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Dear Finance Director

TREATMENT OF NON-EXCHANGE TRANSACTIONS – INCLUDING GOVERNMENT GRANTS AND DONATED ASSETS

Purpose

1. The purpose of this letter is to provide clarity on the treatment of government grants and donated assets in Estimates and accounts, following the removal of the government grant and the donated asset reserves.

Scope

2. The guidance provided in this letter applies to all bodies who apply the FReM.

Estimates

3. Departments are not required to include prior period adjustments (PPAs) for the removal of the government grant or donated asset reserves. A note in the 2011-12 Spring Supplementary Estimate will be included to explain the reason for the change and the financial impact for the previous two years where an Estimate is produced. However, each Department will be required to calculate the prior period

adjustment which would have been required, to allow the financial impact to be included in this note.

Resource Accounts

4. Following the interpretation of IAS 20, in line with IPSAS 23, the donated asset and government grant reserves will no longer exist. All government grants or donated assets should be recognised as income reflecting the conditions or restrictions placed on their use by the providers. They should be recognised when receivable unless there are conditions on their use which, if not met, would mean the grant is repayable. In such cases, the income should be deferred and released when the obligations are met. Where a grant only has restricted use (and not conditional) it should be recognised as income immediately.

5. Although this is a change of accounting policy, and a prior period adjustment will apply, in order to ensure there is clarity in the Statement of Assembly Supply, the estimate and outturn included within the Statement **should not be** adjusted. The Resource Accounts should instead include a note disclosing that Estimates figures included in the accounts have not been restated, including values for the comparative Supply outturn as appropriate. Suggested text is provided at Annex A.

6. Although Estimates are not required for these accounting policy changes other than as a note, and the Statement of Assembly Supply is unadjusted, restatement of these and other accounting policy changes should still be made in resource accounts in accordance with IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, changes in Accounting Estimates and Errors as adapted by the FReM.

7. Subject to materiality, when the changes are applied retrospectively, the opening balance for the earliest prior period presented (the beginning and end of the previous period as well as for the current period) should be adjusted as if the new accounting policy had always been applied. That is, the previous two Statements of Financial Position should be restated and presented.

8. Grants received in years before 2010-11 will go straight to general reserves as a proxy for recognising them in income in the year they were received, because there isn't a comparative Statement of Comprehensive Net Expenditure for these to flow through. There should be no prior period adjustment calculation for increased expenditure because, cumulatively, there is not likely to be any increased expenditure. A prior period adjustment calculation should only be required when both the asset and the reserve have been revalued upwards in the past. Two worked examples are shown at Annex B to demonstrate when a prior period adjustment calculation might be necessary.

9. An assessment will need to be undertaken for each grant currently contained within the Government Grant Reserve and the Donated Asset Reserve. This should identify the restrictions and/or conditions applied to each grant or donated asset, the original value of the grant, and any revaluations of grants in line with asset revaluations. The Reserves will need to be split between what relates to the original and revalued elements. Where information on a grant is not available, the grant should be restated to general reserves and revaluation reserve as necessary. All information on conditional grants should still be available as there is an ongoing risk that the grant will have to be repaid if conditions are not met.

10. Once this assessment has been completed, all restricted/unrestricted grants should be restated as if recognised as income on receipt. Those

received in the prior year (2010-11) should be restated as income in the comparative Statement of Comprehensive Net Expenditure, with earlier grants taken straight to the General Fund Reserve. Conditional grants should be transferred to current/non-current liabilities as deferred income until the conditions are met, when they should be released to the Statement of Comprehensive Net Expenditure. If an associated asset has been revalued in the past, the Government Grant Reserve will have been credited with a matching amount so that the depreciation and Government Grant amortisation match. Any revaluation in the Government Grant or Donated Asset Reserves should be transferred to the Revaluation Reserve and not the General Fund Reserve or liabilities. Future revaluations of assets purchased by government grant will have no impact on the income received.

Additional Disclosures

11. In addition to the requirements in this letter, FReM paragraph 6.2.7(g) requires that the fair value of those assets funded by government grant, donation or lottery funding should be separately disclosed as part of the Property, Plant and Equipment note.

Action

12. Finance directors are requested to circulate this letter to the appropriate accounting staff within their department, agencies, NDPBs, trading funds and any other entities that prepare their accounts using the principles outlined in FReM.

Further advice

13. If you have any queries do not hesitate to contact Cris Farmer on (028) 91 858025 (GTN 68025), email: cris.farmer@dfpni.gov.uk or Joanne Warnock on (028) 91 277683 (GTN 69083), email: joanne.warnock@dfpni.gov.uk.

Yours sincerely

[signed]

FIONA HAMILL

Annex A

Suggested text for inclusion in the Departmental Resource Accounts

Statement of accounting policies

1.ax In line with Department of Finance and Personnel advice, Prior Period Adjustments (PPAs) arising from the change in treatment of non-exchange transactions including the removal of the Government Grant Reserve and/ or the Donated Asset Reserve were not included in Spring Supplementary Estimates for 2011-12, other than as a note. The impact of these accounting policy changes on Supply outturn in respect of 2010-11 are shown in *1.ay*. PPAs arising from an error in previous recording or any other change in accounting policy were included in the Estimates in line with conventional arrangements.

1.ay The removal of the Government Grant Reserve and/or the Donated Asset Reserve has the following effect on Resource outturn in 2010-11. The Statement of Assembly Supply and related notes have not been restated for this effect.

	2010-11 £000
Net Resource Outturn (Statement of Assembly Supply)	
Removal of the Government Grant Reserve	
Removal of the Donated Asset Reserve	
Adjusted Net Resource Outturn	

Annex B

To assess if a prior period adjustment should have been made

Example 1

£100k restricted grant received in 2008-09, and £100k asset purchased.

Previous treatment:
2008-09 - £100k taken straight to Donated Asset Reserve (DAR)
2009-10 - £25k depreciation charge to SoCNE, £25k DAR release to SoCNE income
2010-11 - £25k depreciation charge to SoCNE, £25k DAR release to SoCNE income
2011-12 - £25k depreciation charge to SoCNE, £25k DAR release to SoCNE income

Net nil effect on SoCNE

Restatement under new treatment:
2008-09 - £100k taken straight to income on SoCNE. As there are no 2008/09 comparatives in 2011/12, take income straight to general reserves
2009-10 - £25k depreciation charge to SoCNE
2010-11 - £25k depreciation charge to SoCNE
2011-12 - £25k depreciation charge to SoCNE

The 2011-12 comparatives will need restating to show higher expenditure than the actual 2010-11 accounts as there is no DAR release, but the cumulative effect is that £25k more income than expenditure has been recognised in the SoCNE to date, therefore there is no prior period adjustment.

Example 2

£100k restricted grant received in 2008-09, and £100k asset purchased. In 2009-10 the asset is revalued at £400k, as is the DAR.

Previous treatment:
2008-09 - £100k taken straight to Donated Asset Reserve (DAR)
2009-10 - £100k depreciation charge to SoCNE, £100k DAR release to SoCNE income
2010-11 - £100k depreciation charge to SoCNE, £100k DAR release to SoCNE income
2011-12 - £100k depreciation charge to SoCNE, £100k DAR release to SoCNE income

Between 2008-09 and 2010-11, income and expenditure are net nil

Restatement under new treatment:
2008-09 - £100k taken straight to income on SoCNE. As there are no 2008/09 comparatives in 2011/12, take income straight to general reserves
2009-10 - £100k depreciation charge to SoCNE
2010-11 - £100k depreciation charge to SoCNE
2011-12 - £100k depreciation charge to SoCNE

Between 2008-09 and 2010-11 there is now net expenditure of £100k, which will need a prior period adjustment.