

GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Section 1: Application of sums issued

5. The system of supply is largely non-statutory and it is not intended to change this. This section is not, therefore, intended to provide a comprehensive legal framework for supply under RAB. It is limited to amending, to take account of RAB, the existing statutory basis for determining on what cash issued from the Consolidated Fund can be spent. This section maintains the principle of annuality.
6. *Subsections (1) and (2)* modernise the provisions of section 2(1) of the Public Accounts and Charges Act 1891, repealing the older legislation. These provide that where a Consolidated Fund or Appropriation Act authorises a sum of money to be issued from the Consolidated Fund for the service of a specified year then all such money must be used for the service of that year.
7. The purpose of this provision is to ensure that sums of money drawn by departments from the Consolidated Fund can be used only for expenditure in the authorised year. Any money drawn down and not spent would have to be surrendered back to the Consolidated Fund (or be offset against issues in the next year). This prevents departments from building up cash balances that could then be used to circumvent Parliamentary spending controls.

Section 2: Appropriations-in-aid

8. This section provides the statutory basis for the retention and use by departments of income they receive. Under resource accounting appropriations in aid (a-in-a) will be recorded on an accruals basis (ie it will be recognised when the income is earned) rather than on a cash basis as is the case at the moment. However, additional provisions are required to deal with the cash effects of a-in-a.
9. *Subsections (1) and (2)* enable the Treasury to direct, by Treasury Minute, that income on a resource basis may be applied as a-in-a of resources authorised by Parliament to be used for the service of a particular year. This is subject to the overall limits on the amounts of a-in-a which has been approved by Parliament and are set out in the relevant Appropriation Act. The intention of this subsection is to give the Treasury powers in the RAB system similar to those it has under sections 2(2) and 2(3) of the Public Accounts and Charges Act 1891 in the present system.
10. *Subsections (3) to (5)* deal with the cash consequences of resource amounts that have been authorised for use as a-in-a. Timing differences between the recognition of a-in-a on a resource basis and the actual receipt of cash require special provisions for dealing with the cash.

11. *Subsection (4)* applies in the situation (which should apply in the great majority of cases) where cash is received in the same financial year as the resource a-in-a is authorised. In this case the department may retain the cash provided it is used for the purpose authorised in the Treasury direction. If it cannot be so used then the cash must be surrendered to the Consolidated Fund.
12. *Subsection (5)* applies in cases where cash is received in a year other than that for which the related resource a-in-a is authorised. This might happen where the time between the recognition of the income (inclusion as resource a-in-a) and the payment by the debtor straddles the end of a financial year or similarly where a payment is received in advance of the department carrying out the service to which it relates (the resource a-in-a will not be recognised until the service is carried out and the income thereby earned) and these events falling into different financial years. Under these circumstances subsection (5) will enable the cash to be used towards the authorised purposes of the year in which it is received. If this is not possible then it will be surrendered to the Consolidated Fund. The ability to use this cash will reduce the department's overall cash requirement for the year (and hence reduce the amount it has to draw out of the Consolidated Fund) but it will not increase the level of resources available to the department in that year.

Section 3: Government funds and accounts - payments out

13. This section is intended to enable the modernisation of the procedures used to authorise payments out of the Consolidated Fund and National Loans Fund.
14. *Subsections (1) and (2)* will enable the Treasury, subject to the approval of the Comptroller and Auditor General (C&AG), to produce, authenticate and transmit the instruments necessary to enable payments to be made from the Consolidated Fund and National Loans Fund in whatever form the Treasury decides to adopt. All such requests for payment must be accompanied by evidence of the approval of two authorised Treasury officials. The intention is to enable modern (in particular computerised) systems to replace the paper based procedures required by the existing legislation.
15. *Subsection (3)* will enable the Treasury to produce, authenticate and transmit the instruments necessary to enable transfers to be made under section 20 of the Exchequer and Audit Departments Act 1866 (Government stock and annuities) in whatever form the Treasury decides to adopt.
16. *Subsection (4)* repeals section 56 of the Finance Act 1975 which sets out the authorised signatories for requests for payments out of the funds. This provision is predicated on a paper based system of written authorisations which will not be required in a computerised system.

Section 4: Government funds and accounts - payments in by error

17. This section is intended to enable the recovery of monies paid into the Consolidated Fund and National Loans Fund in error. This can arise either because a payment has been misdirected or because a payment has been made as a result of a failure to appreciate the true position. An example of this latter case is where a department pays in money as Consolidated Fund Extra Receipts (CFERs) that it is actually entitled to retain as a-in-a. The inability to recover monies paid in error has, in the past, resulted in departments delaying the payment of CFERs until they are certain none of the money can be retained. It is hoped that the power to enable amounts paid in error to be recovered will encourage quicker payment of CFERs.

Section 5: Preparation of resource accounts

18. This section requires the preparation of resource accounts (which will replace appropriation accounts under RAB), makes provision for the Treasury to determine the form of the accounts and requires the Treasury to appoint accounting officers to be responsible for the preparation of the accounts.

These notes refer to the Government Resources and Accounts Act 2000 (c.20) which received Royal Assent on 28 July 2000

19. *Subsection (1)* requires any departments for which Parliament has approved an estimate for a particular financial year to prepare a resource account for that year. Although they are not government departments (and hence are not bound by the requirements of this clause) it is intended that the House of Commons (in respect of Members' salaries), the House of Lords and the Parliamentary Commissioner for Administration will, when the move to RAB is complete, lay resource estimates before Parliament and produce resource accounts.
20. Resource accounts will detail in financial terms the use by departments of resources during the year (including their acquisition and disposal).
21. *Subsections (2) to (4)* provide that the Treasury shall direct the form of the resource accounts subject to the requirements that they shall present a true and fair view and conform to generally accepted accounting practice (GAAP) amended as necessary in the context of departmental accounts. In doing so the Treasury will have regard for the guidance issued by the Accounting Standards Board (or any successor). In practice this means that resource accounts will follow the normal accounting standards and conventions used in the private sector and elsewhere in the public sector modified only where necessary to take account of the particular requirements of departmental accounts. In addition subsection (3) requires that the Treasury issue accounts directions to require that Treasury guidance is followed with a view to ensuring that resource accounts contain explanations of differences between items appearing in estimates and the actual amounts appearing in the resource account.
22. The accounting policies underlying resource accounts, which will form the basis of the Treasury direction, will be set out in the *Resource Accounting Manual* (published by The Stationery Office). The Financial Reporting Advisory Board (FRAB), which brings together representatives from the Treasury, departments, the National Audit Office, the Audit Commission, the Accounting Standards Board, industry and academia, must be consulted on all additions and changes (including proposals not to follow standard practice) to the *Resource Accounting Manual*.
23. Subsection (4) elaborates on the general requirements in subsection (3)(a) and 3(b) by requiring the Treasury to have regard to guidance issued by the Accounting Standards Board or any successor body responsible for setting the accounting standards for accounts prepared under the Companies Act 1985. It also requires the accounts to include three main statements:
 - a statement of financial performance;
 - a statement of financial position; and
 - a cash flow statement.
24. The description of the statements is precisely that adopted by the Accounting Standards Board in its *Statement of Principles for Financial Reporting* (published in December 1999). This approach is intended to prevent the legislation becoming outdated quickly.
25. It is proposed that resource accounts will consist of five major statements together with supporting notes:
 - A statement of outturn (showing actual outturn against the estimate);
 - An operating cost statement, which is analogous to a profit and loss account in company accounts (the statement of financial performance);
 - A balance sheet (the statement of financial position);
 - A cash flow statement; and
 - A statement relating costs to objectives.

The resource accounts for public sector pension schemes will adopt a different format (based on the requirements of private sector pension scheme accounts). The requirements for these resource accounts will also be detailed in the *Resource Accounting Manual* and will require consultation with the FRAB.

26. In addition to accounting information resource accounts will also have to include information, as required by *Government Accounting* (which is published by The Stationery Office), necessary to satisfy Parliamentary propriety. This will include, inter alia, a note of adjustments between estimated and actual outturn.
27. *Subsection (5)* requires all departments preparing resource accounts to send them to the C&AG for audit by 30 November of the financial year following that to which the accounts relate. This reproduces the timescale currently allowed to all departments, except for the Ministry of Defence (MoD), for appropriation accounts. MoD currently has a longer timescale in which to prepare their accounts but as this concession is now obsolete (MoD have in practice prepared their accounts to the same timescale as other departments for many years) the opportunity is being taken to bring MoD into line with other departments.
28. *Subsection (6)* requires the Treasury to appoint an official of a department (this will usually be the senior full-time official) as the department's accounting officer. *Subsection (7)* places a responsibility on the accounting officer for preparing the departmental resource accounts and transmitting them to the C&AG for audit. *Subsection (8)* enables the Treasury to appoint other officials in a department as accounting officers for part of a resource account.
29. The intention behind these subsections is to carry into the resource accounting system the Treasury's current powers to appoint accounting officers to be responsible for departmental accounts. They are not intended as a comprehensive statement of the duties and responsibilities of accounting officers (which will continue to be set out in "The Accounting Officer Memorandum" - which is reproduced in *Government Accounting*).
30. The distinction between the accounting officers covered by subsections (6) and (7) and those covered by subsection (8) is that the first type is responsible for the department's resource account overall, consolidated where necessary (although he or she may also have operational responsibility for specific parts of the account) whereas the second type is responsible only for a part of the account, normally corresponding with one or more requests for resources (roughly equivalent to Votes under the current system) within the resource estimate. Most departments will only have one accounting officer but where there is more than one, all the accounting officers will sign the accounts and a statement of their respective responsibilities will be appended to the account.

Section 6: Scrutiny of resource accounts

31. This section sets out the requirements for the audit, by the C&AG, of resource accounts and the procedures for laying the accounts, together with the C&AG's reports thereon, before Parliament. In addition the Treasury's current power to sanction unauthorised spending by departments is modernised to take account of RAB.
32. *Subsection (1)* requires the C&AG to audit any resource account sent to him by a department. His audit certificate is required to state whether in his opinion the accounts show:
 - a true and fair view;
 - that money provided by Parliament has been expended for the purposes intended;
 - that resources authorised by Parliament to be used have been used for the purposes in relation to which the use was authorised; and

- that the financial transactions covered by the accounts are in accordance with the relevant authority which governs them.

33. The first assertion (the true and fair opinion) is the same as that given by auditors on company accounts. This differs from the opinion (“properly presents”) currently given on the appropriation accounts and reflects the change from a cash to an accruals basis for the accounts. The second part of the audit opinion is the regularity assertion (that money has been spent and resources used as Parliament intended and that all financial transactions have been undertaken in accordance with the authority that governs them) and is very similar to the assurance currently given in the audit opinion on appropriation accounts.
34. *Subsection (2)* provides that when, in the course of his audit, the C&AG discovers a material use of resources that required, but did not receive, Treasury authorisation he shall inform the Treasury and the Treasury may retrospectively authorise the expenditure. This provision re-enacts (in a RAB context) the existing Treasury power contained in section 1(3) of the Exchequer and Audit Departments Act 1921. The Treasury cannot use this power to authorise illegal or improper expenditure -it can only retrospectively authorise expenditure that was itself legal and proper but which required Treasury approval.
35. Paragraph (a) of *subsection (3)* requires the C&AG to issue a certificate (which contains his audit opinion) and report on each resource account. Paragraph (b) requires the audited accounts to be sent to the Treasury by 15 January of the financial year following that to which they relate (as with section 5(4) this reproduces the current timetable except that MoD are moving to the same timetable as other departments). Paragraph (c) requires the C&AG to report to the House of Commons where he is not satisfied with the results of any of his audits.
36. *Subsection (4)* requires the Treasury to lay the resource accounts (together with the C&AG’s certificate and report) before the House of Commons. This must be done by 31 January in the financial year following that to which the accounts relate (as with subsections 5(4) and 6(3)(b) this reproduces the current timetable except that MoD are moving to the same timetable as other departments).

Section 7: Departmental accounts other than resource accounts

37. This section provides for the preparation, audit and laying before Parliament of accounts prepared by departments other than resource accounts. The main accounts envisaged as being prepared under this section are those of executive agencies. This section replaces the similar powers of section 5 of the Exchequer and Audit Departments Act 1921.
38. *Subsection (1)* enables the Treasury to direct departments to prepare accounts other than resource accounts as considered necessary. As noted above the main accounts envisioned as being prepared under this section are those of executive agencies but the Treasury may direct that other accounts (such as trust accounts which are prepared where a department holds money and/or assets on behalf of others) not covered by specific legislation may also be prepared under this section.
39. *Subsection (2)* enables the Treasury to issue accounts directions specifying the form and contents of the accounts. Due to the likely heterogeneous nature of the accounts that will be produced under this section (full accruals, partial accruals and cash) no restrictions as to the form of the accounts are being included in the legislation.
40. *Subsection (3)* requires accounts prepared under this clause to be examined and certified by the C&AG and laid before the House of Commons. The timetable for audit and laying of accounts given in the subsection corresponds to that currently followed for accounts prepared under section 5 of the Exchequer and Audit Departments Act 1921 (the opportunity has been taken to dispense with the obsolete provision for certain MoD accounts to be prepared to a longer timetable).

41. *Subsection (4)* requires the C&AG to carry out his audit of accounts prepared under this clause with a view to satisfying himself that all expenditure (whether of cash or resources) fulfils the requirements of regularity.
42. *Subsection (5)* enables the Treasury to direct that any or all the accounts prepared under this clause may be laid before the House of Commons by the responsible department(s) rather than by the Treasury. Many accounts (especially those of executive agencies) which are prepared under section 5 of the Exchequer and Audit Departments Act 1921 are already effectively laid by the department themselves rather than the Treasury. This provision will enable formal responsibility to be transferred to the departments.

Section 8: Access to information by the C&AG

43. This section provides the C&AG with a right of access to documents relating to a department's accounts which are held or controlled by a Government department (or are managed by a third party) for the purpose of conducting his audits of any departmental accounts and a right to explanations as necessary.

Section 9: Whole of Government Accounts – preparation

44. This section places a duty on the Treasury to prepare consolidated accounts for the public sector in order to meet the commitment given in the Code for Fiscal Stability.
45. *Subsection (1)* requires the Treasury to prepare consolidated accounts for the public sector. The bodies covered by the accounts are to be determined by the Treasury (see the discussion of section 10 below). This will enable the Treasury to expand the coverage of the accounts as required: it is envisioned that consolidated accounts will initially be prepared for the central government sector and will, over time, be extended to include all public sector bodies.
46. *Subsection (2)* allows the extension of the scope of Whole of Government Accounts (WGA) to encompass accounts such as the National Insurance Fund and the Social Fund, which, although administered by departments, are not included within the departments' own accounts.
47. *Subsections (3) to (5)* set out the framework within which WGA must be prepared. *Subsection (3)* gives the Treasury the power to determine the form of the accounts, but this power must be exercised in the context of the requirements of subsections (4) and (5). *Subsection (4)* requires the Treasury in determining the form and content of WGA to aim to ensure that they present a true and fair view. They must also conform to generally accepted accounting practice modified only as necessary for the needs of the public sector.
48. *Subsection (5)* elaborates on the general requirements in subsection (4) by requiring the Treasury to have regard to guidance issued by the Accounting Standards Board or any successor body responsible for setting the accounting standards for accounts prepared under the Companies Act 1985. It also requires the accounts to include three main statements:
 - a statement of financial performance;
 - a statement of financial position; and
 - a cash flow statement.
49. The description of the statements is precisely that adopted by the Accounting Standards Board in its *Statement of Principles for Financial Reporting* (published in December 1999). This approach is intended to prevent the legislation becoming outdated quickly.

Section 10: Whole of Government Accounts – obtaining information

50. This section provides the Treasury with the necessary powers to obtain the information to prepare WGA. It allows the Treasury to designate which public sector bodies will be covered, provides the Treasury with a power to request the audited information necessary to enable it to prepare the account, makes special provision for the devolved administrations and allows sub-consolidations to be carried out.
51. *Subsections (1) and (10)* provide for the Treasury to designate, subject to Parliamentary approval, those public sector bodies which are to be included in the WGA. It is likely that the first accounts will only cover the central government sector (departments, central funds and non-departmental public bodies) but that these will be expanded to include all public sector bodies (ie NHS bodies, local authority bodies, nationalised industries and other public corporations in addition to central government bodies).
52. *Subsection (2)* enables the Treasury to require all designated public bodies to provide it with the audited financial information required in a specified form and within a specified timescale. In practice this information will be largely the same as the body requires to prepare its own accounts and would be audited by its existing auditors.
53. *Subsections (3) and (4)* gives the Treasury similar powers to require designated bodies to provide unaudited financial for a specified part of a year. This will enable the Treasury to produce interim financial statements in due course.
54. *Section 5* requires the Treasury to appoint Accounting Officers who are responsible for the preparation of resource accounts and their transmission to the C&AG for audit. *Subsection (5)* will allow the Treasury to appoint individuals who would have similar responsibilities in respect of WGA consolidation returns.
55. *Subsections (6) and (7)* put in place special provision for the devolved administrations. In the case of Scotland the Scottish Executive, using similar powers under the Public Finance and Accountability (Scotland) Act 2000, will carry out the necessary consolidation and transmit the information to the Treasury for inclusion in the overall WGA. In the case of the National Assembly for Wales subsection (7) requires the Treasury to consult with the Assembly before designating bodies that come under the Assembly's jurisdiction or making an appointment under subsection (5).
56. *Subsections (8) and (9)* provide for sub-consolidations to be carried out by bodies other than the Treasury and for the auditors of such sub-consolidations to have equivalent powers to those given to the C&AG under clause 11(5). Examples of the type of sub-consolidation envisaged are the Department of Health preparing a consolidation of the accounts of all National Health Service bodies and the Department of the Environment, Transport and the Regions preparing a consolidation of all local authority accounts. In relation to Wales and sub-consolidation by the National Assembly for Wales, see paragraph 136.

Section 11: Whole of Government Accounts – scrutiny

57. This clause provides for the C&AG to audit the WGA and for them to be laid before Parliament.
58. *Subsection (1)* requires the Treasury to send the WGA to the C&AG for audit.
59. *Subsection (2)* requires the C&AG to audit the accounts. Due to the nature of the accounts, which will merely consolidate accounts for which accounting officers in other bodies already have responsibility, there is no requirement for the C&AG to provide an audit opinion concerning the regularity of the accounts but simply to determine whether, in his opinion, they are true and fair.
60. *Subsection (3)* requires the C&AG to certify the accounts and issue a report on them.

61. *Subsection (4)* requires the Treasury to lay the accounts, together with the C&AG's report, before the House of Commons.
62. *Subsection (5)* grants a power to enable the C&AG to require from the auditors of bodies or sub-consolidations included in the WGA such information and explanations as he reasonably requires to satisfy himself that the information to be included in the WGA can be relied upon. Guidance on the operation of this power is already contained in professional auditing standards.
63. The C&AG is the auditor of, or has inspection rights at, many of the bodies that will be included in WGA. However, there are some bodies (notably local authority bodies audited by the Audit Commission) where he has no access. The power in this subsection will enable the C&AG to make enquiries of the auditors of these bodies to enable him, as auditor of the WGA as a whole, to satisfy himself that the audit has been carried out to an appropriate standard and that the information provided by the body can therefore be relied on.
64. *Subsections (6) to (8)* provide that once the dates by which the accounts must be prepared, audited and laid before the House of Commons have been decided upon the Treasury shall, after consulting the C&AG, specify the dates by statutory instrument. Work on WGA is still at a developmental stage and it is not yet possible to set firm dates after the year end by which the necessary work must be completed.

Sections 12 and 13: National Health Service – Health Authorities and Primary Care Trusts

65. Health Authorities, Special Health Authorities and Primary Care Trusts are established by the Secretary of State under sections 8, 11 and 16A of the National Health Service Act 1977 ("the 1977 Act") (section 16A was inserted by section 2 of the Health Act 1999) to administer the National Health Service and to perform functions under that Act. They are funded almost entirely by payments made directly by the Secretary of State, or, in the case of Primary Care Trusts, by Health Authorities.
66. To enable the Secretary of State to ensure that he does not exceed the resources voted by Parliament for a particular year it will be necessary for him to control the use of resources by Health Authorities, Special Health Authorities and Primary Care Trusts. Section 12 therefore provides for the Secretary of State to set a resource limit for each Health Authority and Special Health Authority, and section 13 provides for Health Authorities to set resource limits for Primary Care Trusts.
67. The existing statutory provisions dealing with the public funding of Health Authorities and Special Health Authorities are sections 97 and 97A of the 1977 Act, as inserted by paragraphs 47 and 48 of Schedule 1 to the Health Authorities Act 1995, and amended by section 36 of, and paragraph 23 of Schedule 2 to, the National Health Service (Primary Care) Act 1997 and section 4 of the Health Act 1999. These sections provide for a cash based allocation and control system. Health Authorities are paid money in each year by the Secretary of State under section 97(1) and (3); Special Health Authorities are paid under section 97(4) which is broadly similar to section 97(3). Section 97(1) concerns the remuneration of persons providing services under Part II of the 1977 Act (for example, General Medical Practitioners). Unless such remuneration is excepted from section 97(1), it is not cash-limited. The Secretary of State is under a duty to pay each Health Authority the cost of such remuneration, and cannot impose a ceiling on such expenditure. This provision is unaffected by the Bill. Section 97(3), however, provides that the Secretary of State must pay to each Health Authority money not exceeding the amount allotted to it by the Secretary of State. This amount is allotted towards meeting an authority's "main expenditure" (defined in paragraph 2 of Schedule 12A to the 1977 Act, as inserted by section 4 of the Health Act 1999) which, in the case of a Health Authority, includes all expenditure attributable to the performance of their functions in relation to the provision of hospital-based and community health services, all their administrative costs, the costs of drugs attributed to them by the Secretary of State and

certain other expenditure. The amount allotted constitutes a limit on the cash which may be spent by the authority. To enforce the cash limits set by the Secretary of State, section 97A provides that each authority is under a duty to ensure that their expenditure does not exceed the aggregate of the amount allotted and certain other income received during the year.

68. The Health Act 1999 inserts new provisions into the 1977 Act which provide for the establishment and operation of Primary Care Trusts. Each Primary Care Trust will be established for an area contained within the area of a Health Authority. The existing statutory provisions dealing with the public funding of Primary Care Trusts mirror those for Health Authorities - sections 97C and 97D as inserted by section 3 of the Health Act 1999. Under section 97C, each year the Health Authority must pay each of its Primary Care Trusts (a) the cost of "general Part II expenditure" incurred by the trust (ie subject to certain exceptions, the remuneration of persons providing Part II services) and (b) money not exceeding the amount allotted by the authority for that year towards meeting "main expenditure". Under section 97D the Primary Care Trust has a statutory duty to ensure that their expenditure does not exceed the aggregate of the amount allotted and certain other income received during that year.
69. Sections 12 and 13 insert two new sections into the 1977 Act (sections 97AA and 97E). These new sections provide for the setting of "resource limits" for every Health Authority, Special Health Authority and Primary Care Trust in addition to the existing cash limits.
70. Section 97AA concerns resource limits for Health Authorities and Special Health Authorities. *Subsection (1)* imposes a duty on every Health Authority or Special Health Authority to ensure that their use of resources in a financial year does not exceed the "resource limit" set for them by the Secretary of State. This limit can be altered during the year (*subsection (6)*).
71. *Subsections (2) to (4)* of the new section 97AA are concerned with what is or is not to be taken into account for the purposes of determining whether an authority has remained within its resource limit for a particular year.
72. In particular subsection (2) ensures that the use of resources for the purpose of "general Part II expenditure", ie the cash expenditure on remuneration of persons providing Part II services, is not taken into account. This expenditure is not cash limited and will not therefore be subject to any resource limit. Subsection (3) enables the Secretary of State to give directions defining the categories of resources and uses of resources that are to be taken into account when considering whether or not an authority has met its duty under subsection (1). In particular paragraph (b) enables the Secretary of State to provide that certain uses of resources may be attributed to a Health Authority to reflect the payments for drugs that have been apportioned to the authority under paragraph 3 of Schedule 12A to the 1977 Act (as inserted by section 4 of the Health Act 1999). Subsection (4) applies section 97A(6) to (8) of the 1977 Act in relation to the duty under subsection (1) and so ensures that funds held by Health Authorities or Special Health Authorities as charitable trustees or obtained by their fund raising activities are outside the scope of the duty.
73. *Subsection (5)* applies the direction-making power in section 97A(3) to the duty under subsection (1). This enables the Secretary of State to give directions to a Health Authority or a Special Health Authority to secure that the authority complies with the duty imposed on them by subsection (1). Such directions might for instance mirror the current directions under section 97A(3) that require authorities to approve annual income and expenditure financial budgets for cash limited expenditure, and to monitor actual financial performance against these budgets on a monthly basis.
74. *Subsection (7)* ensures that a reference to the "use of resources" in section 97AA is to be interpreted in the same way as such references are to be interpreted in the Bill (section 27 of the Act and paragraph 115 of these Explanatory Notes).

75. Section 97E puts in place arrangements for Primary Care Trusts that mirror those that section 97AA puts in place for Health Authorities and Special Health Authorities. Subsection (1) of section 97E provides that it is the duty of every Primary Care Trust to ensure that it does not exceed the resource limit set for it by the Trust's Health Authority; the limit can be varied under *subsection (4)*. As with Health Authorities -
- use of resources for the purposes of "general Part II expenditure" is excluded (*subsection (2)*);
 - the Secretary of State will be able to direct as to the categories of resources or uses of resources that are or are not to be taken into account (*subsection (3)*);
 - charitable funds and other property held on trust are excluded (*subsection (5)*);
 - the Secretary of State will be able to direct Primary Care Trusts to secure that they comply with the duty under subsection (1) (*subsection (6)*).
76. *Subsection (2)* of both sections 12 and 13 provide that in applying the new sections of the 1977 Act to Wales for each reference to the Secretary of State there shall be substituted a reference to the National Assembly for Wales.

Section 14: National Health Service – summarised accounts

77. This section will enable the Treasury to exempt NHS bodies from preparing summarised accounts if the Treasury (after consultation with the C&AG or, in relation to NHS bodies in Wales, the National Assembly for Wales and the Auditor General for Wales) considers that the relevant accounting information is included in either a departmental resource account or WGA. NHS trusts, Health Authorities, Special Health Authorities and Primary Care Trusts must prepare annual accounts for each financial year under section 98(2) of the National Health Service Act 1977. These accounts are then summarised under section 98(4) of the National Health Service Act 1977, audited by the C&AG and laid before Parliament or, in relation to NHS bodies in Wales, audited by the Auditor General for Wales and laid before the National Assembly for Wales. Once resource accounts and WGA are provided to Parliament the summarised accounts will become unnecessary. As regards England this provision ensures that Parliament need not be provided with two sets of accounts for the NHS.

Section 15: National Assembly for Wales - Finance

78. This section empowers the Secretary of State to make changes to sections 81 (Statement by the Secretary of State of estimated payments etc), 85 (Expenditure by National Assembly) and 86 (Statement by National Assembly of proposed expenditure etc) of the Government of Wales Act 1998 in order to ensure that the National Assembly for Wales' budgetary processes can change from a cash to a resource basis in line with the accounts and budget of the UK Government also changing from a cash to a resources basis.
79. The power is exercisable by order and will be made by statutory instrument. Before the Secretary of State can exercise a power he will need to consult the National Assembly insofar as he is changing section 81. He will be required to obtain the Assembly's agreement before he can change sections 85 and 86. The Secretary of State is required to lay a draft of any order before both Houses of Parliament for their approval before it can be made. The Secretary of State can make appropriate incidental or transitional provision in the Order.

Section 16: Public-Private Partnerships – expenditure

80. This section provides statutory authority for the Treasury to incur expenditure in respect of the establishment of a new body for the purpose of carrying on public-private partnership business and investment in and other financial provision for that body.

81. *Subsection (1)* provides authority for the Treasury to incur expenditure that may be required in order to establish a body for the purpose of carrying on public-private partnership business. The subsection authorises the Treasury to make a wide range of investments in that body by the acquisition of assets, securities and rights; in addition to company shares, the provision includes debt securities, options and subscriptions for shares. The subsection also authorises expenditure for other financial provision to be made in respect of the body and it is implicit that this may be made on terms and conditions.
82. *Subsection (2)* precludes the Treasury from investing in or making other financial provision for more than one body (subject to the flexibility allowed by the definition for this purpose of "body" in *subsection 17(7)*). The subsection also requires the investment and other financial provision to be made in connection with public-private partnership business which is carried on by the body or which is to be carried on by it, so that there must be a link between the investment or other provision and such business. The intended recipient body is currently known as Partnerships UK.

Section 17: Public-Private Partnerships – interpretation

83. *Section 17* describes what is meant by "public private partnership business" in section 16 and defines the term "body" for the purpose of that clause.
84. *Subsection (1)* defines "public-private partnership business" as participation in public-private partnerships as an investor or as a consultant or in any other way. The breadth of this definition reflects the variety of forms which public-private partnerships and private finance initiatives may take and the potentially varied ways in which the body may become involved and participate.
85. *Subsection (2)* gives specific examples of what is meant by the carrying on of public-private partnership business. Such business includes the provision of advisory services (for example, on procurement or project management) or financial services (for example, advice on raising finance or on share capital and corporate structures) and such services may be provided in connection with a specific public-private partnership or in connection with such partnerships generally. Under *subsection (2)(a)* the services may be provided to the public or private sectors and by virtue of *subsection (2)(b)* it does not matter whether they are provided on terms or conditions as to payment or consideration or any other matter. This means, for example, that the body may provide services under contract or may act as a joint venture participant. This also makes it clear that the Treasury may under section 16 invest in the body or make other financial provision for it, even though the body receives payments or other resources from carrying on its public-private partnership business.
86. *Subsection (3)* together with *subsections (4)* and *(5)* defines what is meant by "public-private partnerships". This term also is widely defined to include any projects and undertakings for which the resources are provided by both public bodies and private persons.
87. The meaning of "resources" is explained in *subsection (4)* and includes financial funding and forms of resources and investment other than money such as assets of any description, professional skills and any other kind of commercial resource. This would for example include other facilities or forms of financial resource that may not be included within the term "funds". The explanation of the term "resources" is non-exhaustive. The reference to projects and undertakings taken with the requirement for resources to be contributed by both public bodies and private persons means that simple purchase contracts, for example, are not envisaged as involving public private partnerships.
88. *Subsection (5)* provides that the term "public body" means, for the purposes of this particular clause, a government department or other body exercising public functions.

89. The effect of *subsection (6)* is that the body in respect of which the Treasury may incur expenditure under section 16, for the purposes of investment or other financial provision, may carry on public-private partnership business outside the United Kingdom.
90. *Subsection (7)* explains the meaning of the references in section 16 to a “body”. This term is defined by subsection (7)(a) to include a group of bodies and so covers a group of companies. Subsection (7)(b) includes a partnership and, for example, a contractual joint venture. Subsection (7)(c) provides for a reference to “body” to include a body which is substantially the same as, or which is a successor to, another body (which may or may not continue to exist). For example, a partnership may be dissolved and a new partnership formed or a company may be incorporated to succeed to the business (including certain rights and liabilities) undertaken by a partnership or contractual joint venture.

Section 18: Public-Private Partnerships – investment: limit

91. *Subsection (1)* sets a limit of £400 million on the amount of outstanding expenditure which the Treasury may incur under subsection 16(1)(b) and (c). *Subsection (2)* explains what is meant by the term “outstanding expenditure”. For investments it is the amount paid in respect of the acquisition of those which have not been disposed of; for loans, it is the amount outstanding at any time in respect of the principal sum lent; and for guarantees it is the total of the sums paid in fulfilment of any guarantees, less any amounts reimbursed to the Treasury. If there is any outstanding expenditure that is not covered by these valuation provisions, the Treasury must make arrangements for their valuation. *Subsections (3) and (4)* enable the Treasury to substitute a new limit for the amount of outstanding expenditure by order and the order must be made by a statutory instrument which is approved by resolution of each House of Parliament.

Section 19: Public-Private Partnerships - expenditure: supplementary

92. *Subsection (1)* provides for money required for the expenditure that may be incurred by the Treasury under section 16 to be provided by Parliament.
93. *Subsection (2)* provides an exception to *subsection (1)* in the case of guarantees. Money required for the purpose of fulfilling guarantees is to be charged on and issued from the Consolidated Fund without further Parliamentary authority.

Section 20: Public-Private Partnerships – investment by devolved administrations

94. This section enables each of the devolved administrations, that is, the Scottish Ministers, the Northern Ireland departments and the National Assembly for Wales, to invest in the body mentioned in section 16 which is currently known as Partnerships UK PLC. *Subsection (1)* confers this power.
95. *Subsection (2)(a)* makes it clear that the power to invest is available to each of the devolved administrations despite the existence in force of any enactment which would otherwise limit their activities to matters relating to a particular Part (i.e. Scotland or Northern Ireland) or area (i.e. Wales) of the United Kingdom. This issue arises because the body mentioned in section 16 may operate throughout the United Kingdom and abroad. *Subsection (2)(b)* makes it clear that the power to invest under subsection (1) is in addition to any investment power which each of the devolved administrations may have apart for that subsection.
96. *Subsection (3)(a)* provides that the devolved administrations may under this section invest in the same class of shares as must be issued to the Treasury under the body's articles of association. This means that the devolved administrations will hold the same class of shares as the Treasury. By virtue of *subsection (3)(b)* they may also make such other forms of investment, such as, for example, investment in debt securities, as the Treasury may by order specify.

97. *Subsection (4)* contains details of the order-making power mentioned in subsection (3) (b). By virtue of subsection (4)(a) an order may apply to one or more of the devolved administrations and by virtue of subsection (4)(b) it may permit different investments for the different devolved administrations. Subsections (4)(c) and (d) provide that an order will be made by statutory instrument subject to the negative resolution procedure.

Section 21: Value Added Tax

98. This section enables the Treasury to lay down the method of accounting for VAT in departmental accounts and the treatment of the VAT element of receipts.
99. The intention of *subsection (2)(a)* is to enable departments to account for VAT according to accepted accounting practice (currently set out in Statement of Standard Accounting Practice 5). The accounting policy to be followed will be set out in the *Resource Accounting Manual*.
100. Subsection (2)(b) will enable the Treasury to exempt the VAT element of receipts from the normal requirement that receipts are paid into the Consolidated Fund.

Section 22: Power to alter timetable

101. This section enables the Treasury to alter, subject to consultation with the C&AG and Parliamentary approval, the timetable for the production, audit and laying of resource accounts and accounts covered by section 7 of the Act.
102. The current statutory timetable gives the Treasury until 31 January in the year after that to which the accounts relate to lay accounts before Parliament. For resource accounts the Treasury intends to operate a tighter administrative timetable that will require accounts to be laid before Parliament by the end of October in the year after that to which the accounts relate. For accounts prepared under the predecessor of section 7 of this Act it is already common practice to lay accounts prior to the summer recess in the year after that to which the accounts relate. Therefore, it is possible that in the future the Treasury may wish to shorten the statutory timetable in order to encourage quicker completion of accounts and this section will enable this to be done.

Section 23: Treasury directions

103. This section provides that any direction given by the Treasury under either this Act or the Exchequer and Audit Departments Act 1921 can be revoked or amended by the issue of a new direction. This power is necessary to enable new or amended accounts directions to be issued as and when changed accounting requirements make this necessary.

Section 24: Advisory board

104. The purpose of this section is to put in place the process that the Treasury must adopt in order to demonstrate that any departures from generally accepted accounting practice contained in the guidance it issues for the preparation of resource accounts or WGA are justified by the public sector context.
105. *Subsection (1)* requires the Treasury to consult an advisory board containing people with appropriate experience of financial reporting principles and standards before issuing such guidance. *Subsection (2)* requires the Treasury to consult the Comptroller and Auditor General before selecting the members of the advisory board. These requirements are already fulfilled by the Financial Reporting Advisory Board..
106. *Subsections (3) and (4)* require the advisory board to prepare a report on its work during the year which the Treasury must lay before Parliament. The report may deal with any additional matters that the board considers appropriate such as departures from generally accepted accounting practice.

Section 25: Examinations by the C&AG

107. This section provides for a number of issues related to examinations by the C&AG.
108. *Subsection (2)* requires the C&AG to report to the House of Commons where he changes the extent or character of any of his audits under sections 6, 7 or 11 of this Act. This reproduces, in modernised form, the provisions of section 1(4) of the Exchequer and Audit Departments Act 1921.
109. *Subsection (3)* makes clear that any examinations undertaken by the C&AG under sections 6, 7 or 11 of this Act are carried out on behalf of the House of Commons.
110. *Subsections (4) and (5)* provide that the C&AG has the same rights of access where he is the appointed auditor of other bodies (these will mainly be non-departmental public bodies) as he has under section 8(1) when he audits departments.
111. *Subsections (6) and (7)* enable the Treasury to provide by order that a non-departmental public body should be audited by the C&AG, even if the C&AG is currently prevented by statute from auditing the non-departmental public body concerned. An order could remove the restrictions in the statute setting up the non-departmental public body that prevents the C&AG from being appointed auditor. It is not the Government's intention to make use of these provisions to make the C&AG the auditor of non-departmental public bodies that are audited by the Auditor Generals of the devolved administrations.
112. *Subsections (8) and (9)* enable the Treasury to provide by order for section 8(1) to apply to documents, in addition to those already provided for by section 8(2), of a specified description or which are held or controlled by a body of a specified kind or in specified circumstances. The intention behind this provision is to enable additional rights of access to documents and bodies for the purpose of auditing departmental accounts to be granted to the C&AG where it is agreed that this should be done.
113. *Subsection (10)* provides that any orders made under subsections (6) or (8) would be made by statutory instrument subject to affirmative resolution of both Houses of Parliament. The Treasury are required to consult the C&AG before making an order under subsections (6) or (8).

Section 26: Reports by the C&AG

114. This section provides an additional safeguard for Parliament that the C&AG's reports on accounts provided for in the Bill will be available to it in a timely manner by giving the C&AG an independent power to lay his reports if the Treasury fails to do so within the times set out in the Act. This section is a modernised and extended re-enactment of section 32 of the Exchequer and Audit Departments Act 1866 which is therefore repealed.

Section 27: Interpretation of use of resources

115. This section defines a use of resources as covering their expenditure, consumption or reduction in value. This definition encompasses the costs of depreciation of assets and the using up of inventories as well as the expenditure of cash resources.

Section 28: Interpretation of financial year

116. References in the Act to "financial year" are defined by this section as being the 12 months ending with 31 March. This is the standard definition of "financial year" and represents no change from previous practice.

Section 29: Amendments and repeals

117. This section gives effect to the minor and consequential amendments contained in Schedule 1 of the Bill and the repeals contained in Schedule 2 of the Bill. See paragraphs 122-139 for details of these schedules.

Section 30: Commencement

118. It is intended, subject to Parliamentary approval of the move to resource estimates, to move from the present cash based system to RAB at the beginning of the financial year 2001-2002. This section gives the Treasury powers to bring the preceding provisions of the Bill, except those relating to clauses 16 to 20, into force by order.
119. The section also enables the Treasury to make transitional provisions to ensure a smooth changeover from the cash system to RAB. For example, under the timetable envisioned, the last departmental appropriation accounts will be laid before Parliament during the winter of 2001-2002 and it will be necessary to ensure that the necessary power to prepare, audit and lay these accounts are still available.
120. *Subsections (3) to (5)* enable the Treasury, by statutory instrument subject to the negative resolution procedure, to require bodies (other than those in Scotland) to provide the information required for WGA without formally including the body within the scope of the audited and published accounts. In the case of the National Assembly for Wales, subsection (5) requires the Treasury to consult the National Assembly before specifying a body that comes under the National Assembly's jurisdiction. They also enable the Treasury to require another department to pilot the necessary consolidation procedures for public corporations or local authorities to prepare for the extension of scope of WGA from central government to the whole of the public sector. This will enable the Treasury to take the phased approach described in paragraph 51. The plan is to prepare and publish audited accounts for central government as the first stage. The subsection will then enable the Treasury to require public corporations and local authority bodies to prepare "dry-run" information prior to the formal extension of the coverage of audited and published accounts to the whole of the public sector and for departments to consolidate this, in order to test the systems and procedures required.

Section 31: Short title

121. This section gives the short title of the Bill. This is the title by which the Bill will usually be referred to.

Schedule 1: Minor and consequential amendments

Amendments to the Exchequer and Audit Departments Act 1866

122. There are a substantial number of very minor amendments to this Act (mostly removing obsolete references to the Bank of Ireland). The more substantial changes are:

Paragraph 5 - the number of minor amendments needed to section 13 (procedures for making payments for standing services out of the Consolidated Fund) were such that it was decided to replace the entire section.

Paragraph 7 - the number of minor amendments needed to section 15 (procedures for making payments for sums authorised by Parliament out of the Consolidated Fund) were such that it was decided to replace the entire section. The only substantive change (as opposed to a modernisation of the wording) is the requirement in subsection (6) that the Treasury shall send to the C&AG a daily statement specifying the services on account of which issues were made. This change reflects what has been the actual practice for a number of years.

Paragraph 8- this amends section 18 to retain the Treasury's power to determine at what banks departments may keep money while repealing obsolete provisions relating to individuals keeping public money in their own personal accounts.

Paragraph 11- this clarifies the continuing application of section 34. The repeal (in 1921) of section 33 had left it unclear which accounts were covered by section 34. The amendment in paragraph 11 makes clear that the only accounts covered by section 34 are those prepared under section 3 of the Exchequer and Audit Departments Act 1921.

Paragraph 13 - this repeals sections 39 and 41-44 of the Act that are now obsolete. These describe the arrangements for the audit and control of amounts of public money held in officials' private accounts.

Amendments to the Parliamentary Returns Act 1869

123. **Paragraph 14** substitutes a reference to resource accounts for one to appropriation accounts.

Amendments to the Exchequer and Audit Departments Act 1921

124. **Paragraph 15(2)** amends section 2 of the 1921 Act (accounts of receipts of revenue prepared by Inland Revenue and Customs and Excise) to enable the Treasury to direct the form of these accounts. This removes an anomaly whereby the Treasury had no statutory powers to determine the form of these accounts (in practice the Treasury has issued non-statutory accounts directions for these accounts for a number of years).
125. **Paragraph 15(3)** repeals section 4 of the Act (stock and store accounts). Separate stock and store accounts will not be necessary under RAB as stocks and stores will automatically be included within the normal audit as they will appear on departmental balance sheets.

Amendments to the Government Trading Funds Act 1973

126. This substitutes a reference to section 7 of the Bill for an existing reference to section 5 of the Exchequer and Audit Departments Act 1921.

Amendments to the House of Commons (Administration) Act 1978

127. **Paragraph 17** amends section 3 of the 1978 Act to enable the House of Commons to prepare its accounts on a RAB basis. Section 3(4) is entirely new and enables the House of Commons Commission to direct that income received can be applied as appropriations -in-aid in the same manner as applies to departments.

Amendments to the National Audit Act 1983

128. **Paragraph 18(2)** amends section 4 of the 1983 Act to enable the National Audit Office to prepare its own estimates and accounts on a resource basis.
129. **Paragraph 18(3)** substitutes a reference to resource accounts for a reference to appropriation accounts in section 6 of the 1983 Act.
130. **Paragraph 18(4)** amends paragraph 4(1) of Schedule 3 to the 1983 Act to reflect the move to RAB and requires the auditor of NAO to carry out the audit of NAO in the same manner as the C&AG will carry out his audits of departments.
131. **Paragraph 18(5)** substitutes a reference to resource accounts for a reference to appropriation accounts in paragraph 4(2) of Schedule 3 to the Act.

Amendments to the Health Service Commissioners Act 1993

132. **Paragraph 19** amends paragraph 11(1) of Schedule 1A to the Health Service Commissioners Act 1993 (Welsh Commissioner accounts) to provide that the accounts of the Health Service Commissioner for Wales are to be submitted to the Auditor General for Wales no later than 30th November in the financial year following that to which they relate. This replaces the existing requirement that they be submitted by 31st August. This reflects the date for submission of Departmental accounts to the Comptroller and Auditor General under section 5(5) of the Government Resources and Accounts Act.

Amendments to the Deregulation and Contracting Out Act 1994

133. **Paragraph 20** changes a reference to section 22 of the Exchequer and Audit Departments Act 1866 to a reference to subsections 5(6) and 5(8) of this Act.

Amendments to the Government of Wales Act 1998

134. **Paragraph 22** amends section 96 of the 1998 Act to provide that the Auditor General for Wales will carry out audits under section 10(2)(c) and (8)(c) of the Government Resources and Accounts Act of accounts where the Treasury has designated the Assembly for the purposes of section 10 of that Act or has made arrangements with the Assembly under section 10(8) of that Act.
135. **Paragraph 23** amends provisions in the Government of Wales Act relating to the date for the submission to the Auditor General for Wales of the accounts of the National Assembly; the Chief Inspector of Schools in Wales; Forestry Commissioners and the Welsh Administration Ombudsman corresponding to that referred to in paragraph 19 of Schedule 1 (as described in paragraph 132 of these notes) in relation to the Health Service Commissioner for Wales.
136. **Paragraph 24** inserts a new section 101A (Whole of Government of Wales Accounts) into the Government of Wales Act. This will enable the National Assembly to produce “Whole of Government of Wales Accounts” in parallel with “Whole of Government” Accounts for the UK. These accounts will be examined by the Auditor General for Wales and will be laid before the National Assembly.

Amendments to the Tax Credits Act 1999

137. **Paragraph 25** removes an obsolete reference to “accounts” (necessary as references to accounts held at the Bank of Ireland have been removed).

Amendments to the Food Standards Act 1999

138. **Paragraph 26** changes references to appropriation accounts and to the Exchequer and Audit Departments Acts to references to the appropriate clauses of the Bill.

Wales: alteration of timetables for accounts

139. **Paragraph 27** empowers the Treasury to alter, subject to consultation with the National Assembly for Wales and the Auditor General for Wales, the timetable for production of the accounts of the Health Service Commissioner for Wales, National Assembly, Chief Inspector of Schools in Wales, Forestry Commissioners and the Welsh Administration Ombudsman, made by paragraphs 19 and 23 of Schedule 1. This Treasury power is in line with the power under section 22 to alter the statutory timetable for the production of the accounts of Whitehall Departments in order to encourage quicker completion of accounts.