

**Diocesan Synod
28th June 2023**

Total Return Approach

Diocesan Boards of Finance now have the powers afforded by the Charities Act 2011 (amended by Section 4 of the Trusts (Capital and Income) Act 2013) to adopt a total return approach to investment.

What does this mean?

In simple terms this is an amendment to accounting standards that allows charitable organisations to transfer some historical capital gains from their Endowment Investments to satisfy the auditors that the Charity remains a Going Concern.

As the end of the above statement explains, it allows a different approach to investments and does not exist to assist with neither deficit budgets, where expenditure exceeds income, or cashflow management.

How would it work?

In respect of the DBF it would refer to the Diocesan Stipends Fund, or better known as Glebe. This is split into three different categories, Investments, Houses, and Glebe Land.

A decision is made on each category to decide what will be deemed to be the historical cost or valuation, and that amount is then locked as the Endowment Fund. Any balance or growth will then be classified as Total Unapplied Return.

Whilst some charities will then develop a policy to restrict on the maximum that can be drawn down each year, others simply leave the policy open. In the case of the DBF the second or latter option may be more practical, and the amount to be transferred each year can be managed via the various Finance Committees with recommendations to the trustees at Bishop's Council.

This avoids setting in place policies that future generations may well be tied into and as recent experience has shown we live in changing times.

Valuation Dates and process.

Investments – this is relatively straight forward as historical cost is recorded for accounting purposes, although appreciated some of the cost will include growth. At the end of 2021 the valuation of Glebe Investments totalled £12.60M the historical cost was £6.75M, this would result in a Total Unapplied Return of £5.85M.

Housing – this needs further discussion with the auditors but assume it will be the valuation each property was either brought into the financial statements or cost when purchased. However, there would be no available Unapplied Return until a property is sold. At that point a decision could be made in conjunction with the Investment Policies and process in place at the time.

Glebe – as land is often undervalued, simply as the value of the land is never realised until a sale is in process is not made, it is suggested that the valuation at 31 December 2022 is set as the historical Endowment.

It is suggested each Historical Endowment figure is increased each year by 4% per annum.

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Practical Example

If a piece of land was sold for say £5M and the valuation of that land at the end of 2022 was £0.50M – then there would be a capital gain of £4.5M. The full £4.5M would then be classified as Unapplied Total Return.

Current Investment Policy states that 20% of the sale proceeds should be invested. Therefore £1M would be invested to generate future income – at least £0.50M would be classified as Endowment Investment to match the valuation figure. A decision on the remaining investment can be made at the time.

Cashflow will increase by £4.5M.

Members views are sought.

Proposed Timetable

Risk and Audit	12 January 23
Finance Committee	18 January 23
Council	15 February 23
Finance Committee	8 March 23
Finance Committee	4 May 23
Council	25 May 23
Hold a Pre-Synod	27 June 23 – by Zoom for the technical detail.
Diocesan Synod	28 June 23
If needed	
Council	5 July 23
Finance	13 September 23
Council	4 October 23
Synod	18 November 23

Jonathan Hill

January 2023