

SUBMISSION TO THE NATIONAL COMMISSION OF AUDIT

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The purpose of this submission is to provide the National Commission of Audit with background on the establishment and mandate of the Parliamentary Budget Office (PBO) and outline the main activities of the PBO to date. The submission also provides information on the varying roles played by other independent fiscal institutions around the world.

Establishment of the PBO

The PBO was born out of a commitment that formed part of an agreement negotiated between political parties and independent members of Parliament after the 2010 federal election. This agreement was known as the *Agreement for a Better Parliament: Parliamentary Reform*.

A Joint Select Parliamentary Committee was established to inquire into the proposed PBO. The Committee reported in March 2011¹ and unanimously supported the establishment of a PBO. Subsequently, legislation was passed (the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011*) establishing the PBO as an independent and non-partisan institution of the Parliament.

The PBO commenced operations on 23 July 2012.

Role and purpose of the PBO

The purpose of the PBO is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.

The *Parliamentary Service Act 1999* gives the Parliamentary Budget Officer the following functions:

- a. outside the caretaker period for a general election, to prepare policy costings on request by Senators and Members, with the requests and the PBO's responses to be kept confidential if so directed by the requestor;
- b. during the caretaker period for a general election, to prepare costings of publicly announced policies on request by authorised members of Parliamentary parties or independent members;

¹ Joint Select Committee on the Parliamentary Budget Office, 2011, "Inquiry into the proposed Parliamentary Budget Office"

- c. to prepare responses (other than policy costings) to requests relating to the budget from Senators and Members, with the requests and the PBO's responses to be kept confidential if so directed by the requestor;
- d. to prepare submissions to inquiries of Parliamentary committees, on request by such committees, with the requests and the PBO's responses to be made publicly available;
- e. after a general election, to report on the election commitments of designated Parliamentary parties; and
- f. to conduct, on his or her own initiative, research on the budget and fiscal policy settings, with the results of this work to be made publicly available.

In essence, the PBO's mandate is in two parts: first, to support the Parliament in a range of budget-related matters; and second, to help inform the public debate on the budget and fiscal policy issues. The PBO does not have a direct input to the development of the budget or the monitoring of budget outcomes.

Access to information and financial and economic models in a timely fashion is vital for the PBO to be able to prepare high quality responses to requests from parliamentarians within reasonable timeframes and to undertake effective research and analysis of the budget and fiscal policy. To this end the PBO has engaged extensively with government agencies to put in place arrangements for the provision of information to the PBO.

The confidentiality of dealings with the PBO is protected by the PBO's exemption from the provisions of the Freedom of Information Act 1982. In addition, all documents relating to the PBO that are in the hands of other Government agencies are also exempt from public disclosure. Protocols are also in place requiring Ministers not to ask, and agency heads not to disclose, details of their specific dealings with the PBO.

The Parliamentary Budget Officer is an independent Officer of the Parliament and is not subject to direction in the performance of his/her functions. The independent and non-partisan character of the PBO is vital for it to be able to interact with parliamentarians on a confidential basis and publish analyses of the budget and fiscal policy settings unconstrained by external influences.

Resourcing and organisational management

The PBO's departmental resourcing for 2013-14 is \$7.7 million, including \$0.5m that is provided every third year to help the PBO meet additional demands in the lead-up to a general election. In addition to its departmental resourcing the PBO has a special appropriation of \$6.0 million.

The PBO currently has 35 staff and a staffing establishment of 40 full-time equivalent staff. The greater majority of the PBO's staff are engaged to undertake costings and budget and fiscal policy analysis. The PBO has a small corporate services team and, given its location

within Parliament House, the PBO sources its back office corporate support services from other parliamentary departments.

To support the Parliamentary Budget Officer, the PBO's organisational structure comprises:

- Budget Analysis Division, responsible for budget analyses and policy costings;
- Fiscal Policy Analysis Division, responsible for fiscal policy analyses, leading the PBO's self-initiated work program and coordinating the post-election report of election commitments; and
- Corporate Strategy Branch, responsible for developing and implementing the PBO's corporate strategies and policies, managing the delivery of the PBO's corporate services and meeting the PBO's compliance obligations.

Activities to date

Since its commencement on 23 July 2012, the PBO has been readily accessible to all Senators and Members, and has maintained an open and ongoing dialogue with the Parliament.

The PBO commenced accepting requests for work in early September 2012. Since that time the PBO has experienced a high level of demand for its services from Senators and Members. Since its inception the PBO has received more than 1,000 requests for policy costings, and budget information and analyses. Apart from a small number of requests that lapsed or were withdrawn, the PBO has responded to all requests received to date.

2013 general election

The PBO received 85 costing requests during the caretaker period, which were completed in an average of two business days. With one exception, the costings were completed within the five business day guideline in the Charter of Budget Honesty Policy Costing Guidelines. One costing was delayed due to the time taken to receive additional information from the requesting parliamentary party.

During this period, the PBO also continued to respond to a large number of confidential costing requests that were submitted prior to the start of the caretaker period.

2013 Post-election report of election commitments

Consistent with its legislation, the PBO prepared a post-election report of the election commitments of designated parliamentary parties. This report was published on the PBO's website on 18 October 2013, 30 days after the end of the caretaker period for the 2013 election.

Self-initiated work

In May 2013, the PBO released its first self-initiated report on *Estimates of the structural budget balance of the Australian Government 2001–02 to 2016–17*. This report reviewed

estimation methodologies from international literature and presented estimates of the structural budget balance within a band of uncertainty based on assumptions of the upper and lower bounds of the structural level of the terms of trade.

The PBO chose to undertake a study of the structural budget balance to help better inform the public debate on the underlying structure of the budget and its implications for the future direction of fiscal policy. Previous studies of this nature have been undertaken by Treasury.

The secretaries of Treasury and the then Department of Finance and Deregulation included an analysis of the structural budget balance in their recent 2013 Pre-election Economic and Fiscal Outlook report.

As the PBO indicated in its structural budget balance report, there is value in this analysis being undertaken on a regular basis to monitor the movements in the structural budget balance over time. The regular inclusion of analyses of the structural budget balance in future budget, economic and fiscal outlook reports would help to continue to focus policy makers on the appropriate fiscal policy responses to major cyclical and one-off impacts on the budget.

The PBO's next report will examine historic and projected trends in Commonwealth government spending. It will provide an insight into the key drivers of government spending over the past decade and their expected impact over the medium term.

This report will be published in two parts. The first part will examine actual expenditure trends over the period 2002-03 to 2012-13. This part will be published in the very near future. The second part will examine forecast and projected expenditure trends over the 2013-14 Budget forward estimates period. This part of the report will be finalised after the Government releases its Mid-year Economic and Fiscal Outlook report.

International counterparts

The PBO is one of a growing number of independent fiscal institutions that have been established around the world. In a recent study on *The Functions and Impact of Fiscal Councils*², the International Monetary Fund (IMF) found that 29 such institutions had been established at a national level as at end-January 2013. More than half of these institutions have been established since the global financial crisis.

Although the governance arrangements, mandates and resource bases of these institutions vary widely, they all share a common goal of enhancing fiscal discipline and promoting greater budget transparency and accountability.

Overall, the IMF has found that international experience shows that independent fiscal institutions influence the conduct of fiscal policy mostly through public debate and only

² International Monetary Fund, 2013, "The Functions and Impact of Fiscal Councils" IMF Policy Paper, (Washington, DC: International Monetary Fund)

rarely through direct action in the budget process. The IMF's recent analysis points to a number of key features of effective fiscal institutions: a strict operational independence from politics; provision of budgetary forecasts or their public assessment; a strong presence in the public debate; and an explicit role in monitoring fiscal policy rules.

The Organisation for Economic Co-operation and Development (OECD) has also published a paper titled *Independent Fiscal Institutions: Developing Good Practices*³ that provides an overview of independent fiscal institutions in OECD member countries, outlining their principal common features as well as country specific attributes and functions.

Attachments A to C summarise the different resourcing and functions of the Australian PBO and four other comparable fiscal institutions namely:

- The United States' Congressional Budget Office (CBO);
- The Canadian Parliamentary Budget Office (CPBO);
- The United Kingdom's Office of Budget Responsibility (OBR); and
- The Republic of Korea's National Assembly Budget Office (NABO).

Fiscal and economic forecasts

The PBO is explicitly precluded from preparing economic forecasts and budget estimates. The Parliamentary Budget Officer is required to use the economic forecasts and parameters, and fiscal estimates contained in the most recent relevant economic and fiscal report released under the *Charter of Budget Honesty Act 1998*.

All four international fiscal institutions shown in the attachments prepare economic and/or budget forecasts.

In the case of the CBO, CPBO and NABO this forecasting is done independently from the government. The OBR produces the government's official economic and budget forecasts having taken over responsibility for the role from Her Majesty's Treasury in 2010.

All four fiscal institutions prepare regular medium-term fiscal projections, ranging from five years for the OBR and the NABO, six years for the CPBO and 10 years for the CBO.

All four institutions prepare reports annually on long-term sustainability of the budget and include projections that can span from 25 to 75 years.

The CBO's annual long-term Budget Outlook Report includes projections that typically span 25 years but can extend as far as 75 years into the future. Its projections show the impact of long-term demographic trends on government spending, revenues and deficits. The CBO also projects the long-term economic impacts of alternative fiscal policies.

³ Kopits, George (2011), "Independent Fiscal Institutions: Developing Good Practices", *OECD Journal on Budgeting*, Vol. 11/3

Both the OBR and NABO long term reports provide 50-year projections of all public spending, and revenues. The OBR report additionally looks at significant financial transactions, such as government loans to students, and covers the fiscal impact of past government activity. The NABO report also makes recommendations to address fiscal sustainability and intergenerational equity issues.

The CPBO's annual Fiscal Sustainability Report provides a projection of current fiscal policy 75 years into the future to assess the implications of demographic and structural pressures on government financing. The CPBO's report includes an assessment of the long-term sustainability of government finances for the federal government as well as other levels of government. It includes a sustainability assessment of Canada's pension plans.

Costings

The PBO costs policy proposals at the request of individual parliamentarians and parliamentary parties. It also costs the electoral platforms of the major political parties in its post-election report of election commitments.

The costing roles of the other four institutions vary. The OBR certifies costings of measures as part of the Budget process, the CBO and NABO cost all legislative proposals, and the CPBO costs some policies at the request of parliamentarians. In addition, the CBO "re-estimates" the budgetary impact of the government's proposals using its own assumptions and economic forecasts, and conducts analysis of the costs that legislation would impose on other levels of government and the private sector.

Compliance with fiscal rules

The PBO does not have a mandate to monitor the government's compliance with fiscal targets. Of the other four institutions, only CPBO and OBR have responsibility for monitoring compliance with fiscal targets.

OBR assesses whether the government is on course to meet its medium-term fiscal targets. It examines whether the government has a better than 50 per cent chance of meeting them and assesses how robust this judgement is to the uncertainties inherent in fiscal forecasts. Similarly, the CPBO assesses the likelihood of the government's fiscal targets being realised.

Program evaluation

Of the five fiscal institutions (including the PBO), the NABO is the only one that is mandated to analyse the efficiency and effectiveness of public expenditure. This is more usually the function of independent audit institutions whereas independent fiscal institutions, in the main, are forward looking.

Whilst the CBO and CPBO do not undertake program evaluations, they both monitor government expenditure.

Resources

The IMF found that the operational independence of an independent fiscal institution requires that resources remain commensurate (in quality and quantity) to its remit at all times. Policy costing is the most resource intensive and time consuming remit requiring a larger staff base with an expertise in revenue and expenditure policies, combined with access to data and models.

The budget and number of staff for each of the four fiscal institutions vary significantly, reflecting their respective roles and responsibilities. Both the OBR and CPBO have less than 20 staff, NABO has more than 100 staff and CBO employs more than 200 staff.

References

Kopits, George (2011), “Independent Fiscal Institutions: Developing Good Practices”, *OECD Journal on Budgeting*, Vol. 11/3

International Monetary Fund, 2013, “The Functions and Impact of Fiscal Councils” IMF Policy Paper, (Washington, DC: International Monetary Fund).

Joint Select Committee on the Parliamentary Budget Office, 2011, “Inquiry into the proposed Parliamentary Budget Office”

RESOURCING AND STRUCTURE OF PBO AND SELECT COMPARABLE INDEPENDENT FISCAL INSTITUTIONS

Feature	PBO (Australia) <i>(established 2012)</i>	Congressional Budget Office (USA) <i>(established 1975)</i>	Office for Budget Responsibility (UK) <i>(established 2010)</i>	PBO (Canada) <i>(established 2008)</i>	National Assembly Budget Office (Republic of Korea) <i>(established 2003)</i>
Annual funding	A \$7 million	US \$47 million	£1.75 million	CAD \$2.8 million	US \$10.3 million ^(c)
Number of staff	35	220 ^(a)	17 ^(b)	14 ^(a)	135 ^(c)
Number of divisions	2	8 ^(d)	^(e)	2 ^(f)	4 ^(g)

(a) As at 2013

(b) OBR website as at November 2013 (<http://budgetresponsibility.org.uk/about-the-obr/who-we-are/>)

(c) As at 2009

(d) Budget Analysis Division, Financial Analysis Division, Health, Retirement, and Long-term Analysis Division, Macroeconomic Analysis Division, Management, Business, and Information Services Division, Microeconomics Studies Division, National Security Division, Tax Analysis Division

(e) Five analysts working on macroeconomic forecast, five working on the public finances forecast, five working on policy costings, long-term fiscal sustainability and other analytical projects and two working on OBR's operations

(f) Economic and Fiscal Analysis Division and Expenditure and Revenue Analysis Division (Operational Plan 2008)

(g) Budget Analysis Office, Economic Analysis Office, Program Evaluation Bureau, Planning and Management Office

COMPARISON OF ACTIVITIES UNDERTAKEN BY PBO AND COMPARABLE INDEPENDENT FISCAL INSTITUTIONS

Activity	PBO (Australia) (established 2012)	Congressional Budget Office (USA) (established 1975)	Office for Budget Responsibility (UK) (established 2010)	PBO (Canada) (established 2008)	National Assembly Budget Office (Republic of Korea) (established 2003)
Fiscal and Economic Forecasts	X	✓ ^(a)	✓ ^(b)	✓ ^(a)	✓ ^(a)
Budget and Economic Outlook Report	X	✓	✓	✓	✓ ^(c)
Long-term Sustainability Report	X	✓	✓	✓	✓
Costs legislative proposals	X	✓	X	X	✓
Recost/assesses government costed proposals	X ^(d)	✓	✓ ^(e)	✓	X
Costs requests from Parliamentarians	✓	X ^(f)	X	✓	X
Analysis of costs impacts from bills on other levels of government and private sector	X	✓	X	X	X
Broader policy analysis	X	✓	X	✓	✓
Research	✓	✓	✓	✓	✓
Program evaluation	X	X	X	X	✓
Expenditure monitoring	X	✓	X	✓ ^(g)	X

(a) Independent forecasts

(b) OBR took over the Treasury's role and provides forecasts for the government

(c) Report includes comparisons between NABO and government forecasts

(d) PBO does not assess government costings of budget proposals. As part of the post-election report, PBO reviews government election commitments costed by Treasury and the Department of Finance

(e) Main focus is on scrutinising government costings of budget proposals

(f) Not required to respond to individual members' requests other than what is already produced

(g) Includes analysis of budgeted vs actual expenditure report. Developed searchable database (Integrated Monitoring Database) which is available on its website to track expenditure by agency, by program

SELECTED FINANCIAL INSTITUTIONS - COMPARISONS

Core functions	PBO (Australia)	Congressional Budget Office (USA)	Office for Budget Responsibility (UK)	PBO (Canada)	National Assembly Budget Office (Republic of Korea)
Short term economic and fiscal forecasting	Nil	Reports on the economic and budget outlook over a 10-year period.	Undertakes five year economic and fiscal forecasts (formerly role of the Treasury). Produces Economic and Fiscal Outlook Report which includes an assessment of government's performance against fiscal targets. Macroeconomic forecasting model is shared with Treasury.	Produces the Economic and Fiscal Outlook update twice a year (October and April). Undertakes six year forecasts.	Produces five-year forecasts of tax revenues and expenditure. Produces annual Economic Outlook and Fiscal Analysis reports. Compares forecasts against the government's forecasts.
Long term economic and fiscal forecasting	Nil	Produces a 25 year (can expand to 75 years) long-term Budget Outlook Report annually.	Produces an annual long-term fiscal sustainability report that covers a 50-year period.	The long-term Fiscal Sustainability Report (75 year projections) is produced annually (first report produced in 2010).	Produces 50-year projections for the long-term Economic Outlook and Fiscal Analysis Report (first report produced in 2012).
Costings ^(a)	On request from parliamentarians, prepares policy costings. Costings must use the economic forecasts and parameters and fiscal estimates from reports released by the government.	Costs virtually every bill approved by Congressional Committees and "reestimates" budgetary impact of Presidential proposals using its own assumptions and economic forecasts. Provides informal estimates to Committees. Also conducts analysis of the costs that bills would impose on state, local and tribal governments and the private sector.	Scrutinises government's costing of tax and spending measures of policy measures as part of the Budget. Publicly states in the Economic and Fiscal Outlook if it endorses the government's costings.	Upon request from a parliamentarian or committee, the PBO estimates the cost of any proposal for matters over which Parliament has jurisdiction.	Estimates the cost of a bill.

Core functions	PBO (Australia)	Congressional Budget Office (USA)	Office for Budget Responsibility (UK)	PBO (Canada)	National Assembly Budget Office (Republic of Korea)
Research/analysis	Conducts research and analysis of the budget and fiscal policy settings.	Examines specific federal programs and budgetary and economic challenges. Most CBO reports present a set of options for changes to programs or tax rules, but make no recommendations.	Undertakes variety of research projects throughout the year. Publishes briefing material to inform people about the work of the OBR and public finance statistics.	Provides independent advice to parliamentarians on issues at the centre of parliamentary debate and addresses concerns of parliamentarians regarding transparency in the budgeting process.	Analyses major economic policies that affect the budget (eg ageing, employment)... Carries out research in response to requests from Committees and Assembly members.
Program evaluation/expenditure monitoring	Nil	CBO issues a monthly analysis of federal spending and revenue totals for the previous month, the current month and the fiscal year to date.	OBR provides a brief analysis of monthly public finance data produced by the Treasury and Office for National Statistics	Tracks expenditure by federal department and agency against budgeted expenditure.	Conducts evaluations of major programs and policies.

(a) Costing responsibilities vary across countries