EXPLANATORY MEMORANDUM TO

THE WHOLE OF GOVERNMENT ACCOUNTS (DESIGNATION OF BODIES) ORDER 2016

2016 No. 1173

1. Introduction

1.1 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 2016 ("the Order") identifies bodies to be included in the consolidated Whole of Government Accounts for the year ending 31 March 2016. 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 Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

Other matters of interest to the House of Commons

3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

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 to be 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. Extent and Territorial Application

5.1 The extent of this instrument is the United Kingdom.

5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to 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 the 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 2014-15 ("WGA 2014-15") on a number of grounds including a disagreement regarding the definition and application of the boundary of the accounts, in particular the exclusion of public sector banks and further Education Institutions.

7.6 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.

7.7 The C&AG also qualified WGA 2014-15 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; and disagreement and limitation in audit scope from underlying statutory audits of bodies falling within the boundary of the Whole of Government Accounts. The Treasury continues to work towards removing these qualifications.

7.8 The audit of the Whole of Government Accounts for 2014-15 is complete and the full audited account was published on 26 May 2016.

Consolidation

7.9 Consolidation is not relevant because the Order relates to a single financial year.

8. Consultation outcome

8.1 The Treasury has made a 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 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. The majority of information required by the Treasury is largely the same as each body produces for its own accounts, and is also

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 result and year-end position of the whole of government are presented as if it were a single entity.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to activities that are undertaken by small businesses.

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

13.1 Adeola Odeneye at Her Majesty's Treasury telephone: 020 7270 2741 or email: Adeola.Odeneye@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.