

**BUDGET 98**

# **The Code for Fiscal Stability**

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# PREFACE

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The Code for Fiscal Stability puts Britain at the forefront of economic policy reform and represents an important step forward in the modernisation of our economic policy framework. It sets out a basis for fiscal policy that will allow Britain to meet the challenges of the 21st century by supporting the long-term economic stability on which prosperity depends.

Last year, I introduced fundamental reforms to the framework for monetary policy. As a result, people and businesses can plan and invest with greater confidence, knowing that the high and damaging inflation episodes of the past will not be repeated.

The monetary framework is based on an open, transparent and accountable approach to policy-making. The Code builds on that approach, this time in the context of fiscal policy. For too long, fiscal policy-making has been conducted behind closed doors and has failed to meet the standards of transparency and accountability that the public have the right to expect.

From now on, all governments will need to live up to the tough standards of fiscal practice imposed on them by the Code. People and businesses can be assured that the public finances will be managed in a responsible and prudent way. That will help to reinforce economic stability. The Code will also ensure that we meet our commitments to share information with our European Union partners under the Stability and Growth Pact.

This paper sets out the Code for Fiscal Stability that I plan to lay before Parliament in accordance with the provisions that will contained in the current Finance Bill.

Gordon Brown

Rt Hon Gordon Brown MP  
Chancellor of the Exchequer  
March 1998





# INTRODUCTION

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In its Pre-Budget Report in November 1997, the Government announced its intention to implement and adopt a statutory Code for Fiscal Stability. A consultative paper on the Code was issued at the same time.

The Chancellor explained that the Code would set out clearly the Government's commitment to a commonsense and accountable approach to managing the public finances in the long-term interests of Britain. Moreover, the Government believes that should any future government wish to take a different view, it should first be required to consult and persuade Parliament of the need to change.

The proposal was based on three key considerations:

- a stable economic environment is vital if growth and employment are to prosper;
- the conduct of fiscal policy has a critical influence on economic stability; and
- the framework for fiscal policy inherited by the Government had failed to deliver a stable economic environment. Indeed, fiscal policy had been an important source of instability in the economy.

This document sets out the Code for Fiscal Stability. It is designed to address past weaknesses in the fiscal policy framework. In particular, it complements the openness, transparency and accountability that now characterises the framework for monetary policy. It improves the quality of information given to the public, the lack of which in the past was an important factor underlying policy mistakes.

## **Key provisions**

Under the Code, the Government will undertake the following commitments. It will:

- conduct fiscal and debt management policy in accordance with a specific set of principles;
- state explicitly its fiscal policy objectives and operating rules, and justify any changes to them;
- operate debt management policy to achieve a specific primary objective;
- disclose, and quantify where possible, all decisions and circumstances which may have a material impact on the economic and fiscal outlook;

- ensure that best-practice accounting methods are used to construct the public accounts;
- publish a Pre-Budget Report to encourage debate on the proposals under consideration for the Budget;
- publish a Financial Statement and Budget Report to discuss the key Budget decisions and the short-term economic and fiscal outlook;
- publish an Economic and Fiscal Strategy Report outlining the Government's long-term goals and strategy for the future;
- publish a specific range of information from its economic and fiscal projections, including estimates of the cyclically-adjusted fiscal position;
- invite the National Audit Office (NAO) to audit changes in the key assumptions and conventions underpinning the fiscal projections;
- produce a Debt Management Report outlining the Government's debt management plans;
- refer all reports issued under the Code to the House of Commons Treasury Committee; and
- ensure the public have full access to the reports issued under the Code.

### **Legislation**

The Government sees great advantage in giving the Code a statutory basis. To that end, the Government is including provisions in the current Finance Bill. In particular, the Bill will:

- require the Government to lay before Parliament a Code for Fiscal Stability;
- allow governments to issue an amended Code but only with Parliamentary approval under affirmative resolution procedures; and
- specify the minimum provisions that the Code must contain. In essence, the Bill will require the Government to issue a Code for the application of five key principles of fiscal management – transparency, stability, responsibility, fairness and efficiency – to the formulation and implementation of fiscal and debt management policy.

These statutory requirements will make policy more transparent and governments readily answerable for any departure from the Code.

The Code for Fiscal Stability set out in Section 2 is that which the Government intends to lay before Parliament pursuant to the current Finance Bill. A draft of the clauses that will appear in the Finance Bill is reproduced in the Annex. It should be noted that this draft is subject to change before publication of the Bill.

# 2

## THE CODE FOR FISCAL STABILITY

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### PURPOSE OF THE CODE

1. The purpose of the Code is to improve the conduct of fiscal policy by specifying the principles that shall guide the formulation and implementation of fiscal policy and by strengthening the reporting requirements incumbent on the Government.
2. In this Code, except where the contrary is stated, fiscal policy includes debt management policy.

### PRINCIPLES OF FISCAL MANAGEMENT

3. The Government shall conduct its fiscal policy in accordance with the following principles:
  - a. **transparency** in the setting of fiscal policy objectives, the implementation of fiscal policy and in the publication of the public accounts;
  - b. **stability** in the fiscal policy-making process and in the way fiscal policy impacts on the economy;
  - c. **responsibility** in the management of the public finances;
  - d. **fairness**, including between generations; and
  - e. **efficiency** in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.
4. The principle of **transparency** means that the Government shall publish sufficient information to allow the public to scrutinise the conduct of fiscal policy and the state of the public finances, and shall not withhold information except where publication of that information would:
  - a. substantially harm:
    - i. the national security, defence or international relations of the United Kingdom;
    - ii. the investigation, prosecution, or prevention of crime, or the conduct of civil proceedings;
    - iii. the right to privacy;
    - iv. the right of other parties to undertake confidential communications with the Government;

- v. the ability of the Government to undertake commercial activities; or
  - b. harm the integrity of the decision-making and policy advice processes in government.
5. The principle of **stability** means that, so far as reasonably practicable, the Government shall operate fiscal policy in a way that is predictable and consistent with the central economic objective of high and stable levels of growth and employment.
  6. The principle of **responsibility** means that the Government shall operate fiscal policy in a prudent way, and manage public assets, liabilities and fiscal risks with a view to ensuring that the fiscal position is sustainable over the long term.
  7. The principle of **fairness** means that, so far as reasonably practicable, the Government shall seek to operate fiscal policy in a way that takes into account the financial effects on future generations, as well as its distributional impact on the current population.
  8. The principle of **efficiency** means that the Government shall seek to ensure that it uses resources in ways that give value for money, that public assets are put to the best possible use and that surplus assets are disposed of. The Government shall also have regard to economic efficiency and compliance costs when forming taxation policy.

### **FISCAL AND DEBT MANAGEMENT OBJECTIVES AND OPERATION OF FISCAL POLICY**

9. Subject to paragraph 12, the Government shall state and explain its fiscal policy objectives and the rules by which it intends to operate fiscal policy over the life of the Parliament. These objectives and operating rules shall accord with the principles stated in paragraph 3, and shall be restated in each Budget.
10. The Government may change its fiscal policy objectives and operating rules, provided that:
  - a. any new fiscal policy objectives and operating rules also accord with the principles stated in paragraph 3; and
  - b. the reasons for departing from the previous objectives and operating rules are stated.
11. The Government may depart from its fiscal policy objectives and operating rules temporarily, provided that it specifies:
  - a. the reasons for departing from the previous fiscal policy objectives and operating rules;
  - b. the approach and period of time that the Government intends to take to return to the previous fiscal policy objectives and operating rules; and
  - c. the fiscal policy objectives and operating rules that shall apply over this period.

12. The primary objective of debt management policy shall be to minimise, over the long term, the costs of meeting the Government's financing needs whilst:
  - a. taking account of risk; and
  - b. seeking, so far as possible, to avoid conflict with monetary policy.

### **ACCOUNTING PRACTICE**

13. The Government shall ensure that accounts are to be produced for the whole public sector. Where reasonably practicable, these accounts shall also be produced on a consolidated basis.
14. The Government shall, to the extent reasonably practicable, apply best-practice accounting methods - as represented by Generally Accepted Accounting Practice in the United Kingdom, adapted as necessary for the public sector - in the production of its accounts. In particular, the Government shall, as soon as reasonably practicable, adopt a Resource Accounting and Budgeting approach for planning and accounting for the costs of resources consumed by Government.

### **THE PRE-BUDGET REPORT**

15. If, as is usual, there is only one Budget in a financial year, the Treasury shall publish a Pre-Budget Report (PBR) at least three months prior to it, unless this is the first Budget of the Parliament, in which case a PBR shall not be required. In addition, if there is more than one Budget in any financial year, only one PBR shall be required.
16. The PBR shall be consultative in nature, and shall include, so far as reasonably practicable, proposals for any significant changes in fiscal policy under consideration for introduction in the Budget. However, the PBR shall not be taken as an indication of all tax policy areas where the Government may choose to act. In particular, consultation may not be possible in areas which:
  - a. carry the risk of significant forestalling activity by existing or prospective taxpayers; or
  - b. could lead to significant temporary distortions in taxpayer and market behaviour, including disruption in financial markets.
17. The PBR shall also include, either in the main document, or in a subsidiary document:
  - a. An Economic and Fiscal Projection (as defined in paragraphs 20-25); and
  - b. An analysis of the impact of the economic cycle on the key fiscal aggregates, including estimates of the cyclically-adjusted position, so as to shed light on progress against the fiscal objectives stated under paragraphs 9-11.

**THE FINANCIAL STATEMENT AND BUDGET REPORT**

18. The Treasury shall publish a Financial Statement and Budget Report (FSBR) at the time of the Budget. The FSBR shall provide, as a minimum:
- a. an Economic and Fiscal Projection (as defined in paragraphs 20-25);
  - b. an explanation of significant fiscal policy measures introduced in the Budget; and
  - c. an explanation, where necessary, of how these policy measures restore the path of the public finances to a position consistent with:
    - i. the fiscal policy objectives and operating rules specified in paragraphs 9-11; and
    - ii. the Government's European commitments, in particular the terms of the Stability and Growth Pact.

**THE ECONOMIC AND FISCAL STRATEGY REPORT**

19. The Treasury shall publish an Economic and Fiscal Strategy Report (EFSR), usually at the time of the Budget. But if there is more than one Budget in any financial year, only one EFSR shall be required. Within the context of the specified principles of fiscal management, the EFSR shall:
- a. set out the Government's long-term economic and fiscal strategy, including any long-term objectives for the key fiscal aggregates;
  - b. assess both recent outcomes and the short-term economic and fiscal outlook contained in the FSBR against this longer-term strategy;
  - c. assess whether the short-term outlook and long-term strategy is consistent with the Government's European commitments, in particular, the terms of the Stability and Growth Pact;
  - d. present illustrative projections of the outlook for the key fiscal aggregates for a period not less than 10 years into the future, based on a range of plausible assumptions, so as to shed light on the inter generational impact and sustainability of fiscal policy; and
  - e. present an analysis of the impact of the economic cycle on the key fiscal aggregates, including estimates of the cyclically-adjusted position.

**ECONOMIC AND FISCAL PROJECTIONS**

20. Where a report published under this Code contains an Economic and Fiscal Projection, that report shall contain, as a minimum:
  - a. the key assumptions, forecasts and conventions underpinning the projection, including those relating to world economic growth, the terms of trade, and trend output;
  - b. projections of:
    - i. GDP and its components;
    - ii. retail prices (including any measure of prices that is the formal inflation target of the Government); and
    - iii. the current account position of the balance of payments.
  - c. upon implementation of Resource Accounting and Budgeting, an operating statement, reflecting the Government's projected current revenue and current expenses for each financial year;
  - d. a statement of cash flows, reflecting projected cash flows for each financial year;
  - e. a statement outlining proceeds received from the sale of public assets;
  - f. any other such statements as are necessary to reflect fairly the projected financial performance of the Government; and
  - g. an analysis of the risks surrounding the economic and fiscal outlook, including Government decisions and other circumstances that have still to be quantified with certainty, other material contingent liabilities and an indication of past forecast errors for aggregates noted in paragraph 20(b) and for the Public Sector Borrowing Requirement (PSBR).
21. The financial statements issued under paragraph 20 shall include projections of key fiscal aggregates, including: current spending and current revenue, the current balance, the PSBR, the General Government Financial Deficit, General Government Gross Debt, Public Sector Net Debt and a measure of net wealth. Where possible, the statements shall provide a breakdown of expenditure and revenue by sector and economic and/or functional category.
22. The financial statements shall also include any other such indicator as is required to judge achievement against the Government's fiscal policy objectives and rules and against the Government's European commitments, in particular the Stability and Growth Pact.

23. Every economic and fiscal projection contained in a report published under this Code shall be based, so far as reasonably practicable, on all Government decisions and all other circumstances that may have a material impact on the fiscal outlook. In particular:
  - a. where the fiscal impact of these decisions and circumstances can be quantified with reasonable accuracy by the day the projections are finalised, the impact should be included in the published projections; and
  - b. where the fiscal impact of these decisions and circumstances cannot be quantified with reasonable accuracy by the day the projections are finalised, these impacts should be noted as specific fiscal risks.
24. The projection horizon is to be a period of not less than two full financial years following the date of publication. For each of the statements, comparative figures for the key fiscal aggregates covering the previous two financial years are to be published.
25. The Treasury shall also provide an explanation of all significant accounting policies, including any changes from previous practice.

### **ROLE OF THE NATIONAL AUDIT OFFICE**

26. The Treasury shall invite the National Audit Office (NAO) to audit any changes to the key assumptions and conventions underlying the fiscal projections. The Comptroller and Auditor General shall ensure that any advice is communicated to the Treasury and laid before Parliament.

### **CONDUCT OF DEBT MANAGEMENT AND THE DEBT MANAGEMENT REPORT**

27. The Government shall report annually on the structure of its borrowing and the cost of the government debt, giving sufficient information to allow the public to scrutinise the conduct of its debt management policy. The overall debt portfolio used to finance past fiscal deficits will be presented in the Debt Management Report, to be issued within each financial year. The Government's agents for implementing debt management policy, the Debt Management Office and National Savings, shall publish more detailed information in their own annual reports and accounts.

28. The Government shall set remits for its agents in the annual Debt Management Report. This report will include:
  - a. a forecast of the net funding through National Savings;
  - b. the overall size of the gilts issuance programme for the coming financial year;
  - c. the planned debt maturity structure and the proportions of index-linked and conventional gilts; and
  - d. the gilt auction calendar.
29. The remits shall be subject to revision or confirmation as the Government publishes subsequent fiscal projections.

### **REFERRAL TO TREASURY COMMITTEE**

30. The Treasury shall refer to the House of Commons Treasury Committee every report published as a requirement of the Code.

### **DISCLOSURE OF OTHER INFORMATION**

31. The Treasury shall publish, from time to time, other information that it determines would better enable the public to scrutinise fiscal policy and the state of the public finances.

### **PUBLICATION AND INSPECTION OF REPORTS**

32. The Treasury shall, in respect of every report published as a requirement of the Code, arrange for the publication of a notice indicating:
  - a. where copies of the report are available for inspection free of charge; and
  - b. where copies of the report are available for purchase.
33. The Treasury shall make available copies of each report for inspection or purchase for at least 6 months following publication. Copies of all reports shall also be made available on the Treasury's internet website.



# 3

## AN EXPLANATION OF THE CODE

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This section discusses the key provisions contained in the proposed Code for Fiscal Stability.

### **The principles of fiscal management**

In its Pre-Budget Report in November 1997, the Government set out five principles which are fundamental to a commonsense approach to fiscal management. The Code states these as:

- **transparency** in the setting of fiscal policy objectives, the implementation of fiscal policy and in the publication of the public accounts;
- **stability** in the fiscal policy-making process and in the way fiscal policy impacts on the economy;
- **responsibility** in the management of the public finances;
- **fairness**, including between generations; and
- **efficiency** in the design and implementation of fiscal policy and in managing both sides of the public sector balance sheet.

Transparent government lies at the heart of a democracy. Transparency ensures that Parliament and the wider public can scrutinise the Government's economic and fiscal plans. It is likely to encourage governments to give more weight to the long-term consequences of their decisions, leading to more sustainable fiscal policy. It also encourages people and businesses to plan for the long term, rather than basing decisions only on what makes sense in the short term, so that resources are allocated efficiently. Given these advantages, the Government believes that transparency should be the rule rather than the exception, and the Code has been drafted accordingly.

There are certain situations where complete transparency may have undesirable effects. For example, if the Government decided to sell an asset, it would not make sense to disclose in advance the sum it expected to receive for the asset. Disclosure could compromise negotiations, reducing the return to the taxpayer. Similarly, the Code should not intrude on legitimate privacy. Accordingly, the Code provides for less than full disclosure but only where this would be in the public interest. The kinds of situations where full disclosure is not required are discussed more fully in *Your Right to Know* – the Government's White Paper on proposals for a Freedom of Information Act.

The principle of stability reflects explicitly the Government's central economic objective of achieving high and stable levels of growth and employment. The principle means that governments should, so far as possible, operate policy with a reasonable degree of predictability and in a way that supports stability and long-term growth in the economy.

Responsible and prudent management of public assets, liabilities and fiscal risks is also fundamental to managing the public finances in the long-term interests of the UK. The principle of responsibility means that governments should plan and operate policy so as to ensure the longer-term sustainability and viability of public services, while avoiding an ever-increasing tax burden or excessive levels of public debt.

The Government is committed to fairness, both between and within generations. When making fiscal and debt management policy decisions it is important that governments take into account the financial effects on future generations. It would be unfair to make future generations meet the cost of policies that primarily benefit the current generation. Similarly, the current generation should not be expected to pay unduly for policies that will only benefit future generations. Fairness within broad groups of the current generation is also important. The Code requires that fairness is taken into account when policy decisions are made.

Last, but not least, is the principle of efficiency. This principle means that governments should not waste resources themselves, nor should governments cause resources to be wasted elsewhere in the economy. Productivity in the public sector clearly has a major influence on productivity in the economy as a whole. Value for money in use of scarce resources is of prime importance if the UK is to achieve its economic and social goals.

#### **The setting of fiscal and debt management objectives**

The principle of transparency demands that governments are open about their fiscal and debt management objectives and the rules that govern how policy will seek to achieve them. The Code requires governments to specify and explain their fiscal objectives and rules and that they are formulated and implemented in accordance with the principles of fiscal management. Any departures from these objectives and rules must also be fully explained and justified.

The Government's fiscal rules were first set out in the July 1997 Financial Statement and Budget Report and are restated in the March 1998 Budget:

- the golden rule: over the economic cycle the Government will only borrow to invest and not to fund current expenditure; and
- public debt as a proportion of national income will be held over the economic cycle at a stable and prudent level.

The golden rule accords with the principles of responsibility and fairness. It ensures that, over the economic cycle, current spending is met by current revenue. It also means that the costs and benefits of public expenditure are shared fairly between generations. Moreover, the golden rule is consistent with the principle of efficiency because it means that worthwhile public investment can be considered on its own merits and the distinction between current and capital expenditure properly observed. The rule about public debt also accords with the principle of responsibility.

An alternative approach would be to embed the Government's two fiscal rules in the Code. However, this would be unduly restrictive. The ongoing process of strengthening the fiscal framework might, in time, require that the fiscal rules themselves are supplemented. For example, once conceptual and data problems are tackled, it is possible that balance sheet considerations might play a more substantial role in the fiscal framework. Moreover, it is for the elected Government of the day to choose and announce its fiscal policy objectives and rules, provided these are consistent with the fiscal principles set out in the Code.

The Code requires debt management policy to minimise – over the long term – the costs of meeting the Government's financing needs. At the same time, policy is required to take account of risk and of the need, so far as possible, to avoid conflict with monetary policy. This objective has been embedded in the Code as there is little reason for this objective to change.

#### **Accounting practice**

High quality information provides the basis for good policy-making. The Government is in the process of implementing a new system of accounting for the public sector – Resource Accounting and Budgeting – which will supplement the current cash-based arrangements in due course. The Code places this development firmly within the new framework for managing the public finances. The use of accruals-based principles in accounting and budgeting recognises that the economic implications of capital expenditure are not the same as those of current expenditure, and also records expenditure as it is incurred rather than when cash is paid.

It is worth noting, however, that cash measures will remain relevant – for example, in determining the Government's financing needs. Moreover, the tax forecast will continue to be based largely on cash measures. This is because for some types of tax, such as income tax, cash and accruals-based measures give very similar results. And for others, such as corporate taxation, accruals-based concepts are difficult to apply.

The Code also requires the Government to ensure that accounts are to be prepared for the whole public sector. To the extent practicable and affordable, the Code also records the aspiration that these accounts be consolidated. This will make it easier to assess the overall state of the financial affairs of the public sector as a whole.

#### **The Pre-Budget Report**

It is essential that governments draw upon the skills and experience of people and businesses across the economy when forming policy decisions. The budgetary process has for too long been shrouded in secrecy. This is why the Government published the Pre-Budget Report (PBR) in November 1997 in order to stimulate a national debate about the major economic issues Britain faces.

The Code ensures that the PBR will be a regular feature of the Budget process. Prior to each Budget, other than the first of a new Parliament, the Treasury is obliged to publish a PBR outlining, so far as reasonably practicable, any significant policy proposals under consideration for introduction in the Budget.

The Code recognises that consultation may not be possible in some areas, in particular, where consultation would carry a significant risk of forestalling activity by current or prospective taxpayers, or significant temporary distortions in taxpayer and market behaviour, including disruption to financial markets. The Code also requires the PBR to present an up-to-date assessment of the economic and fiscal outlook, so that the debate is well-founded. The PBR is to be published at least three months prior to the Budget, thus allowing adequate time for consultation.

#### **The Financial Statement and Budget Report**

The Financial Statement and Budget Report (FSBR) is the main vehicle for describing the Government's short-term economic and fiscal projections and the detailed policy announcements contained in the Budget. Under the Code, it will retain that role. The FSBR will also be the vehicle for explaining the policy measures taken to get the economic and fiscal strategy back on track if the longer term goals look like they might not be achieved.

#### **The Economic and Fiscal Strategy Report**

For too long, British governments have been pre-occupied with the short term. The Government believes that a more forward-looking and long-term approach to policy will make the UK well placed to meet the challenges of the 21st century. The Code provides for a new report to ensure that this focus on the long term occurs.

Under the Economic and Fiscal Strategy Report (EFSR), the Government is required to set out its long-term economic and fiscal strategy, including any objectives for the key fiscal aggregates. Importantly, it requires the Government to explain how the strategy and objectives relate to the principles of fiscal management and the Government's European commitments, in particular, the terms of the Stability and Growth Pact. It also requires governments to assess recent outcomes and the short-term forecasts contained in the Financial Statement and Budget Report against the long-term strategy.

Two further innovations are worth noting. First, the Code requires the EFSR to present an analysis of the impact of the economic cycle on the key fiscal aggregates, including estimates of the cyclically-adjusted fiscal position. This will ensure that effects of the cycle are not ignored when policy decisions are made. Secondly, in keeping with the long-term focus of the report, illustrative projections will be presented – based on a range of plausible assumptions – for a period not less than ten years ahead. While the level of uncertainty is inevitably greater the further out the projections go, the long-term projections will nonetheless help to shed light on the intergenerational impact and sustainability of fiscal policy. They will also encourage debate about the long-term issues and challenges that Britain will face in the future.

#### **The economic and fiscal projections**

In the past, the Government has faced only limited obligations as to what elements of the economic and fiscal projections should be published. Schedule 5 of the Industry Act 1975 sets out a limited selection of economic variables for which forecasts are required. Consistent with the principle of transparency, the Code encompasses the requirements of this part of the Industry Act, and goes further, in particular in relation to information on the public finances.

The PBR and the FSBR – both of which must include an economic and fiscal projection – will be required to disclose certain specific information as a minimum. This information includes the key assumptions underlying the projections and information on the outlook for key economic and fiscal aggregates.

**Disclosure of policy decisions** Transparency implies that the Government's economic and fiscal projections represent a fair and honest assessment of the outlook. Accordingly, the Code requires that the projections incorporate, so far as reasonably practicable, all Government decisions and all other circumstances that may have a material impact on the economic and fiscal outlook.

If these decisions and circumstances can be quantified with reasonable accuracy prior to the day the projections are finalised, the Code requires that the impact be built into the projections. If an accurate estimate of the impact is not possible, the Code requires that the decision or circumstance be listed as an explicit fiscal risk. As noted earlier, a decision or circumstance might not be disclosed, if this would be contrary to the public interest, under the terms of paragraph 4(a) and 4(b) of the Code.

**The role of the National Audit Office** Starting with the July 1997 Budget, the Government has invited the National Audit Office (NAO) to audit key assumptions and conventions underpinning the fiscal projections. The aim is to ensure that the projections are consistent with the principles of transparency and responsibility.

The involvement of the NAO has been an important factor helping to rebuild confidence in the basis for government fiscal projections. In keeping with this new approach, it is appropriate that the NAO should have a formal role under the Code. The Code requires the Treasury to invite the NAO to audit any changes to the key assumptions and conventions underlying projections of the public finances and to ensure that any advice received is published.

**The conduct of debt management and the Debt Management Report** Just as the Code obliges the Government to report on its handling of fiscal policy, so it obliges the Government to report on its debt management operations. This innovation will allow Parliament and the public to scrutinise the conduct of debt management policy. It will also allow market participants to plan their investment strategies with greater certainty.

The Code requires the publication of a Debt Management Report each year. The report will set remits for its agents and will discuss the overall debt portfolio. It will also provide a forecast of net funding through National Savings, the overall size of the gilts issuance programme for the coming year and the planned maturity structure and the proportions of indexed-link and conventional gilts. An outline of the planned gilt auction calendar is also to be included.

**Referral to Treasury Committee** The Treasury Committee of the House of Commons has a very important role to play in scrutinising the conduct of fiscal and debt management policy. It is already customary for Treasury Ministers and officials to appear before the Committee and answer questions on fiscal policy when requested. The Government believes that it is helpful to emphasise the importance it attaches to the Committee's scrutiny role by stating explicitly, and hence formally, in the Code that the Treasury refer to the Committee all reports produced under the Code.

**The distribution of reports** The public also have a fundamental interest in fiscal policy and a key role to play in scrutinising policy. So it is important that the public have ready access to the reports that the Code requires the Government to produce. The Code thus requires the Treasury to ensure that a notice is published explaining where copies of the report can be viewed or purchased. The Treasury is also required to make copies of the report available for a period not less than 6 months following publication and that all reports are available on the Treasury's internet web site.

# ANNEX: THE FINANCE BILL AND THE CODE

The draft clauses that the Government intends to include in the current Finance Bill are reproduced below. This draft is subject to change prior to the publication of the complete Bill.

*Finance (No. 2)*

## DRAFT CLAUSES/SCHEDULES

### PART VI

#### MISCELLANEOUS AND SUPPLEMENTAL

##### *Fiscal stability*

- 1.—(1) It shall be the duty of the Treasury to prepare and lay before  
5 Parliament a code for the application of the key principles to the formulation  
and implementation of—
- (a) fiscal policy, and  
(b) policy for the management of the National Debt.
- (2) The key principles are transparency, stability, responsibility, fairness  
10 and efficiency.
- (3) The code prepared under this section must set out, in particular—
- (a) the Treasury's understanding of what each of the key principles  
involves in relation to fiscal policy and policy for the management of  
the National Debt;
- 15 (b) the provision appearing to the Treasury to be necessary for the  
purposes of so much of Section [j9053] below as refers to the  
code; and
- (c) the methods and principles of accounting to be applied in the  
20 preparation of accounts, forecasts and other documents used for the  
purposes of the formulation and implementation of the policies  
mentioned in subsection (1) above.
- (4) Where any code has been laid before Parliament under subsection (1)  
above, the Treasury may from time to time modify that code; but, if they do  
so, they shall lay the modified code before Parliament.
- 25 (5) A code (including a modified code) that has been laid before Parliament  
under this section shall not come into force until it has been  
approved by a resolution of the House of Commons.
- (6) It shall be the duty of the Treasury to publish, in such a manner as they  
30 think fit, any code which has been laid before Parliament and approved by  
the House of Commons under this section.
- (7) The first code to be laid before Parliament under this section shall be  
so laid before 31st December 1998.

Code for fiscal  
stability, [j9051]

*Finance (No.2)*

PART VI

2.—(1) It shall be the duty of the Treasury for each financial year, to prepare and lay before Parliament the following documents, that is to say—

Annual Budget documents.  
[j9053]

- 35 (a) a Financial Statement and Budget Report;  
(b) a Statement of Economic and Fiscal Strategy; and  
(c) a Debt Management Report.

40 (2) The preparation and laying before Parliament of the Financial Statement and Budget Report for any financial year shall be preceded, in such cases and by such period as may be set out in the code for fiscal stability, by the preparation by the Treasury of a document to be known as the Pre-Budget Report.

(3) The Treasury shall lay before Parliament any Pre-Budget Report prepared by them under subsection (2) above.

(4) The contents of the documents which the Treasury are required to prepare and lay before Parliament under this section, and the occasions on which those documents are to be so laid, must conform to any provision 5 about those matters made by the code for fiscal stability.

(5) It shall be the duty of the Comptroller and Auditor General to report to the House of Commons on such of the conventions and assumptions underlying the preparation by the Treasury of the documents prepared by them under this section as, in accordance with the code for fiscal stability, 10 are submitted to him by the Treasury for his consideration.

(6) A report by the Comptroller and Auditor General under subsection (5) above, must be made at the same time as, or as soon as reasonably practicable after, the laying before Parliament of the documents to which it is referable.

(7) It shall be the duty of the Treasury to secure the publication in the 15 manner required by the code for fiscal stability of any document which they have laid before Parliament under this section.

(8) In this section “the code for fiscal stability” means the code for the time being in force under section [j9051] above.

(9) The first financial year for which the documents mentioned in 20 subsection (1) above are required to be prepared and laid before Parliament is the year beginning with 1st April 1999.