

Leaflet F05: Annual Reports

Most charities are required to prepare annual reports, and for registered charities they must be in a prescribed format. This document outlines what is required and aims to provide guidance to Church Treasurers and other Church Trustees in producing their annual report.

F05: Annual Reports

1 What is an annual report?

A charity annual report is a report produced by a charity to provide an overview of the work of the charity for stakeholders, including the Charity Commission, beneficiaries, supporters and the general public. It should give the reader an understanding of the work the charity has carried out in the year and its finances.

2 Is our church required to prepare an annual report?

It is certainly best practice for all charities to prepare an annual report and many Baptist Church constitutions will contain a requirement for a report or reports on the church's activities to be presented to the church meeting each year. This is an important part of maintaining the accountability of the church trustees to the church meeting.

However, the legal requirement for a church to produce an annual report depends upon the nature of the church's charitable status.

The Charities Act 2011 requires an annual report to be published by all registered charities. All Baptist Churches that have been obliged to register with the Charity Commission due to their income exceeding £100,000 per annum will have to therefore produce an Annual Report. Similarly, all churches that are incorporated as a Charitable Incorporated Organisation (CIO) are required to register and therefore have the same obligations.

Many Churches, including Baptist Churches are 'excepted' from registration because their annual income falls below £100,000 and they are members of a recognised denomination. They are therefore not required by law to produce an annual report. However this exception from registration is not permanent and will end by, or soon after March 2031. At this time it is expected that many more charities will be required to register and to produce an annual report. It is also important to note that even excepted charities are obliged to produce annual accounts (which are a component of an annual report) and these must be made available to anyone who requests them.

The remainder of this leaflet covers the requirements for annual reports where they are a legal requirement. Baptist churches that are not legally required to produce such a report may wish to follow this guidance to demonstrate good practice.

3 What needs to be included in the annual report?

The content of the annual report required to comply with the Act is determined by the rules detailed in "The Charities (Accounts and Reports) Regulations 2008", which are dealt with in more detail in "Accounting and Reporting by Charities", the Statement of Recommended Practice (SORP) issued by the Charity Commission for England and Wales. The applicable Statement from 1 January 2016 is SORP (FRS102) as amended in February 2016. A copy can be obtained at www.charitySORP.org. This provides that trustees should prepare in respect of each financial year, as a separate document, a report, which should include certain legal, administrative and narrative information.

The Regulations further specify that the trustees' annual report should be attached to the accounts whenever a full set of accounts is distributed.

All the trustees are responsible for the preparation of the report, so though it is normal to delegate preparation to one or two individuals, all the trustees should satisfy themselves that it complies with the requirements.

Accounts should be prepared in the appropriate format (see *Leaflet F02: Guidelines on Charity Accounts with Income under £250,000* or *Leaflet F03: Guidelines on Charity Accounts with Income over £250,000*).

Registered charities will need to submit both documents to the Charity Commission who will reject documents that are not in the required form. However churches with gross income less than £500,000 are able to take advantage of significant reductions in the amount of information that must be disclosed.

In future, many more Baptist churches will now need to prepare an annual report under these new arrangements. Churches might like to refer to the Charity Commission publication CC15d 'Charity Reporting and Accounting: The Essentials' November 2016 - <https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d>

4 Overriding features of the annual report

It will be easy to condemn these Annual Report requirements and treat them as a chore and an unhelpful intrusion into the already difficult task of running the church. However, a good church will know what it is trying to achieve, how it is trying to achieve it, and how successful it has been. These are the things which need to be written down. If the report proves impossible to write, then maybe the Trustees need to spend more time understanding these matters, with the hope that the church will end up more focused, and more "prepared to give an answer to everyone who asks you to give the reason for the hope that is within you". When the report is properly prepared it will be part of the evidence that "everything should be done in a fitting and orderly way".

The Annual Report should explain to the reader the statutory details relating to the charity, set out its organisational structure, and describe how and why it operates in the way it does.

Whether or not the church is required by the legislation to prepare an Annual Report, these are matters which the Trustees already need to know and understand, and are helpful in the management of the charity.

The Annual Report is not a publicity leaflet or a brochure, and it is not a month-by-month account of all the church's activities, but it is a formal statement about the church's activities which is available for any member of the public to read. It should not be so dull that the church is not perceived to be attractive, nor just a stream of heart warming stories. The report will certainly be read by any organisation from which the church might seek grant funding, and may well be read by members of the local community and potential new church members. It is therefore worth trying to ensure that the report creates a good impression of the church in the mind of the reader. Equally, it must present a balanced view of the church and its activities.

The SORP regulations contain a list of requirements for an Annual Report. This document uses those headings to describe what should be included, following the order set out in the regulations. If these headings are used, then nothing essential should be missed and the document will be easier to check. Either the Independent Examiner (or the Auditor) and the Charity Commission will need to review the report as part of their work.

Every charity is required to set out in its Annual Report how it provides a benefit to the public which is an overriding requirement of being a charity. The *BUC Guideline Leaflet C09 Registered Charities and Public Benefit* provides fuller details of this Public Benefit requirement, and the concept of Public Benefit should be borne in mind in the preparation of sections 5.3 Objectives and Activities, and 5.4 Achievements and Performance. Further guidance is available from the Charity Commission

Charities and Public Benefit:

<https://www.gov.uk/government/collections/charitable-purposes-and-public-benefit>

The Advancement of Religion for the Public Benefit:

<http://www.charitycommission.gov.uk/media/95013/advancement-of-religion-for-the-public-benefit.pdf>.

The Annual Report must include a statement that the church has read the Charity Commission guidance and taken it into account.

Sample annual reports published by the Charity Commission can be found at:

<https://www.gov.uk/government/publications/example-trustees-annual-reports-and-accounts-for-charities>

5 Detailed Provisions

This section sets out in detail the information that is required. It is taken from the SORP regulations and should enable a church to comply with the statutory requirements.

As well as the sections below the complete Annual Report must also include the annual accounts of the church (including the notes to the accounts) and the independent examiners report.

5.1 Reference And Administrative Details

This is purely factual information about the church. The report must state the following reference and administrative detail about the charity.

- 5.1.1** The full name of the charity, by which is meant the name on the charity register, if registered. If the charity operates under any other name this should also be disclosed.
- 5.1.2** The charity registration number. Before a charity is registered, it should state that it is excepted from registration under Section 30 (2) (b) of the Charities Act 2011. It should not quote the charity number of the Baptist Union Corporation or its Association or Association Trust Company. See *BUC Guideline Leaflet C06 Churches and Charity Registration*. (If the church is a charitable company, its company registration number should be stated).
- 5.1.3** The address of the principal office of the church, where postal mail should be directed.
- 5.1.4** The names of all the people who have been Charity Trustees of the charity at any time between the first day of the accounts for the year and the date on which those accounts and the annual report are formally approved and signed by the Trustees.
- 5.1.5** Churches with income in excess of £500,000 are required to state the name of senior staff members, and any professional advisers such as bankers, solicitors, accountants or independent examiner. The disclosure of this extra information is considered best practice even where it is not a requirement.

5.2 Structure, Governance And Management

The level of detail provided in the report is likely to be dependent on the size and complexity of the charity and be proportionate to the needs of the user of the report. The report must state the following matters.

- 5.2.1** The nature of the Governing Document, and how the charity is constituted. Most Churches will have a Constitution. When charity registration has been achieved, the Approved Governing Document will have been agreed with the Charity Commission as part of the process. This is a constitution relating to the church as a group of people and an organisation, rather than the church as a building. The Church's annual report should be about the local church and its activities and leadership, although the assets, like the church premises, should also be referred to briefly, including where appropriate reference to the property trusts and the Custodian Trustees. Unless the church has been set up as a limited company or a Charitable Incorporated Association (CIO), this will state that the church is an unincorporated association.
- 5.2.2** The method of recruitment and appointment or election of trustees including any constitutional provisions relating to the appointment. This will usually state that Charity Trustees are appointed by a meeting of members. Since Trustees will normally be drawn from the membership, the need for training is reduced, but they should receive appropriate documentation (constitution, accounts and minutes of say two previous meetings), and be made aware of the legal responsibilities they are accepting on appointment. The *BUC Guideline leaflet C15 Help I'm a Charity Trustee* may be helpful to persons newly appointed, and the Charity Commission has guidance on Charity Trustees on their website.
- 5.2.3** The church's decision making process. Most Baptist churches make decisions either by the church leadership bringing matters to the church meeting for discussion and as appropriate, acceptance, or by raising matters within a church meeting for further discussion and consideration by the church leadership. The processes used need to be described, remembering that in law the trustees are responsible for the decisions made by the church, and have specific fiduciary duties.
- 5.2.4** Churches with income in excess of £500,000 have a further list of requirements which can be found within the SORP. These further requirements include the policies and procedures adopted for the induction and training of trustees and the arrangement for setting the pay and remuneration of senior staff.

5.3 Objectives And Activities

SORP 2015 requires all charities to provide a summary of the objects of the church as set out in its governing document, and a brief summary of the main activities undertaken by the trustees of the church to further its charitable purposes for the public benefit.

A church's principal charitable purpose is the advancement of the Christian faith, but the way this is achieved will vary from church to church. All will provide a public service of Christian worship, but they will also provide various combinations of youth work, children's work, coffee shops, alpha courses etc. etc., and these will need to be set out as the church's activities to achieve its charitable objective. In the leaflets about the preparation of church accounts (F02 or F03 depending on income levels), there are suggestions about how the expenditure is analysed. These aims and objectives should be expressed in similar ways to the analysis of charitable expenditure in the accounts, so that readers can see how much has been spent on each part of the church's activities. Over the course of time the various activities provided by the church will change, and there should be an explanation of how these changes fit into the long term strategy of the church.

The report must state the following matters.

- 5.3.1** A summary of the purposes of the charity as set out in its governing document.
- 5.3.2** A summary of the main activities undertaken in relation to those purposes.

- 5.3.3** An explanation of the main activities undertaken to further the charity's purposes for the public benefit.
- 5.3.4** A statement confirming whether the trustees have had regard to the Charity Commission guidance on public benefit.
- 5.3.5** Churches with income in excess of £500,000 have a further list of requirements, including details of aims and the difference it seeks to make, the strategies to achieve these aims and how success is measured.

5.4 Achievements And Performance

- 5.4.1** There must be a summary of the church's main achievements during the year in relation to its objects. This should indicate how the church is fulfilling its mission, which could cover the pattern and types of worship provided, and by appropriate statistics, such as figures concerning membership and attendance and any other relevant detail.
- 5.4.2** Details and outcome of any special projects and achievements should similarly also be detailed.

Larger charities (total income over £500,000) need to declare more information:

- 5.4.3** significant charitable activities undertaken and how the church has performed against objectives set, including performance of fundraising activity against objectives

5.5 Financial Review

There must be a review of the financial position of the church, and in particular, statements concerning:

- 5.5.1** The policy for retaining reserves, stating the level held and why (see *Leaflet F07 Charity Reserves*).
- 5.5.2** Where material funds have been "designated" or transferred to Designated Funds, the reserves policy should explain the purpose and quantify the funds. If set aside for future expenditure, the likely timing of that expenditure should be indicated.
- 5.5.3** details of funds held as custodian trustee, explanation of how this activity falls within the church's objects, name/objects of charity for which they are held and arrangements for their safe custody. This is unlikely to be relevant to most Baptist Churches.
- 5.5.4** Where any fund is materially in deficit, the circumstances giving rise to the deficit must be outlined as must the steps being taken to eliminate the deficit.
- 5.5.5** If, at the date of approving the report and accounts, there are uncertainties about the church's ability to continue as a going concern, the nature of these uncertainties should be explained.

In this section, a church that is a participating employer within the Baptist Ministers defined benefit pension scheme may wish to disclose details of its position in relation to the scheme. In particular, it may be considered appropriate to disclose their Automated Monthly Debt Estimate (AMDE) for the end of the financial year, as available from the employers hub (<https://hub.lcp.uk.com/>). A sample sentence is included in the example report at the end of this leaflet.

The particular additional items required of charities with income in excess of £500,000 are:

- 5.5.6** Principal funding sources should be disclosed, also how they have supported the church's objectives.
- 5.5.7** Where material investments are held, the investment policy and objectives must be disclosed, and this should include the extent to which social, environmental and ethical considerations are taken into account
- 5.5.8** The principal risks and uncertainties facing the church as identified by the Trustees, must be described, together with a summary of their plans and strategies for managing those risks.
- 5.5.9** The impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme on the financial position of the church, should be disclosed
- 5.5.10** Any factors that are likely to affect the financial performance or position going forward must be explained
- 5.5.11** The review should also show how the year end reserves related to the totality of the church's funds, distinguishing any endowment fund and restricted income fund balances, and identify any unrestricted funds considered unavailable for spending on general purposes (for example, represented by functional fixed assets), as well as the timescales for spending all designated funds. It should also explain how the level of reserves relates to the trustees' policy and how any gap is to be bridged.

5.6 Plans For Future Periods

It is good practice to include a short statement summarising the church's plans for the future, the aims and objectives it has set and give details of the activities planned to achieve them, also explaining the trustees' perspective of the future direction of the church, and explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect, but churches with income below £500,000 are not required to provide this information.

5.7 Strategic Report

For charitable companies not classified as small companies a Strategic Report is required which needs to be shown as a separate section of the Trustees Report. This is not usually required of Baptist Churches, as a company structure is rarely used. Those that are should refer to the guidance on www.charitycorp.org relating to charities established under company law.

6 Further guidance

Treasurers may also make use of the guidance available from the Association of Church Accountants and Treasurers (ACAT). Membership of ACAT is funded by Baptists Together for all treasurers of member churches. You may access their website member area at <https://acat.uk.com> using the username "Baptist" and password "Didcot".

Also the team at Baptist House are always happy to deal with queries. Their contact details are on the final page of this leaflet.

Example of an Annual Report for a Baptist Church

The following pages provide an example of the text for an annual report

Anytown Baptist Church

References and administrative details

Registered Address

101 High Street Anytown

Charity Registration Number 123456

Trustees

The Revd A Trustee (Minister) Mr B Trustee (Secretary)

Miss C Trustee (Treasurer) Mr D Trustee

Mrs E Trustee Mr F Trustee

Miss G Trustee (appointed June 2017)

Mr H Trustee Mr I Vacancy

Mr J Trustee (resigned June 2017)

Property Trustees

The Baptist Union Corporation Limited Baptist House, 129 Broadway, Didcot, Oxfordshire OX11 8RT

Bankers

HSBC, Anytown

Independent Examiner

Mr I Check

Annual Report for 2017

The trustees present their Annual Report and financial statements for 2017.

Structure, Governance and Management

The Charity is governed by an Approved Governing Document. Members of the Church are accepted in accordance with the Constitution which requires them to be or to have been publicly baptised on the profession of faith in Jesus Christ, or following other modes of baptism to renew their public profession of faith in Jesus Christ.

The members Meeting normally takes place six times per year and has responsibility for the overall policy of the church. In accordance with the Constitution, the members appoint six Trustees, who together with the Minister, Church Secretary and Treasurer (who are also appointed by the Members), are responsible for the day to day running of the church's work and witness, and the financial and legal aspects of the charity. All members are encouraged to take an appropriate part in the spiritual and practical tasks involved in the furtherance of the charitable objective.

Relevant matters may be submitted to the Church meeting by the Trustees for guidance, or may be raised by members in Church meeting for further consideration by the Trustees. Though the Constitution permits decisions to be made at Church meetings by appropriate majorities, the Church seeks to work by consensus wherever possible.

Objectives and Activities

The principal purpose of the charity is the advancement of the Christian faith according to the principles of the Baptist denomination to include the advancement of education, community service and such other general charitable purposes in such parts of the United Kingdom and the world as the Church shall determine.

In order to achieve the principal objective which is set out above, the Church provides a variety of activities both to its membership and to the community generally. The aim is to show the love of Jesus Christ in both word and deed and to bring people into a closer relationship with Him as living Lord.

Central to the work and witness of the Church is the provision of regular public services of Christian worship. These services take place each Sunday at both 10.30 am and 6.30 pm. There are also occasional services at other times which are advertised on the Church Notice Board and the website at anytownbaptistchurch.org.uk. There is a full children's programme during the morning services. The church seeks to be a friendly and welcoming community and anybody is free to attend any of these services.

The Church runs a series of house groups for the growth of faith and discipleship in the homes of some members, and further details of these can be obtained from the Trustees on request, or at the Sunday services of worship.

The Church is responsible for a Toddler Group which meets in the Church premises on Tuesday mornings, with the purpose of assisting the community and demonstrating the love of Jesus Christ. From time to time the Church runs courses in parenting, and courses for people interested in discovering more about Christianity, entitled 'Just Looking' and 'Alpha'.

The Church runs various events for Young People and for people in the Third Age.

The Church operates systems to ensure that all people working with children and vulnerable adults are appropriately vetted with regard to the Disclosure and Barring Service.

The church has read the Charity Commission guidance on public benefit, and is satisfied that the activities outlined above clearly demonstrate that the charity is providing a benefit to the public.

Achievements and Performance

The Church does not measure the success of its programmes only in numbers, including financial numbers, but also in less tangible areas like fellowship and encouragement. The Trustees recognise that these are difficult to measure, but believe that 2017 was a positive year in the life of the church, and that it will be able to pursue its mission purposes in 2018 with renewed enthusiasm.

Seven people professed faith in Jesus Christ for the first time during the year, and were baptised and received into church membership. Three other people joined the church by transfer from other churches, having publicly reaffirmed their faith in Jesus Christ. Four church members died during the year, and two moved to another church in a different part of the country. At 31 December 2017 the membership stood at 84 which was higher than a year earlier.

Average attendance at worship services has increased during the year, and similar increases were shown in the children's work and work amongst young people. The Toddler Group continued to be oversubscribed with a waiting list of people wishing to attend regularly. Two 'Just Looking' courses and two 'Alpha' courses were fully subscribed, and three of the people baptised found faith in these events.

The church was encouraged by remarks made by one of the Town Councilors about the positive part the church played in the life of the community of Anytown, since in addition to activities formally linked to the church, members also served as volunteers in other local charities and organisations, including two school governors, three Surestart volunteers and four helpers at local schools.

Financial Review

The Church continues to raise the funds which it needs to carry on its activities from within its own membership and congregation. No wider public appeal was made for funds during the year.

The most significant expense related to the appointment of the Revd A Trustee as Minister of the Church, to lead and co-ordinate the church's activities including the Sunday Services, to provide pastoral care for the congregation and other people, and to equip and encourage the membership in their life, Christian witness and service.

The Church expressed its part in the life of the wider church by making grants to national and international Christian organisations and societies with Christian aims and objectives compatible with the church's own charitable purpose.

The Church is heavily dependent on its membership working as volunteers in all aspects of the church's activities, many of which run with little or no impact on the church's expenditure, but nevertheless contribute substantially to the achievement of the church's objectives.

The financial results for the year, together with a summary of the accounting policies adopted are set out in the accompanying financial statements.

The church is a participating employer within the Defined Benefit section of the Baptist Pension scheme and has been making ongoing deficit payments to cover the costs of past service of its employees within the scheme under a recovery plan. The church understands that if it had left the scheme at the year-end, it would have to have made a one-off payment estimated to be £48,500 to meet its statutory obligations to the scheme. The church has no plan to leave the scheme and expects to continue to make payments to the scheme in line with the recovery plan.

Reserves Policy

The Trustees have established a Reserves Policy to enable the church to function effectively and meet its obligations in the event of a decline in our income or a major cost.

Having considered the relevant risks of changes in income and expenditure, the Trustees have determined that the appropriate level of reserves is in the range £18,000 to £20,000. As at 31 December 2017, the church held total reserves of £35,000 of which £10,000 were restricted and £7,000 designated. £7,000 has been designated for the planned refurbishment of the church kitchen in spring 2018. Reserves that were neither restricted nor designated amounted to £18,000.

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.

Contact Address and Registered Office:

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Telephone 01235 517700 email financeoffice@baptist.org.uk website www.baptist.org.uk
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