EXPLANATORY MEMORANDUM TO

THE WHOLE OF GOVERNMENT ACCOUNTS (DESIGNATION OF BODIES) ORDER 2012

2012 No. 1803

1. This explanatory memorandum has been prepared by Her Majesty's Treasury and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 The Whole of Government Accounts (Designation of Bodies) Order 2012 ("the Order") identifies bodies to be included in the consolidated Whole of Government Accounts for the year ending 31 March 2012. Designating these bodies enables the Treasury to require them to provide the necessary audited financial information, in a specified form and to a specified timescale, for the preparation of the Whole of Government Accounts.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Section 9(1) of the Government Resources and Accounts Act 2000 ("the GRAA") requires the Treasury to prepare "Whole of Government Accounts" for a group of bodies each of which appears to the Treasury to exercise functions of a public nature or which is entirely or substantially funded from public money. In practice, the Treasury primarily include bodies in the accounts based on their classification to the public sector by the Office for National Statistics ("ONS"). On this basis, the accounts include bodies within the central government, devolved administration, local government, public corporation and health sectors during the period covered by the accounts.

4.2 Where the Treasury intend the Whole of Government Accounts for a financial year to relate in part to a particular body which falls within section 9(1) of the GRAA, section 10(1) of the Act enables the Treasury by order to designate that body. A body designated in this way must provide the Treasury with information in accordance with section 10(2) and (3) of the GRAA.

4.3 The composition of central government, and to a lesser extent local government and public corporations, changes each year as bodies are created, merged or dissolved. Therefore, a designation order must be made annually under section 10(1) of the GRAA in respect of each set of accounts to reflect the total number of bodies for the period covered by the accounts. The designation order for a financial year effectively sets the boundary of the Whole of Government Accounts for that year.

4.4 Having established the boundary of the Whole of Government Accounts for a financial year, section 9(4) of the GRAA requires the Treasury to prepare accounts that present a true and fair view and conforms to generally accepted accounting practice (subject to such adaptations as are necessary in the context).

4.5 Health sector bodies are not included in the Order since the audited financial information they are required to provide under other legislation for summarised health accounts is also used for Whole of Government Accounts purposes.

4.6 Northern Ireland Bodies that are subject to the requirements of the Government Resources and Accounts (Northern Ireland) Act 2001 are designated by the Northern Ireland Department of Finance and Personnel.

4.7 Bodies whose activities are confined to Scotland are also not covered by the Order. The Scottish Government relies either on administrative powers or the Public Finance and Accountability Act (Scotland) 2001 to collect audited financial information from them.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

7.1 Parliament originally requested consolidated accounts for central government in the 1994-95 parliamentary session (Public Accounts Committee Fifteenth Report, Session 1994-95).

7.2 In July 1998, the Treasury published a scoping study report into the development of consolidated public sector accounts. The report concluded that Government should aim to develop a fully-audited set of accounts based on Generally Accepted Accounting Practice ("GAAP") adapted as necessary for the public sector context with the approval of the Financial Reporting Advisory Board, and covering the whole of the public sector as far as practically possible. The reasons for preparing Whole of Government Accounts include providing better transparency and accountability to Parliament, as well as improved information for fiscal policy.

7.3 The scoping study report also concluded that fully reliable GAAP-based Whole of Government Accounts would take some time to produce and that a staged approach should therefore be adopted, using a process of "dry runs" starting with a consolidation of central government bodies and funds. Following further research on the costs and practical considerations involved in extending the scope of the accounts to include health bodies, local authorities and public corporations, the Government

stated in the 2005 Pre-Budget Report its intention to publish GAAP-based Whole of Government Accounts once the significant methodological issues raised had been addressed through the dry-run process.

7.4 Sections 9 to 11 of the GRAA provide the statutory framework for preparing Whole of Government Accounts, obtaining the necessary information, and for scrutiny by the Comptroller and Auditor General.

7.5 The first Whole of Government Accounts, in respect of the financial year 2009-10, were published on 29 November 2011.

7.6 The Comptroller and Auditor General ("C&AG") qualified the Whole of Government Accounts for 2009-10 ("WGA 2009-10") on a number of grounds including a disagreement regarding the definition and application of the boundary of the accounts, in particular the exclusion of Network Rail and the public sector banks.

7.7 Network Rail was excluded from WGA 2009-10 as it was not classified to the public sector by ONS at that time. That remains the case.

7.8 The Bank of England was excluded from WGA 2009-10, but will be included in WGA 2010-11 and WGA 2011-12. The Treasury have chosen to exclude the other public sector banks on the basis that the inclusion of their figures would materially distort the position of the public sector as represented in the Whole of Government Accounts.

7.9 The C&AG also qualified WGA 2009-10 on the grounds of the inconsistent application of accounting policies. The Treasury's accounting policies state that the Whole of Government Accounts are prepared on an International Financial Reporting Standards ("IFRS") basis. A number of bodies did not adopt the framework under which WGA 2009-10 were prepared, mainly bodies in the local government sector which follow the Local Government Statement of Recommended Practice which is based on UK GAAP. In addition, assets held by local authorities are valued at historic cost, whereas those held by central government are valued at depreciated replacement cost ("DRC").

7.10 The local authority sector adopted IFRS for the 2010-11 financial year. Infrastructure assets are still inconsistently valued for 2011-12 but plans are in place for local authorities to provide DRC valuations of these assets for the 2012-13 financial year.

- ***Consolidation***

7.11 Consolidation is not relevant because the order relates to a single financial year.

8. Consultation outcome

8.1 The Treasury has made the decision to designate bodies for inclusion in the WGA 2011-12 following consultation with the Department for Communities and Local Government, Welsh Ministers, and other departments.

9. Guidance

9.1 Guidance will be provided for public sector bodies on the websites of Her Majesty's Treasury, Department for Communities and Local Government, and devolved administrations.

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 The impact on the public sector is limited, because the majority of information required by the Treasury is largely the same as each body requires in order to prepare its own accounts, and which is already audited by its existing auditors. The additional work for most bodies is restricted to identifying the in-year transaction streams and year-end balances with other bodies within the boundary of the Whole of Government Accounts. These must be cancelled out so that the results and year-end position of the whole of government are presented as if it were a single entity.

10.3 A full, formal, impact assessment has not been prepared for this instrument because no impact on the private or voluntary sector is foreseen. The cost to the public sector is below £5million.

10.4 No equality issues were identified when considering the impact of this instrument. The instrument applies to the technical procedures and rules for financial account practices which will apply to the running of public bodies and not directly to individuals. These provisions will therefore not impact on equality.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 Her Majesty's Treasury and the National Audit Office will monitor compliance with the requirements of this instrument. Review by those same bodies will inform the lists included in similar instruments for subsequent years.

13. Contact

Jim Hughes at Her Majesty's Treasury Tel: 020 7270 5748, or email jim.hughes@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.