The Charity Commission's advice on Mergers and Collaborative Working, where the above requirements are explained, is available at: <http://www.charitycommission.gov.uk/publications/cc34.asp>. Much of the advice therein is already covered - tailored for a parish context – by PM83 and by supplementary guidance offered by your local Pastoral officer / similar.
24. Happily, the Commission's requirements are not onerous and those that are relevant to PCCs will in the main be met simply by following the usual Pastoral Scheme procedures anyway. For example, PCC members (as trustees) are required to act prudently in the interests of their charity. They must also ensure that special trusts, restricted funds and permanent endowments are safeguarded and remain restricted after a merger; for PCCs the Pastoral Scheme will ensure that this occurs.
25. There is one Charity Commission requirement that *does* apply to PCCs; it relates to the **Register of Mergers**, which is a new Register provided by the Charities Act 2006. Inclusion in this Register is obligatory for any charities where a vesting declaration is used to transfer the title to the transferor's property (transferor = the charity doing the transferring, which will usually cease to exist) to the transferee (= the receiving charity). A Pastoral Scheme is a vesting declaration and therefore the receiving charity must notify the Commission of the merger and be included on the Register of Mergers. The Commission provides a form and some Guidance: (<http://www.charitycommission.gov.uk/Library/enhancingcharities/pdfs/csd1162.pdf>, <http://www.charitycommission.gov.uk/supportingcharities/ogs/index060.asp>). There is one exception, which is that where the property of a PCC is split between more than one other PCC, the merger cannot be included on the Register and so the requirement does not apply.
26. Inclusion on the Register of Mergers is a good idea where possible because the Register means that any gift or legacy left to a PCC which, due to a merger, no longer exists will automatically and validly be received by the remaining PCC. The legacy might otherwise 'fail' and go to government coffers instead, or at least require a Charity Commission Scheme to transfer it validly to the remaining PCC.

SECTION D

Conclusion:

27. By way of reminder / disclaimer, please note that this Guidance has simply drawn readers' attention to some of the specifically financial (rather than pastoral) areas they may need to consider during the process of a merger. Generally, local discussions with diocesan Pastoral staff and the usual procedures required before a Pastoral Scheme is made will flush out all of the points covered above anyway.
28. Please remember that this Guidance is not comprehensive and is guidance only; professional advice should be sought whenever there is any doubt.
29. This Guidance Note is 'Version 1' only. We would be grateful to receive feedback from parishes who are dealing with or have dealt with the issues discussed in this Guide, so that we can improve 'Version 2.' Please email comments (any inaccuracies or omissions, what we could add, improve or remove, what you found helpful etc) to: stewardship@c-of-e.org.uk.

APPENDICES

Appendix 1: Sources of further advice

- Diocesan Pastoral officer / Committee
- Diocesan Registrar
- National Pastoral staff at Church House, Westminster (020 7898 1745)
- Charity Commission, lawyers, accountants

Appendix 2: Links to Relevant Legislation and Guidance

- The Pastoral Measure 1983, available at: <http://www.cofe.anglican.org/about/churchcommissioners/pastoralandclosedchurches/commonresources/pastoralmeasure>
- The Pastoral Measure: Code of Recommended Practice, available at <http://www.cofe.anglican.org/about/churchcommissioners/pastoralandclosedchurches/commonresources/cop/>
- The Charity Commission website: www.charity-commission.gov.uk

- The Parochial Church Councils (Powers) Measure 1956 (usually known as the ‘PCC (Powers) Measure or the ‘1956 Measure’) is available at: <http://www.statutelaw.gov.uk> (search the A-Z or chronological index for the link)
- The Church Representation Rules, which are Schedule 3 to the Synodical Government Measure 1969; you can download this from <http://www.statutelaw.gov.uk> (search the A-Z or chronological index for the link) or buy the Rules in book form from Church House Publishing (<http://www.chpublishing.co.uk>).

Links to both the PCC (Powers) Measure and the Church Rep Rules can also be found at <http://www.parishresources.org.uk/charity/gds.htm>