T07: Adopting Total Return Accounting for your Trust Fund

Your church may have one or more trust funds that are looked after jointly with the Diocese. These trusts can arise from money left in a will or some other reason.

The governing document (which could be a will, Charity Commission scheme, or some other document, and will be held for safekeeping by the Diocese) sets out which part of the fund can be spent. In most cases:

- the "capital" (i.e. the amount to be held permanently and usually represented by shares) should not be spent; but
- The "income" (dividends or interest paid out periodically) should be spent, by the PCC (or the vicar and churchwardens), for the purpose set out in the governing document.

If your trust fund has property (assets such as money, shares or land and buildings) that must be kept rather than spent, this is called **permanent endowment.**

Standard rules for investment of permanent endowment

Using the standard rules, only the income from investments can be spent on the charity's aims. Any capital growth has to be reinvested. This is the situation for all trust funds with permanent endowment, unless the managing trustees have specifically taken the correct steps to adopt the **total return approach to investment.**

Total return approach to investment

The trustees of funds operating under the standard rules, will need to invest in such a way as to ensure that there is a good balance between returns in the form of income and capital growth. This will, in turn, help to ensure that the current and future purposes of the fund are achieved.

In some cases, the standard rules have the potential to be a barrier to protecting both the short and long term aims of the fund, as the trustees do not have discretion to spend or keep the returns as they see fit, in order to best achieve the purposes of the charity.

The total return approach allows any increase in the value of an investment to be used as income. There is no longer a distinction between returns in the form of income and returns in the form of capital growth. Trustees have flexibility over how much of the total return is kept and how much is spent. Trustees can decide to adopt this approach if they feel that it is in the best interests of their charity.

How to adopt this approach

In order to adopt the total return approach, trustees must pass a resolution (a formal decision) in the PCC (or equivalent trustees') meeting and keep minutes.

Before doing this, trustees must read and understand the guidance from the Charity Commission, which goes through all the considerations that the trustees should take into account before making any decision:

Total return investment for permanently endowed charities - GOV.UK

The Diocese can help by providing up to date information and figures, as well as historical information that the Diocese holds as custodian trustee.

Important things to consider

- Trustees must obtain and consider proper advice before using their powers of total return investment, unless they reasonably conclude that, taking all the circumstances into account, it is not necessary or appropriate to do so. (6.2)

- The total return approach is not just about spending resources which under the standard rules would be capital gains. It can also be about retaining resources as unapplied total return for the protection of the interests of future beneficiaries. Trustees must make decisions which balance the fund's purposes now and in the future. (6.3)

- The Charity Commission strongly recommends that any charity adopting a total return approach produces SORP FRS 102 (accruals) accounts. This is important as it provides a published and definitive version of what can and cannot be spent. (7.2)

Instructing ODBF on a change of investment

If you, as managing trustees of a fund, wish to adopt a total return approach to investment you should submit the following to ODBF:

- a written statement explaining why you wish to adopt this approach

- a statement that the trustees have read and understood Charity Commission guidance document "Total return investment for permanently endowed charities"
- A schedule identifying the endowment to be used for total return investment, and setting out figures representing the value of the original endowment and the assets representing the unapplied investment return
- a statement that the trustees have taken advice from someone experienced in investment matters, or setting out the reasons that the trustees have for not taking advice
- a copy of the minutes of the meeting at which the trustees passed the resolution to change the way that the funds are invested, signed by two trustees

Simple worked example:

St. Peter's Church Building Fund originated in December 2015 when a building was sold for £100k. The terms of the sale were such that the proceeds are to be held as permanent endowment.

In December 2015 CBF Church of England Investment Fund shares were purchased at £13.5346 per share.

£100,000/£13.5346 = 7,388.471 shares

In December 2024 the shares are worth £23.1227 per share. The total value of the fund is now:

7,388.471 * 23.1227 = £170,841.39.

The trustees pass a resolution to adopt a total return approach to their investment. The trustees are expected to make a 'reasonable estimate' as to which part of their resources represents the unapplied investment return from the investment of the endowment. They deem that using the CPI Index, (available on the ons.gov.uk website) is an appropriate way to determine the current value of the original investment.

	December 2015	December 2024
CPI value (from website)	100.3	135.6
Value of fund	£100,000.00	£135,194.41 *

*Calculated as (£100,000/100.3)*135.6

The trustees therefore identify and record the components of the fund as follows:

Assets representing the value of the original endowment	£135,194.41
Assets forming the unapplied total return	£35,646.98
TOTAL ASSETS	£170,841.39

An amount of £35,646.98 is therefore available to be moved to the income fund and spent to further the purposes of the charity.

- Once a part of the unapplied total return has been allocated to the income fund, it must be used within a reasonable period. (5.2)
- Until allocated to the income fund, the unapplied total return should remain invested in the same way as the permanent endowment. (5.1)