



Cabinet Office

# Guidance for General Grants

## Minimum Requirement Six: Grant Agreements

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### Important note

- ▶ This guidance applies only to general grants made by departments and their arm's length bodies (ALBs) using Exchequer funding. It does not apply to formula grants or grant in aid. [Managing Public Money](#) and local guidance within government grant making organisations is applicable to those categories, and minimum requirements may be developed in future.
- ▶ Organisations' primary concern when administering grants is to have due regard to the 'Grants Functional Standard' (GovS 015) and the key documents referred to within it including [Managing Public Money](#). Nothing in this guidance is intended to contradict or supersede these. Furthermore, this guidance is not intended to be an additional spending control - departments retain accountability for decisions on grant expenditure.
- ▶ This guidance should be read in conjunction with the wider set of minimum requirements guidance documents (including the introduction). Further information and tools supporting this guidance can be found online through the [grants Centre of Excellence \(CoE\)](#). Further references and resources are highlighted throughout. It should also be read alongside organisations' internal guidance, where available, which will provide the departmental policy context.
- ▶ This guidance should be approached on a 'comply or explain' basis. It is important to consider flexibility and proportionality in adhering to the minimum requirements. As such there may be some specific instances where the requirements may not be met in full. In these instances, appropriate justification should be recorded within the business case or equivalent approval documents.

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## Minimum Requirement

All government general grants shall be awarded through **robust grant agreements**, proportionate to the value of the grant, which reflect the Grants Functional Standard for government grants and are in line with Managing Public Money. All government grant agreements shall include terms of eligible expenditure.

## Purpose

**Minimum Requirement Six:** grant agreements and the further guidance for general grants set out below, is provided to help ensure that all government general grants schemes have appropriate agreements in place, which set out amongst other provisions: the purpose and objectives of the award; standard terms and conditions for the receipt of funding; performance monitoring; financial assurance; and a payment schedule. This should assist in minimising risk around accidental or deliberate misuse, provide necessary controls to manage delivery and ensure adherence to the appropriate parts of the minimum requirements for general grants. It is strongly recommended that government grant making organisations use the Cabinet Office **Model Grant Funding Agreement (MGFA)**, hosted on the [grants Centre of Excellence \(CoE\)](#) which has legal clearance and is fully compliant with the minimum requirements. There are currently long and short-form versions of the MGFA available to download from the CoE.

## Grants Functional Standard: Key References

Mandatory requirements are defined by the word **shall** in the grants functional standard. The **shall** statements related to this minimum requirement have been extracted from the standard and are set out below. **Please note:** in some cases, the information has been paraphrased for conciseness - refer to the standard itself for the full version.

Area	Requirement(s)	Context	Reference	Page
<b>Grant Life Cycle:</b> General Grants Life Cycle	Once the draft grant agreement has been signed off for use and tailored to the particulars of the scheme, authorised representatives of the funding organisation and the grant recipient <b>shall</b> sign a copy of the grant agreement, identifying the named accountable individual for the recipient organisation.	The purpose of an agreement pertaining to a grant is to ensure that: <ul style="list-style-type: none"> <li>• the government's objectives in relation to a grant are clear;</li> <li>• funding is used for the purpose intended;</li> <li>• activity and expenditure can be monitored;</li> <li>• action can be taken early to suspend payment or terminate activity, where the grant is failing against its objectives;</li> <li>• fraudulently claimed, misused or surplus funding is recovered.</li> </ul>	5.2.4 General grant award.  <i>Also refer to: 6.4 Agreements.</i>	15
<b>Supporting practices:</b> Agreements	General grants <b>shall</b> be covered by a grant agreement.	A grant agreement should be justified and based on the content of the business case and written to ensure that the funding is used as intended.	6.4 Agreements  <i>Also refer to: 6.4.1 Grant agreement (general grants) 4.2.2 Justification of grants.</i>	19
<b>Supporting practices:</b> Agreements	Each general grant award <b>shall</b> be subject to a defined agreement between the grant making body and the recipient and should be proportionate to the value of the grant being awarded and <b>shall</b> be underpinned by appropriate legislation.	<i>[As above]</i>	6.4.1 Grant agreement (general grants)  <i>Also refer to: 6.4 Agreements 4.2.2 Justification of grants.</i>	19

## Overview

1. Government grant making organisations shall ensure that their grant agreements, including those administered through third parties, comply with the guidance set out in this document, including clearly stating the purpose and objectives for which the grant is awarded, providing details of approved activity and setting out categories of eligible and ineligible expenditure.

## Developing the grant agreement

2. When developing grant agreements, due regard should be given to ensuring regularity and propriety in the use of public funds. It is strongly recommended that the Cabinet Office Model Grant Funding Agreement (MGFA) is used as the default agreement for government general grants. The MGFA template includes notes to aid its completion, is fully compliant with the minimum requirements for general grants, and is cleared for use by the Government Legal Department (GLD). The template is regularly reviewed and the latest version reflects updated provisions on Subsidy Control and TUPE.
3. In cases where the MGFA is not suitable for the design or intended purpose of a particular scheme, and there is a clear and agreed rationale for that determination, such as the policy applicable to grants awarded to local authorities under Section 31 of the Local Government Act, 2003, it is recommended that grant making organisations use alternative, bespoke grant agreements, or equivalent agreements such as a memorandum of understanding (MoU), where appropriate, which are cleared through internal legal advisers and finance, as a minimum.<sup>1</sup> The MGFA should be used as the basis for such agreements (see paragraph 4). In the case of grant-in-aid and formula grants, grant making organisations should consult their legal advisers and Managing Public Money for advice and appropriate templates for the framework document and settlement letter, respectively.
4. Where an organisation chooses not to use the MGFA template in full, they should review available internal grant agreements, where applicable, and ensure that they meet the requirements of each individual scheme, and strengthen the agreements where needed, using the MGFA template as a base. Critically, this will include making absolutely sure that terms covering eligible expenditure are included and that the associated financial and performance monitoring clauses, and the assurance regime, are sufficiently stringent to prevent inappropriate expenditure or financial loss. In the case of grants to local authorities, an organisation may want to define the pre-agreed terms and conditions of the grant through a MoU. Organisations should be aware that MoUs are not intended to be legally enforceable.
5. [Codes of conduct for both commercial suppliers and grant recipients, were](#) first published on GOV.UK in 2017 and 2018, respectively. The codes were developed to

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<sup>1</sup> For further details of localism policy and how it applies to S.31 grants, see paragraph 7 of Guidance for General Grants, published here: [https://assets.publishing.service.gov.uk/media/6128f687d3bf7f63a54f60b6/2021-08-27\\_Grants-Standards-Guidance-INTRO.pdf](https://assets.publishing.service.gov.uk/media/6128f687d3bf7f63a54f60b6/2021-08-27_Grants-Standards-Guidance-INTRO.pdf).

align expectations and make clear, the standards and behaviours that are expected of both government staff, as well as suppliers and grant recipient organisations and their employees and sub-contractors, when working with government, and how they can help government deliver value for money for taxpayers.

## Key considerations

6. As a minimum, the Cabinet Office expects government grant agreements to include terms and conditions, where necessary supported by guidance, covering the following:
  - a clear description of the scheme purpose, aims and objectives;
  - a clear description of expenditure, including eligible expenditure categories, which prohibit paid for lobbying (except where a requirement of the scheme) and improper expenses;
  - a data protection policy;
  - counter fraud policy including mitigation, identification, reporting and escalation;
  - audit and assurance;
  - agreed indicative delivery KPIs or milestones and longer-term outcomes;
  - financial and delivery-based reporting and validation;
  - subsidy control compliance (see [Minimum Requirement Five: Competition for Funding](#));
  - a description of breach events and associated actions/ consequences;
  - performance tolerances allied to payment suspension, recovery and grant termination clauses;
  - a debt recovery policy; and
  - impact evaluation including lessons learned.
7. The Cabinet Office will not specify what detail should be included in individual grant agreements under the above categories beyond providing the MGFA templates. The funding organisation will determine such detail, tailoring the MGFA to each individual scheme. Where one of the above listed clauses is absent from a grant agreement, its absence should be agreed as part of the business case development and approval process, including consultation with legal advisers.

## Declaration by the grant recipient: double funding

8. Organisations should, as part of the grant award process, require grant recipients to declare that acceptance of the funding offered will not result in double funding, ensuring that the organisation is not being funded from elsewhere for the same or similar activity. Any match or pooled funding, where declared, would not be considered double funding. The authorised signatory will be liable for any false declaration.

## Payments

9. In accordance with Managing Public Money, it is expected that grant payment models will reflect need, and avoid paying portions of funding up-front, except where that can be fully justified and is approved via the organisation's formal governance process.

Where possible, it is good practice to link the release of regular payments to the receipt of satisfactorily completed delivery and financial returns, with the submission of returns triggering the release of payments, following the successful completion of whatever validation checking regime is specified in the grant agreement.

## Competition

10. The organisation must consider UK rules on subsidy control prior to awarding a grant (refer to [Minimum Requirement Five: Competition for Funding](#) for further details).<sup>2</sup>

## Eligible expenditure

11. Grant making organisations should ensure that categories of eligible expenditure are included in all general grant agreements, including items of expenditure that are expressly ineligible: the Cabinet Office Model Grant Funding Agreement includes clauses covering expenditure and breach. The terms must be sufficiently clear, to provide assurance that the grant is only used for the purposes for which it was awarded. This includes enabling the recovery of misused or surplus funding identified at any time during the delivery period, or as part of regular delivery monitoring and financial reconciliation activity, as well as final reconciliation at the end of the delivery period.
12. Grant recipients are required to provide evidence of their grant expenditure, for example, through the regular submission of a **Statement of Grant Usage** (SoGU) or an equivalent, which must be validated to ensure accuracy. Failure to submit financial returns, or irregularities identified through validation, should result in payment suspension, investigation, and in serious cases a full audit, to establish the cause. The grant agreement should require the recipient to maintain an audit trail of all grant related expenditure, and provide full access for the authority (the department or an organisation, such as an ALB, acting under the terms and conditions agreed via a framework document), on request.
13. Funding organisations are responsible for defining terms of eligible and ineligible expenditure for individual schemes and awards. Such terms should be clearly drafted to help provide certainty about what a grant recipient may do with the grant. In addition, where appropriate, to add more flexibility, a grant agreement might allow for the authority to issue accompanying internal guidance, clarifying what is permitted by an eligible expenditure clause.
14. Eligible expenditure terms may allow the following activities:
  - giving evidence to Select Committees;
  - attending meetings with Ministers or officials to discuss the progress of a taxpayer funded grant scheme;
  - responding to public consultations, where the topic is relevant to the objectives of the grant scheme. This does not include spending government grant funds on

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<sup>2</sup> Guidance on the UK's subsidy control regime is published here: <https://www.gov.uk/government/collections/subsidy-control-regime>.



lobbying other people to respond to the consultation (unless explicitly permitted in grant agreement);

- providing independent, evidence-based policy recommendations to local government, departments or Ministers, where that is the objective of a taxpayer funded grant scheme, for example, *What Works Centres*; and
- providing independent evidence-based advice to local or national government as part of the general policy debate, where that is in line with the objectives of the grant scheme.

15. Eligible expenditure specific to government research grants, for example, those awarded to the National Academies, might include:

- publishing and publicising the results of research paid for using taxpayer funded grants;
- hosting science and research communication events, for example, science festivals, Royal Society's Summer Science Exhibition, visits, breakfasts, dinners or receptions, seminars, the use of newsletters and campaigns, and sharing information with Parliament to expound greater understanding of research outcomes or launch a research project or equipment;
- working with or through a third-party organisation or commercial partners, which are not professional lobbying organisations, to conduct, communicate or publish research findings and inform policy;
- contributing expert scientific and academic advice to inform government policy and funding or make the case for science; and
- developing proposals for future research grants.

### Ineligible expenditure categories

16. The following types of expenditure are ineligible unless permitting them is a specific requirement of the grant agreement:

- paid for lobbying, which means using grant funds to fund lobbying (via an external firm or in-house staff) in order to undertake activities intended to influence or attempt to influence parliament, government or political activity; or attempting to influence legislative or regulatory action;<sup>3</sup>
- using grant funds to directly enable one part of government to challenge another on topics unrelated to the agreed purpose of the grant;
- using grant funding to petition for additional funding;
- expenses such as for entertaining, specifically aimed at exerting undue influence to change government policy;
- input VAT reclaimable by the grant recipient from HMRC; and
- payments for activities of a party political or exclusively religious nature.

### Prohibited expenditure

17. Other examples of expenditure, which should be prohibited, include the following:

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<sup>3</sup> **Note:** this does not relate to non-government grant funding or income held by an organisation.

- contributions in kind;
- interest payments or service charge payments for finance leases;
- gifts;
- statutory fines, criminal fines or penalties;
- payments for work or activities which the grant recipient, or any member of their partnership has a statutory duty to undertake, or that are fully funded by other sources;
- bad debts to related parties; and
- payments for unfair dismissal or other compensation.

18. As described at paragraph 16, all grants must include eligible expenditure terms covering how paid for lobbying is dealt with. For context, unless lobbying government on matters of policy is a requirement of a grant and part of a scheme's purpose, then attempting to exert undue influence over government policy using taxpayer funding provided as a grant award, should always be prevented under eligible expenditure terms set out in the grant agreement. Grant funders should use the bullets set out at paragraphs 14-17 as the baseline for eligible expenditure terms.

19. The above guidance is not presented as an exhaustive list of what is permissible or otherwise under eligible expenditure terms. The authority can specify what is and is not included to tailor eligible expenditure terms to the requirements of individual schemes, in line with the guidance in this document. This flexibility means there is no requirement for an exemptions policy in relation to this guidance.

## Post-award

20. It is important to ensure that all post-award delivery and management activities required of the recipient, including data capture and reporting, are fully aligned with the terms and conditions of the grant agreement and also incorporate the details set out in the application for funding. Any subsequent changes to the delivery or management of the grant award, for example, due to a change in policy, that differ to the terms set out within the grant agreement, will need to be justified and reflected (in a timely manner) as a revision to the grant agreement, or even as a replacement grant agreement. This will require further negotiation between the funder and recipient, and is likely to necessitate obtaining additional legal advice as a minimum. A Grant Agreement Addendum Template, which can be used to amend the terms of a grant agreement, is available to download from the [grants Centre of Excellence](#)

## Assurance

21. Grant awarding bodies need to gain assurance on how recipients use their grant funding. Obtaining an independent accountant's report is one way of doing this. When designing an assurance model, reference could be made to, for example, guidance [the ICAEW website here](#), and that contained in Technical Release AAF 01/10, which can be downloaded from the [grants Centre of Excellence](#).

22. The advice on the ICAEW website and in the technical release reflects good practice principles that grant-paying bodies may find useful when designing assurance regimes for new grant schemes or updating existing schemes.

## Further Resources

23. In seeking to comply with this minimum requirement, and in addition to the references and resources highlighted earlier in this guidance, organisations may want to consider the following, in particular:

- the Model Grant Funding Agreement (MGFA), which can be accessed via the [Centre of Excellence](#).
- The Short Form Model Grant Agreement recommended for use for grants up to the value of £100,000, which can also be accessed via the Centre of Excellence.
- [The code of conduct for grant recipients](#).

Organisations should also make full use of wider resources available through the [grants Centre of Excellence \(CoE\)](#).