EXPLANATORY MEMORANDUM TO

THE WHOLE OF GOVERNMENT ACCOUNTS (DESIGNATION OF BODIES) ORDER 2015

2015 No. 1655

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 2015 ("the Order") identifies bodies to be included in the consolidated Whole of Government Accounts for the year ending 31 March 2015. 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 that 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") for National Accounts purposes. On this basis, the accounts include bodies within the central government, devolved administrations, local government, public corporations 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 that 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 to the Department of Health for the purposes of producing the Department of Health's annual resource accounts is also used for Whole of Government Accounts purposes.

4.6 Academies are not included in the Order since the audited financial information they are required to provide to the Department of Education for the purposes of producing the Department of Education's annual resource accounts is also used for Whole of Government Accounts purposes.

4.7 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.

4.8 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 ("C&AG").

7.5 The C&AG qualified the Whole of Government Accounts for 2013-14 ("WGA 2013-14") 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, public sector banks and Further Education Institutions.

7.6 Network Rail is included in the Order for the first time. ONS classification forms the basis of the Treasury's accounting policy for deriving the boundary of the Whole of Government Accounts, since aligning the boundary of the Whole of Government Accounts with that of the public sector as defined for the National Accounts is an important principle driving the usefulness of the Accounts. A new system of accounting (ESA 10) was introduced on 1st September 2014, under which the classification of Network Rail changed from being private sector body to a public sector body. Following this change in classification, Network Rail will be consolidated within the Whole of Government Accounts for the first time in 2014-15.

7.7 The Treasury has chosen to exclude the Royal Bank of Scotland 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, and the intent is to hold them on a temporary basis.

7.8 The C&AG also qualified WGA 2013-14 on: disagreement in accounting for 3G licences; on grounds of the inconsistent application of accounting policies relating to local government infrastructure assets, limitation in audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances; disagreement and limitation in audit scope from underlying statutory audits of bodies falling within the boundary of the Whole of Government Accounts; and limitation in audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts. The Treasury continues to work towards removing these qualifications.

7.9 The audit of the Whole of Government Accounts for 2013-14 is complete and the full audited account was published on 26 March 2015.

- ***Consolidation***

7.10 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 Order following consultation with government departments, local authorities and the Welsh Administration.

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

Ian Bulmer at Her Majesty's Treasury (Tel: 020 7270 6632or email: ian.bulmer@hmtreasury.gsi.gov.uk) can answer queries regarding the instrument.