



# HM TREASURY

## Financial Reporting Advisory Board Paper

### The Treatment of Lottery Funded Assets in Resource Accounts

<b>Issue:</b>	The accounting requirements for lottery funded assets as detailed in the FReM differ to those in the NHS's Foundation Trust (FT) FReM.
<b>Impact on guidance:</b>	Annex A details the proposed changes to the FReM, while Annex B details the proposed changes to the iFReM.
<b>IAS/IFRS adaptation?</b>	No
<b>IPSAS compliant?</b>	Yes
<b>Interpretation for the public sector context?</b>	No
<b>Impact on budgetary regime?</b>	The proposals in this paper do not impact on the budgetary regime.
<b>Alignment with National Accounts</b>	Yes
<b>Impact on Estimates?</b>	No
<b>Recommendation:</b>	The FRAB endorse the proposal that lottery funded assets are accounted for as financed by government grant and the minor change to the FReM to align its capital charging guidance to that in the Consolidated Budgeting Guide.
<b>Timing:</b>	2008/09

## DETAIL

### ***Background***

1. The Foundation Trust (FT) FReM accounting guidance for lottery funded assets departs from the FReM as it treats such assets as funded through government grant, whereas the FReM treats these assets as donated.

### ***ONS Classification***

2. The funding for lottery funded assets is provided by the National Lottery Distribution Fund (NLDF). The ONS regards payments into the NLDF as tax receipts and therefore classifies the body as central government (Central Government Funds, Accounts, Courts and Posts).

3. The implication of the ONS classification is that lottery funded assets are financed by an arm of central government not a private sector benefactor.

### ***Existing Accounting Guidance***

4. Assets financed by government grant and donated assets are subject to similar accounting treatment in the FReM. The value of the financing provided by government or the donor is taken to reserves, as a government grant reserve or donated asset reserve, and released to the OCS over the life of the asset.

5. The FReM makes clear at 5.2.13 that assets financed through a gift of funds are to be treated as donated. Therefore, the method of financing does not drive the accounting, as the donor need not donate the physical asset.

6. The accounting should be driven by the status of the financier. If the asset is financed by a private individual or private sector entity it should be treated as donated, whereas if the asset is financed by a central government body it should be accounted for as grant funded. On this basis the guidance provided in the FT FReM is theoretically correct.

### ***Proposed Change to Accounting Guidance***

7. This paper proposes that for 2008/09 Lottery Funded assets are accounted for as financed by government grant.

### ***Related Minor Changes to the FReM for alignment purposes***

8. There is a minor misalignment between the FReM and the Budgeting Guidance on capital charging for lottery funded assets. In budgets lottery funded assets are specifically excluded from the capital charge whereas the FReM provides for no such exclusion in resource accounts. As the capital charge is a budgetary concept we have taken the opportunity offered by this change to align the accounting treatment with the budgetary treatment.

***IAS/IFRS compliance***

9. The proposed change is IFRS compliant.

***IPSAS compliance***

10. The proposed change is also IPSAS compliant.

***Proposed text for the shadow Government Financial Reporting Manual***

11. See Annex A for the proposed amendments to the 2008/09 FReM and Annex B for the iFReM.

***Impact on the budgetary regime***

12. The proposals in this paper will result in no change in the budgetary regime and will have no impact on department's budgets as lottery funded assets are excluded from the capital charge in budgets.

***Summary and recommendation***

13. That the Board endorse the proposed clarification that lottery funded assets are financed by government grant as detailed in the attached draft amendments to the FReM.

**Financial Reporting Policy Team**  
**Date**

## **PROPOSED AMENDMENTS TO THE 2008/09 FReM TEXT**

### **Donated assets**

5.2.13 Assets donated by third parties (see also paragraph 5.2.18), either by gift of the asset or by way of funds to acquire assets (including ~~national lottery-funded assets and~~ assets that meet the definition of heritage assets), and which meet the criteria in paragraph 5.2.14, should be capitalised at current value on receipt. Where the value of the services provided by an asset will be less than the current value of the asset because it is over-specified for its intended use, the lower value should be used. The amount capitalised should be credited to a donated asset reserve.

### **SSAP 4 Accounting for government grants**

#### ***Applicability***

5.2.42 SSAP4 applies, as adapted in paragraph 5.2.44 below, to all entities covered by this Manual.

#### ***Objectives of SSAP4***

5.2.43 The objectives of SSAP4 are to ensure that government grants are recognised in the operating cost statement so as to match them with the expenditure towards which they are intended to contribute and are recognised only when the conditions for their receipt have been complied with and there is reasonable expectation that they will be received.

#### ***Adaptation of SSAP4 for the public sector context***

5.2.44 The following adaptations to SSAP4 apply to entities required to prepare their financial statements in accordance with the guidance in this Manual.

#### ***Recognition***

a) Entities [other than non-departmental public bodies that are charities (who should follow the requirements of the Charities SORP) ~~or and~~ non-departmental public bodies that are companies (who should follow the requirements of the standard (but see also 5.2.45c))] should account for grants or grants in aid received as a contribution towards the cost of a fixed asset as follows:

- grants (ie for the purchase of a specific asset) – whether from the sponsor department or from other sources (~~which includes lottery funded assets~~) – should be credited to a government grant reserve (not to deferred income) and released to the income and expenditure account over the useful life of the asset in amounts equal to the depreciation charge in the asset and any impairment. ~~The – that is the~~ option given in SSAP4 to deduct the grant from the cost of the asset has been withdrawn;
- grants in aid (ie for the purchase of fixed assets in general) should be credited to the income and expenditure reserve (see 7.4.57). It will not be necessary to

release amounts to the income and expenditure account to offset the depreciation charge.

### *Measurement*

b) On disposal of an asset financed by a grant, the profit or loss is taken to the income and expenditure account/operating cost statement and is offset by a transfer from the government grant reserve of the same proportion of the profit or loss that the amount of the grant bears to the original acquisition cost of the asset. The balance on the government grant reserve in respect of that asset should be transferred to the income and expenditure reserve/general fund representing that same proportion of the proceeds. If the asset has been financed by a grant in aid, the profit or loss on disposal is simply taken to the income and expenditure account/operating cost statement.

### ***Other Exceptions (from the full Capital Charge)***

- 4.5.10 For donated assets, lottery funded assets, additions to heritage collections where the existing collection has not been capitalised, and cash balances with the Office of HM Paymaster General (OPG), the charge will be at a nil rate. Balances with the Bank of England will also bear a nil rate provided that the balances are formally included in the "Exchequer pyramid" which allows such monies to be used to reduce government borrowing.
- 4.5.11 For amounts due from, or due to be surrendered to, the Consolidated Fund, and liabilities in respect of advances outstanding from the Contingencies Fund, the charge will be at a nil rate.

## **PROPOSED AMENDMENTS TO THE 2009/10 iFReM TEXT**

### **Donated assets**

6.2.12 Assets donated by third parties (see also paragraph 6.2.17), either by gift of the asset or by way of funds to acquire assets ~~(including national lottery-funded assets)~~, and which meet the criterion in paragraph 6.2.13, should be capitalised at fair value on receipt. Where the value of the services provided by an asset will be less than the fair value of the asset because it is over-specified for its intended use, the lower value should be used. The amount capitalised should be credited to a donated asset reserve.

### **SIC 10 consensus**

6.2.33 The consensus in SIC 10 is that government assistance to entities meets the definition of government grants even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants should not be credited directly to equity.

### **Interpretation of IAS 20 and SIC 10 for the public sector context**

6.2.34 In applying IAS 20 and SIC 10, entities should be aware of the following interpretations for the public sector context.

#### **Recognition**

- a) Parliamentary Supply (the parliamentary grant in Wales) does not fall within the meaning of government grants.
- b) Entities receiving a grant (not grant-in-aid) to fund the purchase of a specific asset should credit that grant to a government grant reserve which should be released to income over the useful life of the asset. The option provided in IAS 20 to offset the grant against the cost of the asset is not available.

### **Other requirements**

6.2.35 The following requirements should be observed by entities covered by this Manual.

- a) The notes to the financial statements should distinguish between grants from UK government entities and grants from the European Union.
- b) As it is important for monitoring and control purposes, entities that receive grant in aid that is intended to finance both revenue and capital expenditure should analyse the grant in aid between its constituent parts, notwithstanding that it will be credited in total to the income and expenditure reserve.

### **Summary of accounting treatment**

6.2.36 Grants and grants-in-aid shall be accounted for as follows:

- a) grants-in-aid, whether for revenue or capital purposes, are to be treated as contributions from controlling parties giving rise to a financial interest in the residual interest of the reporting entity, and are to be credited to general reserves and not, respectively, to income or deferred income. In the case of grants-in-aid for general capital purposes, it will not be necessary to release amounts to the income and expenditure account to offset reserves;
- b) grants for revenue purposes will normally be accounted for in the same way as grants-in-aid, unless it can be demonstrated that they are provided in return for specific goods or services, in which case they are to be credited to income. Any proposal to account for grants as income should be approved by the sponsoring department and the relevant authority;
- c) grants provided to finance the purchase of a specific fixed asset (which includes lottery funded assets) are to be credited to a government grant reserve which is released to income over the useful economic life of the asset;
- d) on disposal of an asset financed by a grant, the profit or loss is taken to the income and expenditure account/operating costs statement and is offset by a transfer from the government grant reserve of the same proportion of the profit or loss that the amount of the grant bears to the original cost of the asset. The balance on the government grant reserve in respect of that asset should be transferred to the income and expenditure reserve/general fund representing that same proportion of the proceeds;
- e) the profit or loss on disposal of an asset financed by grant-in-aid is taken to the income and expenditure account/operating cost statement; and
- f) grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department and the relevant authority.

### ***Other Exceptions (from the full Capital Charge)***

11.5.10 For donated assets, lottery funded assets, additions to heritage collections where the existing collection has not been capitalised, and cash balances with the Office of HM Paymaster General (OPG), the charge will be at a nil rate. Balances with the Bank of England will also bear a nil rate provided that the balances are formally included in the "Exchequer pyramid" which allows such monies to be used to reduce government borrowing.

11.5.11 For amounts due from, or due to be surrendered to, the Consolidated Fund, and liabilities in respect of advances outstanding from the Contingencies Fund, the charge will be at a nil rate.

## IMPACT ON STANDARD CHART OF ACCOUNTS

This annex will not form part of the final paper to the FRAB, but will be used by the GFIR team to maintain the SCOA and the WGA format.

### The Treatment of Government Grants in Resource Accounts

<b>Issue:</b>	The accounting requirements for assets funded by government grant as detailed in the FReM differ to those in the NHS's Foundation Trust (FT) FReM.
<b>Impact on guidance:</b>	Annex A details the proposed changes to the FReM, while Annex B details the proposed changes to the iFReM.
<b>IAS/IFRS adaptation?</b>	No
<b>IPSAS compliant?</b>	Yes
<b>Interpretation for the public sector context?</b>	No
<b>Impact on budgetary regime?</b>	This paper proposes that lottery funded assets are treated as finance through a government grant and as such will be subject to a capital charge in the accounts. However, in budgets lottery funded assets are excluded from the capital charge and this will not change.
<b>Alignment with National Accounts</b>	Yes
<b>Impact on Estimates?</b>	No
<b>Recommendation:</b>	The FRAB endorse the proposal that lottery fund assets are accounted for as financed by government grant.
<b>Timing:</b>	2008/09

Does this paper propose a change in accounting policy?

Yes

Does the impact on Budgets, Estimates, Department Yellow or WGA mean that additional disclosures are required? No