

Accounting for grants in local government financial statements

The government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses.

There is nothing new about the accounting treatment for grants, but authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) in 2020/21.

Accounting for grants is set out in Section 2.3 of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In addition, Section 2.6 of the Code describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as the principal or agent, in line with IFRS 15 Revenue from Contracts with Customers. There are three main considerations in accounting for any grants:

Factors for consideration

1

Where the funding is to be transferred to other parties, is the authority acting as the principal or as the agent?

Section 2.6 of the Code and paragraphs B34-38 of IFRS 15 deal with analysing whether an entity is acting as principal or agent and particularly whether it controls good or services before they transfer to the service recipient. IFRS 15 paragraph 33 defines 'control' of an asset as 'the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset'.

Relevant factors to consider include:

- Does the authority set the amount of the award to a third party?
- Does the authority determine the criteria for entitlement?
- Is there a reconciliation process that ensures the authority is funded in full for the grants paid out?
- Is the authority responsible for any overpayments?

Authorities should consider all factors in reaching their judgement on whether they are acting as principal or agent.

Accounting impact

Where an authority is acting as a principal as opposed to acting as an agent, transactions shall be included in an authority's financial statements, following the relevant section of the Code.

Where an authority is acting as an agent, transactions shall not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position is included in financing activities in the Cash Flow Statement (Code 2.6.2.4).

2

Are there grant conditions outstanding?

Code section 2.3.2 defines:

- **conditions** as 'stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor' (Code 2.3.2.1).
- **restrictions** as 'stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified.'

Accounting impact

The Code requires that grants and contributions shall be recognised immediately in the CIES as income, when there is reasonable assurance that the authority will comply with the conditions attached and the grants or contributions will be received.

Only if there is a condition attached that remains to be satisfied should grants be recognised in the 'grants receipts in advance' account.

Where a grant is subject to a condition that it be returned to the transferor (subsequent to initial recognition) if a specified future event does or does not occur, then a return obligation does not arise until such time as it is expected that the condition will be breached, and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the CIES.

3

Is the grant a specific or non-specific grant?

Grant may be awarded to support expenditure on specific services or may be in the form of an un-ringfenced general grant.

Accounting impact

Code 2.3.2.10-11 requires general un-ringfenced grants to be disclosed as one or more items on the face of the CIES, whereas ring-fenced grants are required to be credited to service revenue accounts.

Features of some of the support packages are summarised below, showing how this may impact upon accounting.

The accounting treatment may involve judgements as different authorities might reach different conclusions depending on how each has applied a particular scheme. Audited bodies need to be able to demonstrate their judgements to be reasonable and soundly based. If a judgement has a significant effect on the accounts sufficient disclosures are required to meet the requirements of paragraph 3.4.2.89 of the Code and the underlying requirement of IAS 1 paragraph 122.

Government scheme	Features	Accounting considerations
Small Business Grants Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) (closed August 2020)	The authority is administering the distribution of the grant, is fully reimbursed for delivering that funding (and the authority is not liable for any overpayments), the amount of the award is predetermined based on business rate relief or rateable value.	Where factors indicate that the authority is acting as an intermediary for the Department for Business, Energy and Industrial Strategy (BEIS) and does not have 'control', accounting as an agent would be appropriate. The grant would not then be reported as income and expenditure, and balances relate only to sums due to or from the authority.

Government scheme	Features	Accounting considerations
Local Authority Discretionary Grant Fund (LADGF) (closed August 2020)	<p>This is support for small business that are not eligible for SBGF or RHLGF. Authorities have discretion over the businesses to support and the amount of the award.</p>	<p>These are factors that would indicate that the authority is not acting as an agent but has control and is acting as principal.</p> <p>Presentation in the CIES will depend on the authority's judgement as to whether the grant relates to specific service objectives or is non-specific grant income.</p>
Local Restrictions Support Grants (LRSG) (closed) Local restrictions support grant (Sector) Christmas Support Payment (CSP) for wet led pubs	<p>Local authorities are responsible for delivering the funding to eligible businesses, fully reimbursed by government through section 31 grant, with top-up funding if original allocations insufficient. The eligibility criteria and amount of the award is determined by BEIS.</p>	<p>Where factors indicate that the authority is acting as an intermediary for BEIS and does not have 'control', accounting as an agent would be appropriate.</p>
The Local Restrictions Support Grant (Closed) Addendum: 5 January onwards and the Closed Businesses Lockdown Payment (CBLP)	<p>These schemes under the 'business support package for January lockdown' provide for grants payable to all eligible business affected by national restrictions and required to close. Eligibility criteria and amount of the award is determined by BEIS. Authorities are funded with reconciliation between grant allocation and actual eligible costs.</p>	<p>Where factors indicate that the authority is acting as an intermediary for BEIS and does not have 'control', accounting as an agent would be appropriate.</p>
Local Restrictions Support Grant (open) – applicable 1 August – 5 November, and also version 2 applicable 2 December onwards	<p>This is support for businesses that are not legally required to close but are severely impacted by restrictions. Authorities have a funding allocation and then have discretion over the eligibility criteria, to determine which businesses to support and the amount of the award.</p>	<p>These are factors that would indicate that the authority is not acting as an agent but has control and is acting as principal.</p> <p>Presentation in the CIES will depend on the authority's judgement as to whether the grant relates to specific service objectives or is non-specific grant income.</p>
Additional Restrictions Grant (ARG)	<p>Local authorities receive a lump sum payment when regional tier 3 or widespread national restrictions are imposed.</p> <p>Local authorities can use this funding for direct business support grants or for wider business support activities, determining how much funding to provide to businesses, and exactly which businesses to target.</p>	<p>Where the authority has discretion over the award, where the authority determines eligibility and amounts and makes choices about how to use limited funding, then these are factors that would indicate that the authority is not acting as an agent but has control and is acting as principal.</p> <p>With no indications of conditions that would require the grant to be repaid, then the income would be recognised in the CIES where presentation will depend on the authority's judgement as to whether the grant relates to specific service objectives or is non-specific grant income.</p>
COVID-19 emergency funding	<p>Several tranches of additional grant funding were awarded to local authorities from March 2020.</p>	<p>With no conditions for repayment, grant receivable would be recognised as income in the CIES.</p> <p>General un-ringfenced grant is reported within 'taxation and non-specific grant income' in the CIES.</p>

Government scheme	Features	Accounting considerations
Business rate relief S31 grant	<p>Business rate relief S31 grant is compensation from government to billing authorities and major preceptors for the cost of reliefs announced by government for 2020/21.</p> <p>S31 grant was paid up front in March 2020. In 2020/21 authorities will need to reconcile the actual amounts due to them with any cash received on account and recognise the income for their share.</p>	<p>Where funds were not recognised as grant income by billing authorities in 2019/20, since they were conditional on the award of business rate reliefs in 2020/21, then any funds received would have been reflected in the 2019/20 accounts as a liability on the balance sheet.</p> <p>Income is now credited to 2020/21 CIES taxation and non-specific grant income.</p>
Council tax hardship fund	<p>The scheme is to reduce council tax liability, using discretionary powers under S13A(1)(C) of the Local Government Finance Act 1992.</p> <p>Billing authorities will receive grant allocation for 2020/21 under section 31 of the Local Government Act 2003.</p>	<p>The authority is providing additional council tax relief which has to be funded by the local authority general fund, i.e. transferred (debited) from the authority's general fund and credited to the collection fund (Code 3.6.3.1 b).</p> <p>The grant receivable should be credited to the CIES in 2020/21.</p>
Local tax income guarantee funding for 2020/21	<p>In January 2021 the government confirmed that it will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21. The funding is an un-ringfenced section 31 grant that will be paid over to billing and major preceptors by January 2022. There will be on account cash payments made early in 2021/22 with reconciliation to 2020/21 outturn data provided by billing authorities after the end of 2020/21.</p>	<p>Income should be recognised when there is reasonable assurance that the authority will comply with the conditions attached and that the grants will be received.</p> <p>Preceptors will need to liaise with billing authorities in order to confirm their estimate of losses in scope of the tax income guarantee.</p>
Local government income compensation scheme for lost sales, fees and charges	<p>This compensates authorities for irrecoverable and unavoidable losses from sales, fees and charges income generated in the delivery of services, in the financial year 2020/21.</p> <p>Authorities are to absorb losses of up to 5% of planned 2020/21 sales, fees and charges income and then will be compensated for eligible 'net losses' at 75% thereafter. There is a reconciliation process.</p>	<p>We would expect grant income to be recognised in the 2020/21 accounts when there is reasonable assurance that the authority will comply with the conditions attached and that the grants will be received.</p> <p>Where grant is not ring fenced, then income would be reported as taxation and non-specific grant income in the CIES.</p>
Local council tax support grant 2021/22	<p>This is new un-ringfenced funding for 2021/22, paid to billing authorities and major preceptors as section 31 grants early in 2021/22 to meet the additional costs of increased local council tax support in 2021/22.</p>	<p>We would not expect grant income to be recognised in the 2020/21 accounts.</p>

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