

TREASURER'S DIRECTIONS

ACCOUNTING – EXPENSES

Section A6.4 : Grants and Subsidies

STATEMENT OF INTENT

Grants and subsidy expenses are distributions of public money for which Agencies are accountable, and as such, it is important that these expenses are appropriately recognised, managed, and disclosed in an Agency's financial records. This Section explains what grants and subsidies are, when they are to be recognised and recorded, and how they should be managed.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Grants and Subsidies

- Grant and subsidy expenses are distributions of public money made by an Agency to other Agencies, entities or individuals that are directed at achieving Agency outputs and outcomes.
- Grants may be non-reciprocal or reciprocal in nature, while subsidies are non-reciprocal in nature.

Recognition of Grants and Subsidies

- Non-reciprocal grant and subsidy distributions are to be recognised and recorded in the books of an Agency as an expense when incurred.
- Reciprocal grant distributions are to be recognised and recorded as an expense in the books of an Agency when performance under the grant occurs.

Classification of Grants and Subsidies

- Grant or subsidy expenses are to be classified and recorded as current or capital and under the relevant expense codes provided in the Standard Classifications.

Management of Grants and Subsidies

- Each Agency is to ensure that appropriate management, accountability and control arrangements are in place over the payment, ongoing monitoring, and acquittal of grants and subsidies.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Financial Management Act

REFERENCES

AAS 29 Financial Reporting by Government Departments
 Framework for the Preparation and Presentation of Financial
 Statements

Related Treasurer's Directions:

A2.1 Accounting – Assets : Overview
A2.2 Accounting – Assets : Property, Plant and Equipment
A2.7 Accounting – Assets : Receivables
A2.9 Accounting – Assets : Prepayments
A3.1 Accounting – Liabilities : Overview
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A6.1 Accounting – Expenses : Overview

WHAT ARE GRANTS AND SUBSIDIES ?

A6.4.1

Grant and subsidy expenses are distributions of public money made by an Agency to other Agencies, entities or individuals that are directed at achieving Agency outputs and outcomes.

A6.4.2

Grants may be non-reciprocal or reciprocal in nature, while subsidies are non-reciprocal in nature.

- (i) Grants and subsidies include non-repayable, non-interest bearing assistance provided to other Agencies, entities (for example, non-government organisations) or individuals in order to achieve aims and objectives that are consistent with Agency outputs and outcomes. This Treasurer's Directions Section deals with grants and subsidies from the perspective of the provider (that is, grant and subsidy expenses). Treasurer's Directions Sections A2.7, A5.2 and A5.3 provide instruction and guidance in relation to grants and subsidies from the perspective of the recipient.
- (ii) Grant and subsidy distributions are often used by Agencies as a means of delivering services to the community and can take many forms, including the provision of cash, non-cash assets and services. They can be adopted as a cost effective and efficient way of delivering required services where appropriate public sector skills or resources are not available and where certain organisations have closer contact with target groups or service users.
- (iii) The payment of grants may be covered by written agreements (with specific requirements and conditions) and/or may be authorised and documented in another fashion (for example, through legislation, regulation and/or decisions of Government). Subsidies will generally have defined eligibility criteria that are required to be met prior to payment being made.
- (iv) Examples of grants and subsidies include distributions provided to:
 - community care centres and health care providers;
 - local and community government councils;
 - schools and educational institutions; and
 - community groups and organisations.
- (v) Grants and subsidies should be distinguished from the purchase of everyday goods and services by an Agency. In a majority of cases, the purchase of goods and services will be based on standard terms and conditions set by the supplier rather than the Agency. Conversely, grant and subsidy terms, conditions and/or eligibility criteria will invariably be established by the Agency (or Government) providing the grant, rather than the grant recipient. Grant and subsidy expenses do not include:
 - loans to another entity; and
 - a reimbursement of expenses.

- (vi) Additional instruction and guidance in relation to the treatment of the provision of non-cash assets (for example, an item of equipment) may be found in Treasurer's Directions Section A2.2 and are not covered in this Section. Such transfers are treated as gifts or donations of assets for financial recording and accountability purposes. Agencies are reminded that under the *Financial Management Act* gifts require the prior approval of the Treasurer.
- (vii) The payment of grants and subsidies may involve Goods and Services Tax (GST) implications for the Agency and/or the recipient. As such, reference should be made to the Territory's policy on grants and GST, which is specified in Treasury Tax Circulars.
- (viii) The specific accounting requirements in relation to grants will depend on whether they are non-reciprocal or reciprocal in nature. In addition, the recognition of an expense and/or liability has regard to the point in time at which control of the grant funding passes to the recipient. In a vast majority of cases, subsidies will not be reciprocal as the recipient of the subsidy is not required to directly provide value in exchange, but is merely required to meet pre-established criteria.

NON-RECIPROCAL GRANTS AND SUBSIDIES

A6.4.3

A non-reciprocal transfer means a transfer in which an Agency provides assets or services or extinguishes liabilities without directly receiving approximately equal value in exchange from the other party or parties to the transfer.

- (i) In many situations where an Agency provides a grant to another entity, the Agency will not receive approximately equal value directly in return. Such transactions are termed non-reciprocal or non-exchange transactions. For example, a non-Government organisation may utilise grant funding to provide benefits directly to third parties. In these situations the Agency providing the grant will only receive an indirect benefit as a result of satisfying its outputs and outcomes.
- (ii) Although an Agency may impose restrictions in respect of the manner or timing in which a grant may be used, this does not of itself create an obligation on the recipient to provide value in exchange. Many grants will therefore be treated as non-reciprocal transactions.
- (iii) In the case of subsidies, the recipient of the subsidy does not directly provide value in exchange. As such, a vast majority of subsidy payments will be non-reciprocal.

A6.4.4

Non-reciprocal grant and subsidy distributions are to be recognised and recorded in the books of an Agency as an expense when incurred.

A6.4.5

Where some or all of a non-reciprocal grant or subsidy is required to be repaid, an Agency is to recognise the amount repaid, or due to be repaid as:

- a credit to grant expenses where the substance of the transaction is that of a repayment of a previously recognised grant expense; or
- income for other repayments.

- (i) Most non-reciprocal grant and subsidy distributions do not result in an Agency liability (present obligation) prior to payment of the grant or subsidy. In practice therefore, a majority of non-reciprocal grants and subsidies will be recognised as an expense at the time the Agency provides the cash, non-cash assets or services. In most cases this will occur at the time a cash grant or subsidy is paid to the recipient. Treasurer's Directions Section A6.1 provides further instruction and guidance in relation to the recognition of expenses.
- (ii) In rare cases an Agency may have a present obligation to make a grant or subsidy payment well prior to the payment being made. In circumstances where the grant payment is material, payment is not expected for some time, and a clear and unavoidable present obligation exists, an Agency may recognise an expense and a corresponding grant liability. Treasurer's Directions Section A3.1 provides instruction and guidance in relation to the recognition of liabilities.
- (iii) The situation for multi-year or recurring grants is slightly different in that the expense and/or liability is recognised when the Agency is obliged to make the grant. That is, an Agency will not recognise an expense and/or liability until the recipient meets conditions, such as grant eligibility criteria, or has provided the services or facilities required by the grant agreement. The treatment of multi-year or recurring grants is similar to that required for reciprocal grants as explained in Treasurer's Direction A6.4.7.
- (iv) Situations may arise where the recipient of a grant or subsidy fails to meet certain terms and conditions attached to a grant or subsidy, and some or all of the grant is required to be repaid. In these cases an Agency will recognise the amount repaid or due to be repaid as a credit to grant expenses where adjusting a previously recognised grant expense reflects the substance of the transaction. In practice, the repayment should directly relate to a previously recognised grant expense in order for a credit to expenditure to be processed. Other repayments are recognised as income.
- (v) Where it is clear that a grant or subsidy recipient will be required to repay some or all of grant or subsidy in the future, a receivable will be raised where material in aggregate and where the asset recognition criteria are met. Treasurer's Directions Sections A2.1 and A2.7 provide instruction and guidance in relation to assets and receivables.
- (vi) In situations where there is less certainty that a grant or subsidy repayment will occur, an Agency will recognise the repayment when cash is received.

RECIPROCAL GRANTS

A6.4.6 **A reciprocal transfer means a transfer in which an Agency provides assets or services or extinguishes liabilities and directly receives approximately equal value in exchange from the other party or parties to the transfer.**

- (i) When an Agency provides a grant to another entity and that entity is obliged to directly return approximately equal value in exchange, the grant is reciprocal (an exchange transaction). For a grant to be reciprocal, the return of value is to be received directly by the Agency that provides the grant. It is insufficient that the Agency merely derives benefit from satisfying its objectives of providing benefits to others.
- (ii) The existence of specific terms, conditions and/or benchmarks between the Agency paying the grant and the recipient, while indicative, do not of themselves indicate that the grant is reciprocal in nature. Reciprocal or exchange transactions may however be characterised by a legally enforceable requirement to repay or return some or all of the grant where performance under the grant has not occurred. For instance, if an Agency provides a grant to a research organisation to undertake a defined research task and to report back on the results of that research to the Agency, and there is a clear and enforceable requirement that the grant be repaid where the research task is not undertaken, the grant would be reciprocal in nature.
- (iii) Subsidies will rarely be reciprocal in nature as the recipient of a subsidy is not generally required to provide value in exchange but merely has to meet certain eligibility criteria.

A6.4.7 **Reciprocal grant distributions are to be recognised and recorded as an expense in the books of an Agency when performance under the grant occurs.**

A6.4.8 **Where some or all of a reciprocal grant is required to be repaid, an Agency is to recognise the amount repaid, or due to be repaid as a reduction to a previously recognised grant prepayment (where applicable), with any remaining amount recognised as:**

- a credit to grant expenses where the substance of the transaction is that of a repayment of a previously recognised grant expense; or
- income for other repayments.

- (i) In situations where a grant is not paid in advance, an Agency will recognise a grant expense (and a corresponding liability) when a binding agreement exists and performance under the grant agreement has occurred. Performance under the grant will depend on individual grant requirements and may include:
- applicable eligibility criteria being met;
 - the delivery of specified goods in accordance with the grant agreement; or
 - the provision of specified services in accordance with the grant agreement.

Treasurer's Directions Section A3.1 provides further instruction and guidance on the recognition and classification of liabilities.

- (ii) Where a reciprocal grant is paid in advance of a recipient's performance or the delivery of goods or services, an Agency will recognise a prepayment equivalent to the unperformed portion (where material). As performance under the grant occurs the prepayment will be reduced and a grant expense recognised. In practice a reliable assessment of the unperformed portion of a grant may be difficult to make, and as such only material prepayments would be recognised. Treasurer's Directions Section A2.9 provides further instruction and guidance in relation to prepayments.
- (iii) Situations may arise where the recipient of a reciprocal grant fails to meet certain terms and conditions attached to the grant, and some or all of the grant is required to be repaid. In these cases an Agency will recognise the amount repaid or due to be repaid as a reduction to a previously recognised prepayment (where applicable), with any remaining amount recognised as:
- a credit to grant expenses where adjusting a previously recognised grant expense reflects the substance of the transaction; or
 - income for other repayments.
- In practice, credits to grant expenses should not occur unless the repayment directly relates to a previously recognised grant expense.
- (iv) Where it is clear that a grant recipient will be required to repay some or all of grant in the future, a receivable will be raised where material in aggregate and where the asset recognition criteria are met. Treasurer's Directions Sections A2.1 and A2.7 provide instruction and guidance in relation to assets and receivables.
- (v) In situations where there is less certainty that a grant or subsidy repayment will occur, an Agency will recognise the repayment when cash is received.

CLASSIFICATION OF GRANTS AND SUBSIDIES

A6.4.9

Grant or subsidy expenses are to be classified and recorded as current or capital and under the relevant expense codes provided in the Standard Classifications.

- (i) The classification of a grant or subsidy expense as current or capital will depend on its nature in the hands of the recipient.
- (ii) A grant or subsidy is considered to be current in nature if it directly affects the level of disposable income and influences the consumption of goods and services of the recipient. In this regard, consumption implies that goods and services are consumed within twelve months. An example of a current grant would be the provision of funds by an Agency to another entity to develop a health care program.
- (iii) A grant or subsidy is considered to be capital in nature where the recipient, under the terms of the grant, is required to spend the money on capital projects such as the acquisition or construction of non-current assets. Examples of capital distributions include building and equipment grants to schools and assistance to first home buyers.

A6.4.10

Grants or subsidies that occur between Agencies are to be consistently treated as either reciprocal or non-reciprocal by the Agency receiving the grant and the Agency providing the grant.

- (i) Where an Agency provides a grant or subsidy to another Agency, each Agency is responsible for ensuring that the contribution is consistently treated as either reciprocal or non-reciprocal. Treasurer's Directions Sections A2.7, A5.2 and A5.3 provide instruction and guidance in relation to the recognition of grants and subsidies from the perspective of the recipient.

MANAGEMENT OF GRANTS AND SUBSIDIES

A6.4.11

Each Agency is to ensure that appropriate management, accountability and control arrangements are in place over the payment, ongoing monitoring, and acquittal of grants and subsidies.

- (i) The expenditure of public monies, including the distribution of grants and subsidies should be subject to appropriate management, accountability and control arrangements. In particular, the payment of grant monies should be transparent and capable of withstanding public scrutiny.
- (ii) As part of the establishment of these arrangements, Agencies should have regard to the relative risk and context within which a grant or subsidy is made, not merely the amount of the grant or subsidy being distributed. For example, providers who have previously been required to repay grant monies due to non-compliance may represent a higher risk than other providers who have proven to be able to deliver the required goods and or services in an efficient and effective manner.
- (iii) In addition to the general payment controls included in Treasurer's Directions Section C3.2, management, accountability and control considerations that may be applicable to grant and subsidy distributions include, but are not limited to:
- the identification and selection of recipients should be clear, transparent and capable of withstanding public scrutiny, with potential recipients selected on merit against established criteria;
 - while the form and degree of documentation associated with grants or subsidies will vary, documentation should satisfy accountability requirements in relation to the distribution of public monies;
 - where possible, agreements should be established with a focus on service delivery (performance), rather than solely the expenditure of cash funding;
 - written agreements should be legally sound, be in plain English, and should address GST issues where necessary;
 - applicable grant terms and conditions should be clearly specified and communicated with grant recipients, including any non-compliance and/or repayment requirements;

Management of Grants and Subsidies – continued:

- clear acquittal processes should be established that are commensurate with the nature, risk and amount of funding provided. In this regard, the capability of, and costs of compliance by recipient organisations should be taken into consideration;
- payments (including prepayments) should be consistent with the terms and conditions of the grant or subsidy and should be approved by an appropriately delegated officer;
- grants should be followed up in a timely manner where terms and/or conditions are breached to a material extent and partial or full repayment of a grant is required (for example, goods and services are not provided or are not provided in accordance with grant terms and conditions);
- prompt action is taken where evidence exists that grant or subsidy distributions may be the subject of fraud; and
- periodic review of the overall efficiency and effectiveness of grant and subsidy funding as a means of achieving Agency objectives should be undertaken. As part of this process, future grant programs and/or grant agreements should be reviewed and amended where necessary.