

The Parliamentary Budget Office

- 2.1 This chapter provides a short background to the establishment of the Parliamentary Budget Office (PBO), and comments on the general international trend toward Independent Financial Institutions and principles of best practice.
- 2.2 The question of whether the Parliamentary Budget Officer should have statutory information gathering powers, or whether the mandate of the Parliamentary Budget Officer should be expanded is considered in chapters 4 and 5.

Background

- 2.1 In Australia, the value of establishing an independent PBO has been raised periodically since the 1980s, and been a subject of serious debate since 2005.¹
- 2.2 The Commonwealth adopted the Charter of Budget Honesty in 1998 to provide a framework for fiscal policy, and govern arrangements for election policy costings during the caretaker period for Federal elections.² This reflected a broader trend in developed democracies, with New Zealand and the UK implementing similar legislation in the 1990s.³
- 2.3 In 2010, the Joint Select Committee on the Parliamentary Budget Office of the Commonwealth Parliament was established to examine a proposal

1 For a detailed history see the Joint Select Committee on the Parliamentary Budget Office, *Inquiry into the proposed Parliamentary Budget Office*, March 2011, p.1-2.

2 *Charter of Budget Honesty Act 1998*.

3 Miranda Stewart, Holly Jager, *The Australian Parliamentary Budget Office: Shedding light on the dark arts of budgeting*, (2013) 24 PLR 267.

arising from the *Agreement for a better Parliament* for a PBO to be created in the Parliamentary Library. The *Agreement* was part of the formation of the then minority Government following the 2010 Federal general election.⁴

- 2.4 The PBO was established in 2012, not within the Parliamentary Library, but as a separate Department of the Parliament and largely reflecting the recommendations of the Select Committee.⁵
- 2.5 The PBO is headed by the Parliamentary Budget Officer, Mr Phil Bowen PSM FCPA, who is an independent statutory office holder accountable to the Parliament. The purpose of the Parliamentary Budget Officer is to increase transparency and support informed public debate by providing independent and non-partisan analysis of the budget cycle,⁶ fiscal policy and the financial implications of proposals.⁷
- 2.6 The functions of the Parliamentary Budget Officer are to:
- provide policy costings and budget information and analysis on request to parliamentarians (outside caretaker period);
 - provide policy costings of publicly announced policies on request from leaders of the parliamentary parties and independents during the caretaker period for a general election;
 - report on election commitments of designated parliamentary parties after a general election;
 - conduct self-initiated research on and analysis of the budget and fiscal policy settings;
 - prepare submissions to inquiries of parliamentary committees on request by such committees.⁸
- 2.7 During the parliamentary cycle, policy costings and budget information provided to parliamentarians may be done on a confidential basis if so requested. However, once Parliament has been prorogued for a general election, costings may only be provided for publicly announced policies and must also be published.
- 2.8 In performing these functions, the Parliamentary Budget Officer must use the Government's economic forecasts, parameters and fiscal estimates, and is prevented from preparing independent economic forecasts, or
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4 The Select Committee also considered the operation of the Charter of Budget Honesty.

5 *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011*.

6 The term 'budget cycle' means policies and proposals developed throughout the Budget year, as well as the evolution of estimates and the fiscal outlook publicly released during the year: Department of Finance, <http://www.finance.gov.au/publications/charter-of-budget-honesty/Part2.html>, accessed 17 September 2014.

7 S.64B, *Parliamentary Service Act 1999*.

8 S.64E (1), *Parliamentary Service Act 1999*.

preparing independent budget estimates, whether whole of government, agency or program.⁹

- 2.9 The powers, resources and performance of the PBO are dealt with where relevant in the following chapters.

International trends

- 2.10 The PBO is part of a global trend toward establishing independent organisations to inform public debate on budget matters and fiscal policy. These organisations are variously known as Independent Fiscal Institutions (IFIs), fiscal councils, office for budget responsibility or parliamentary budget offices. They differ from the public audit institutions, which provide ex post assessment of financial integrity and performance of public sector organisations.¹⁰
- 2.11 The trend to establish IFIs, especially in Europe, has been driven by high levels of public debt and increasing pressure on the sustainability of national budgets following the global financial crisis. In turn, IFIs have been a way to strengthen institutional arrangements for sustainable public finances and build public confidence that the financial implications of proposals are informed by credible, expert and independent advice.¹¹
- 2.12 The International Monetary Fund (IMF) and the Organisation of Economic Co-operation and Development (OECD) have monitored the trends in IFIs, and provided research, analysis and support to parliamentary budget officials to identify 'lessons of good practice'.¹²
- 2.13 This work has culminated in the adoption of twenty three principles by the OECD Council on 13 February 2014.¹³ The OECD Council members (which include Australia as a full member) recommended that the principles be taken into account by countries that have established an IFI or are considering establishing an IFI. See Appendix C.
- 2.14 The OECD key principles include:
- independence and non-partisanship;

9 S.64E (2), (3), *Parliamentary Service Act 1999*.

10 Kopits, *Independent Fiscal Institutions: Development Good Practices*, OECD Journal on Budgeting, Vol.2011/1, p. 2.

11 Centre for Policy Development, *Submission 7*, p. 1; PBO, *Submission 1*, p.7.

12 PBO, *Submission 1*, p.8

13 PBO, *Submission 1*, *OECD Principles for Independent Fiscal Institutions*, p.30; Xavier Debrun et al, *The Functions and Impact of Fiscal Councils*, IMF Policy Paper, International Monetary Fund, Washington D.C, July 2013; George Kopits, (2011) *Independent Fiscal Institutions: Developing Good Practices*, OECD Journal of Budgeting, Vol.11/3.

- leadership selected on the basis of merit and technical competence and without political affiliation;
- a clear legislated mandate linked to the budget and scope to produce self-initiated reports and analysis;
- adequate resources and accountability to the legislature;
- a legislated guarantee of timely access to all relevant information;
- full transparency and free public access to reports and analysis;
- effective communications to promote public understanding and fiscal responsibility by government;
- periodic external evaluation.

2.15 The IMF has also tracked the development of the IFIs and provides useful comparative data on the functions, powers and resources of IFI's around the world.¹⁴ The IMF Fiscal Council dataset identifies 29 institutions in 27 countries, with more than half being formed since the global financial crisis.¹⁵ The IMF has also identified key enabling factors that support stronger institutional arrangements and informed debate on fiscal policy.¹⁶ However, these lessons of good practice do not negate the first principle that the institution must be 'home grown and home owned' and 'conform to the country's legal framework and political culture'.¹⁷

2.16 The PBO observed that the role, functions and institutional arrangements of IFI's vary significantly:

Nearly all fiscal councils have a legal right to information essential for the fiscal council's activity – although the form and extent of that obligation can vary significantly.

Around three quarters of fiscal councils prepare or assess macroeconomic forecasts and evaluate long-term fiscal sustainability.

Over half of fiscal councils monitor fiscal rules, with this task being notably more common among more recently formed institutions (around three quarters compared with one third of older institutions).

Costing of measures is also more common among newer institutions (just over half compared with one third of older

14 PBO, *Submission 1, Attachment B, IMF fiscal council dataset*, p.28-29.

15 PBO, *Submission 1*, p.7.

16 Xavier Debrun et al, *The Functions and Impact of Fiscal Councils*, IMF Policy Paper, International Monetary Fund, Washington D.C, July 2013, pp.41-50.

17 Kopits, *Independent Fiscal Institutions: Development Good Practices*, OECD Journal on Budgeting, Vol.2011/1, p. 15.

institutions); the oldest fiscal council (the Netherlands) is required to cost the election platforms of all parties prior to a general election.¹⁸

Committee comment

- 2.17 The increased focus on budget transparency and fiscal responsibility is not unique to Australia but part of a global trend to support informed public debate and promote the long term sustainability of national budgets. The current inquiry is taking place in the context of these broader trends, and the international policy and practice of IFIs.
- 2.18 The data reveals variations in the functions, powers and resources of IFIs and whether the body is accountable to the Parliament. The committee therefore agrees with the general observation made to this inquiry, that there is a need for caution in drawing conclusions for Australia.
- 2.19 The Commonwealth model is still evolving and must be shaped in response to the unique characteristics of our political culture and system of government. This includes the legitimate public expectation that once adopted such bodies form a settled part of our institutional arrangements. The PBO must have the legal safeguards necessary, and be equipped with the mandate, powers and resources to perform its role.

18 PBO, *Submission 1*, p.7.

