These notes refer to the Fiscal Responsibility Act 2010 (c.3) which received Royal Assent on 10 February 2010

FISCAL RESPONSIBILITY ACT 2010

EXPLANATORY NOTES

BACKGROUND

3. The Finance Act 1998 includes provisions which underpin the fiscal framework introduced by the Government in 1997. In particular, section 155 of the Act requires the Treasury to prepare and lay before Parliament a code for fiscal stability for the application of certain key principles (transparency, stability, responsibility, fairness and efficiency) to the formulation and implementation of fiscal policy. Section 156 of the Act requires the Government to prepare and lay before Parliament each year a Financial Statement and Budget Report, an Economic and Fiscal Strategy Report, a Debt Management Report and a Pre-Budget Report.

4. Under the Act the code, and any amendments to the code, must be laid before Parliament and approved by resolution of the House of Commons. The code was approved by the House of Commons in 1998 and provided a basis for the Government's fiscal objectives and fiscal rules are published each year in the Budget and Pre-Budget Report.

5. From 1997, the Government adopted fiscal rules as a means to deliver its objectives, set over an economic cycle to give fiscal policy the flexibility to support monetary policy and smooth the normal fluctuations in the path of the economy. The first fiscal rule was the "golden rule" – that over the economic cycle the Government would borrow only to invest and not to fund current spending. The second fiscal rule was the "sustainable investment rule" – that public sector net debt as a proportion of gross domestic product (GDP) would be held over the economic cycle at a stable and prudent level.

6. In the 2008 Pre-Budget Report the Government announced that it would temporarily depart from the golden rule and the sustainable investment rule until the global shocks had worked their way through the economy in full. Consistent with the requirements of the code, the Government set a 'temporary operating rule' to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.

7. The Chancellor of the Exchequer announced in September 2009 that the Government's intention was to legislate to reduce the budget deficit. The Act imposes a duty on the Treasury to ensure that for each of the financial years ending in 2011 to 2016 borrowing as a proportion of GDP is less than it was for the preceding financial year, that by 2014 public sector net borrowing as a percentage of GDP is at least halved from its level for the financial year ending 2010, and to ensure that public sector net debt as a percentage of GDP as at the end of financial year 2016 is less than in the previous financial year.