

1 Background

- 1.1 At its April meeting the SORP Committee gave further consideration to guidance that sought to clarify the classification of grants receivable within the SoFA. Two alternatives were presented.
- 1.2 The first option attempted to differentiate between grants as “Voluntary Income” and grants as income derived from “Charitable Activities” based on the criteria of whether or not the grant was in substance a payment for a specific service output. This approach indicated that “performance related grants” which require the performance of specified services with payment being conditional on a specified output being provided should be classified as income derived from charitable activities. Other grants, including restricted grants, would be classified as voluntary income notwithstanding the restriction of its use to a particular activity or purpose of the charity. This option was considered too restrictive by the SORP Committee.
- 1.3 The second option, which was favoured by the SORP Committee, sought to recognise that grants can be directed at obtaining a service provision without the terms of the grant equating to that of a performance related grant. Under this approach all grants that were specifically provided to secure the provision, by the recipient charity, of goods and services to its beneficiaries would be construed as derived from charitable activities. This interpretation is more flexible and takes a broader view of income that can be construed as derived from the provision of charitable activities.
- 1.4 Whilst the second option was preferred, it was felt that the first option also offered some useful guidance on definitions which could be incorporated into the guidance provided by the Information sheet.

2 Revised text

- 2.1 The suggested revised text for inclusion in the Information Sheet is set out below:

“Grant income received is analysed, in the Statement of Financial Activities (SoFA), as either voluntary income (paragraph 121) or incoming resources from charitable activities (paragraph 145) depending upon the character of the grant. Preparers of accounts have sought clarification as to how grant income should be analysed between the income categories of the SoFA and, in particular, whether the receipt of a restricted grant is equivalent to a performance related grant which should be categorised as incoming resources from charitable activities.

Contractual income derived from the provision of goods and services to beneficiaries will always be analysed as incoming resources from charitable activities. ~~as will any performance related grants that requiring the~~

performance of a specified service (See SORP Glossary GL 45). The SORP also recognises that some grants contain conditions that require the performance of a specified service where payment is conditional on a specified output being achieved (See SORP Glossary GL 45). Such grants are termed performance related grants and have conditions which make them similar in economic terms to trading income (See SORP Para.142) and are also analysed as incoming resources from charitable activities within the SoFA.

Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance related grant (See SORP Para 100). However, even where the conditions attaching to grants do not create specific performance related conditions, the funding may often be provided on terms that clearly require the funds to be utilised to support particular service providing activities of the charity. Where the nature of the conditions attaching to a restricted fund are such that they create a service requirement that must be met by the charity then the grant funding should also be analysed as incoming resources from charitable activities.

Voluntary income comprises gifts that will not normally provide any return to the donor other than the knowledge that someone will benefit from the donation. Voluntary income will normally include gifts in kind and donated services (See SORP Glossary GL 61). Grants which provide core funding or do not have particular service requirements or are received in response to a public appeal are also analysed as voluntary income (See SORP Para 144 and Para 121 (b)). Similarly, restricted grants, that do not create a service requirement, are normally analysed as restricted voluntary income (see SORP Glossary GL 61).”

2.2 The text of the Information Sheet previously agreed is attached as an appendix to this paper for information.

Questions:

- 1. Is the SORP Committee context with this redraft?**
- 2. Is the SORP Committee content for the text of the Information Sheet to be sent to CAPE, prior to publication?**