**Accounting for Revenue Government Grants**

This guidance notes covers both the internal reporting arrangements and IFRS Code requirements in relation to accounting for revenue grants.

The requirements of the IFRS Code applies equally and similarly to capital grants, contributions and section 106/developer tariffs, but as the year-end treatment required, in practical terms, is quite different between the two areas.

The IFRS code states that grants and contributions should not be recognised until there is:

- reasonable assurance that the grants or contributions will be received
- the authority will comply with the conditions attached to them

There is no definition in the code of what constitutes reasonable assurance. This will therefore be a matter of professional judgement by practitioners. If in any doubt you should consult corporate accountants, by contacting Helen Slater - ☎️ 308685 or ✉️ helen.slater@plymouth.gov.uk

Most grants will be given with stipulations as to how they are to be spent and the consequences if resources are not applied as intended. There are two types of stipulations: conditions and restrictions. It is important that finance teams understand the distinction between the two as there are differing accounting implications for each.

**Conditions** are stipulations that specify the grant or resulting asset must be used in the manner specified or must be returned to the awarding body.

**Restrictions** are stipulations that limit or direct the purpose for which the grant or resulting asset may be used but do not require repayment if not used in the manner specified.

The table at Appendix A gives some examples of the distinction between conditions and restrictions.

The accounting requirements apply to both revenue and capital grants although the treatment of capital grants will differ depending on whether the grant has been used to finance expenditure or not.

Some grants will be given with no restrictions as to how they should be used e.g. unringfenced grants allocated through the settlement process. However many grants will be given with some form of stipulation as to how they are to be spent. This may be simply ringfencing of the grant for a specific purpose, or may be more specific such as specifying a deadline or the actual benefit that should accrue from the grant. This is also more likely where a specific grant bid has resulted in the award of the grant, and also to have more impact on capital grants (ie grants to construct/acquire facilities).

The code guidance identifies 2 types of stipulations:

- **Conditions** - require any grant not used in accordance with the terms of the grant to be repaid to the granting body.

- **Restrictions** - limit the purpose for which the grant can be used (ie earmarked) but do not require any repayment to the awarding body if the grant is not used as specified.

**The key difference is therefore the ‘right of return’**.
The treatment of the grants in our accounts at year end will vary depending on whether it is unringfenced, or contains a condition. The grants register will play a key role in the identification of grant stipulations and determining the correct accounting treatment.

The general position taken in the Code is that the Comprehensive Income and Expenditure account is credited at the point that the authority’s relationship with the entity giving the financial support ceases to have the formal status of a liability. This will be when the authority has satisfied all the conditions relating to the grant that could otherwise have resulted directly in repayment of the grant. Grants should be accrued and credited to income as grant is earned and in accordance with the conditions of the grant.

There is a flowchart at Appendix B which provides a summary of the accounting treatment required in relation to revenue grants.

There are a number of different scenarios which will result in Plymouth City Council treating the revenue grants in a different way:

1. Grant expected in 2015/16 but not yet received. Expenditure incurred grant claimed in arrears.
   ❖ Service accountants to make a debtor accrual for grant expected in normal manner.

2. Grants where a condition exists and has not yet been met. Conditions will be detailed in the grant Terms and Conditions, and should be detailed on the Grants Register when the grant is accepted.
   ❖ The grant is not credited to the service account, but carried forward on the balance sheet in the ‘Revenue Grants in Advance Account’ until the conditions have been satisfied.
   ❖ Service accountants will need to complete the Corporate Grants Register to highlight this, corporate accountants will then process the relevant journals to reflect the treatment.

   Dr service revenue income sd xxxx
   Cr revenue grants in advance 9536 xxxx

3. Grant requiring repayment to the awarding body.
   ❖ This should be treated as a normal creditor within our accounts.

4. Grants received with no conditions or restrictions. Matching expenditure has been incurred, the grant is utilised in full, and there is no balance at year end.
   ❖ No action required by accountants. The grant is correctly accounted for in service revenue accounts.

5. Grant is received with no conditions or restrictions, matching expenditure less than grant, balance at year end and spend anticipated to be incurred in following financial year.

   OR
6. Grant is received with no conditions or restrictions, with matching expenditure for none or some of the grant.

The general rule is that these grants will no-longer be carried forward to the following year, however, there may be exceptions to this rule that will be determined on a case-by-case basis, and Cabinet agreement will ultimately be required.

Accountants should make their Lead Accountant and relevant Assistant Director aware, if they were anticipating carrying these grants forward identifying any commitments and risks associated with the funding.

If an FMT member wishes to submit a request for carry-forward, the details (including the Revenue Grant Carry-Forward form) will need to be sent to Corporate Accountants to enable the necessary accounting adjustments can be made and the process followed.

If a revenue grant carry-forward request is submitted the value of the grant wishing to be carried forward will be transferred to Earmarked Reserves Account by Corporate Accountants.

If Cabinet agree the carry-forward request, the revenue expenditure budget will be increased in 2016/17.

All revenue grant carry-forward requests must have approval by the relevant FMT member prior to being submitted.

In order to ensure that ‘One Version of the Truth’ is adhered to, please ensure that the Grants Register is updated and complete with ALL grants within your area as this is now the working paper that is used for closedown purposes.
### Examples of the distinction between conditions and restrictions.

<table>
<thead>
<tr>
<th>Stipulation</th>
<th>Condition or Restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>A grant is paid towards the costs of a particular area of activity. The</td>
<td>Restriction</td>
</tr>
<tr>
<td>grant is not limited to a particular year and can be carried forward</td>
<td>The grant giver has secured no right to have the grant repaid. Any future clawback</td>
</tr>
<tr>
<td>indefinitely. However the grant giver has indicated informally that an</td>
<td>would be through the exercise of its administrative powers separately from the specific</td>
</tr>
<tr>
<td>inability to spend the grant within 2 years might be taken into account in</td>
<td>grant agreement</td>
</tr>
<tr>
<td>future grant-setting decisions</td>
<td></td>
</tr>
<tr>
<td>A grant is paid in on-account installments based on estimated expenditure.</td>
<td>Condition</td>
</tr>
<tr>
<td>At the end of the year audit certification is required that the grant has</td>
<td>If qualifying expenditure is not incurred the grant giver has a right to repayment.</td>
</tr>
<tr>
<td>been spent on qualifying expenditure and any underspend against the on-</td>
<td>It is irrelevant whether the authority has to repay the advances or forgo future</td>
</tr>
<tr>
<td>account installments is to be deducted from next year's installments.</td>
<td>payments- the important factor is that the current year grant agreement gives a right</td>
</tr>
<tr>
<td></td>
<td>to reimbursement. The condition will be removed incrementally as qualifying expenditure</td>
</tr>
<tr>
<td></td>
<td>is incurred.</td>
</tr>
<tr>
<td>An authority is given a grant to reclaim derelict land, repayable when the</td>
<td>Condition</td>
</tr>
<tr>
<td>land is sold. The authority has no intention of using the land for its own</td>
<td>The sale of land triggers repayment of the grant as it is expected that the stipulation</td>
</tr>
<tr>
<td>purposes.</td>
<td>will be breached at the time that the grant is received. The grant will effectively be</td>
</tr>
<tr>
<td></td>
<td>accounted for as a loan.</td>
</tr>
<tr>
<td>An authority receives a grant to construct a new sporting facility. There is</td>
<td>Restriction</td>
</tr>
<tr>
<td>a stipulation that the grant must be repaid if the property is sold. The</td>
<td>A return obligation does not arise until such time as it is expected that a condition</td>
</tr>
<tr>
<td>authority has no current intention of selling the property.</td>
<td>based on the occurrence (or otherwise) of a specified future event will be breached.</td>
</tr>
</tbody>
</table>
Flowchart regarding the accounting treatment for revenue grants

Do grant conditions exist?

- Yes: Grant conditions (initially) met?
  - No: Recognise in Revenue Grants Receipts in Advance
  - Yes: Post to earmarked reserve (England/Wales) or earmarked portion of General Fund (Scotland)

- No: Grant conditions (now) met?
  - No: Repay Grant to Grantor
  - Yes: Recognise grant immediately in Comprehensive Income and Expenditure Statement – credit to relevant service line (where applicable)

- Expenditure incurred?
  - Yes: Credit against General Fund/HRA Balance (England/Wales) or release earmarked portion (Scotland)
  - No: On application (expenditure incurred)