

FISCAL RESPONSIBILITY ACT

EXPLANATORY NOTES

INTRODUCTION

1. These Explanatory Notes relate to the Fiscal Responsibility Act, which received Royal Assent on 10 February 2010. They have been prepared by the Treasury in order to assist the reader in understanding the Act. They do not form part of the Act and have not been endorsed by Parliament.
2. The notes need to be read in conjunction with the Act. They are not, and are not meant to be, a comprehensive description of the Act. So where a section or part of a section does not seem to require any explanation or comment, none is given.

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.

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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.

SUMMARY

8. The purpose of the Act is to ensure that there is always in place a duty on the Treasury to secure sound public finances for the United Kingdom. In summary, the Act:
 - imposes a duty on the Treasury to ensure that for each of the financial years ending in 2011 to 2016 public sector net borrowing as a percentage of GDP is lower than the previous year;
 - imposes a duty on the Treasury to ensure that by the financial year ending 2014 public sector net borrowing as a percentage of GDP is at least halved from its level for the financial year ending 2010;
 - imposes a duty on the Treasury to ensure that public sector net debt as a percentage of GDP is lower as at 31 March 2016 than it was as at 31 March 2015;
 - provides that the Treasury may impose, by Order, further duties on the Treasury for the purposes of securing sound public finances and consistent with the key principles (specified in section 155(2) of the Finance Act 1998) for any or all of the financial years ending 2011 to 2016;
 - requires the Treasury to impose, by Order, subsequent duties on the Treasury for the purpose of securing sound public finances and consistent with the key principles, to apply in relation to future financial years beyond 2016;
 - imposes a duty on the Treasury to report on progress towards and compliance with the duties at the time of laying before Parliament relevant Economic and Fiscal Strategy Reports and Pre-Budget Reports;

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- provides that the Treasury's accountability in relation to the duty and future duties is to Parliament alone, by way of the reporting requirements of section 3;
- provides that the lawfulness of anything done, or not done, is not to be affected by the fact that the duty has not been or may or will not be complied with; and
- provides for explanations of key terms to be set out in the code for fiscal stability.

TERRITORIAL EXTENT

9. The Act extends to the whole of the United Kingdom.

COMMENTARY ON SECTIONS AND SCHEDULES

Section 1: Initial duties

10. Section 1 imposes three initial duties on the Treasury to secure sound public finances.
11. *Subsection (1)* places a duty on the Treasury to ensure that for each of the financial years ending in 2011 to 2016, public sector net borrowing as a percentage of GDP is less than it was for the preceding year.
12. *Subsection (2)* places a duty on the Treasury to ensure that for the financial year ending in 2014, public sector net borrowing as a percentage of GDP is no more than half of what it was for the financial year ending in 2010.
13. *Subsection (3)* places a duty on the Treasury to ensure that public sector net debt as at the end of the financial year 2016 as a percentage of GDP (centred on 31 March 2016) is less than public sector net debt as at the end of the previous financial year as a percentage of GDP (centred on 31 March 2015).

Section 2: Subsequent duties for securing sound public finances

14. *Subsection (1)* provides that the Treasury may make an Order imposing further duties framed by reference to all or part of the same period as the duties established by section 1.
15. *Subsection (2)* requires the Treasury, no later than 31 March 2016, to make an Order imposing a subsequent duty or duties on the Treasury. This duty or duties must be referable to a later financial year. This subsection also places a duty on the Treasury, no later than each "relevant date" (defined in the following subsection), to make a further Order in relation to a later financial year.
16. *Subsection (3)* explains the phrase "relevant date" for the purpose of *subsection (2)*. The relevant date is the last day of the financial year specified in the first Order made under section 2(2) and the last day of the financial year specified in a subsequent Order imposing a duty or duties on the Treasury to secure sound public finances.

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17. *Subsection (4)* provides that all duties imposed by virtue of section 2 must be for the purpose of securing sound public finances.
18. The effect of *subsections (2) to (4)* is that the Treasury must always have a duty or duties to secure sound public finances.
19. *Subsection (5)* provides that duties in Orders made under section 2 may be similar to the duties in section 1 or may be general duties relating to fiscal policy, as the Treasury consider appropriate.
20. *Subsection (6)* provides that Orders made under this section must be consistent with the key principles as applied by the code for fiscal stability. The key principles are set out in section 155(2) of the Finance Act 1998 as transparency, stability, responsibility, fairness and efficiency.
21. *Subsection (8)* sets out that Orders made under this section are subject to the affirmative procedure in the House of Commons.

Section 3: Progress and compliance reports

22. Section 3 makes provision in relation to reporting on the progress towards and compliance with duties made under or by virtue of sections 1 and 2. *Subsections (1) to (6)* set out provision for reporting on the initial duties; *subsection (7)* requires the Treasury to make provision in an Order made under section 2 for reporting on subsequent duties.
23. *Subsection (8)* states that the code for fiscal stability may make provision about the content and form of reports made under or by virtue of section 3.

Section 4: Accountability to Parliament

24. *Subsection (1)* provides that all reports described in section 3 must be laid before Parliament.
25. *Subsection (2)* provides that accountability in relation to the duties imposed by section 1 and imposed by Order under section 2 is solely by way of reports laid before Parliament as required by or under section 3.
26. *Subsection (3)* provides that the fact that the duties in section 1, or a duty in an Order made by the Treasury under section 2, are not complied with does not affect the lawfulness of anything done, or omitted to be done, by any person.

Section 5: Interpretation

27. Section 5 makes provision in relation to interpretation.
28. *Subsection (1)* provides that the code for fiscal stability must explain the meaning of terms used in section 1. These terms are: “public sector net borrowing,” “gross domestic product,” “public sector net debt” and “gross domestic product (centred on a

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date).” The code may also explain the meaning of terms used in an Order made under section 2.

29. *Subsection (2)* provides that “the code for fiscal stability” means the code under section 155 of the Finance Act 1998, “an Economic and Fiscal Strategy Report” means a Report mentioned in section 156(1)(b) of that Act, “the key principles” means the principles specified in section 155(2) of that Act, and “a Pre-Budget Report” means a Pre-Budget Report prepared under section 156(2) of that Act.

Section 6: Short title

30. Section 6 provides that the Act may be known as the Fiscal Responsibility Act 2010.

COMMENCEMENT DATES

31. The Act came into force on Royal Assent.

HANSARD REFERENCES

The following table sets out the dates and Hansard references for each stage of this Act’s passage through Parliament.

<i>Stage</i>	<i>Date</i>	<i>Hansard reference</i>
House of Commons		
Introduction	9 December 2009	Vol. 502 Column 387
Second Reading	5 January 2010	Vol. 503 Columns 63-137
Committee, Report and Third Reading	20 January 2010	Vol. 504 Columns 322-404
House of Lords		
Introduction	21 January 2010	Vol. 716 Column 1108
Second Reading	10 February 2010	Vol. 717 Columns 734-776
Royal Assent		
House of Commons	10 February 2010	Vol. 505 Column 969
House of Lords	10 February 2010	Vol. 717 Columns 806

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