

## The Parliamentary Budget Office's performance to date

### Introduction

- 3.1 This chapter considers the findings of the Australian National Audit Office (ANAO) performance audit tabled in June 2014, and comments on the budget allocation of the Parliamentary Budget Office (PBO) and comparable overseas institutions.
- 3.2 Having commenced on 23 July 2012, the PBO has had only two years of operation in which to establish a performance record and reputation. Nonetheless, to date the PBO has quickly established itself as a credible, independent source of expertise that has strengthened parliamentary debate on budget and fiscal policy matters.

### ANAO audit findings and recommendation

- 3.3 The ANAO was generally very positive about the PBO's performance to date. It concluded that:

...the PBO has effectively undertaken its statutory role and is already well regarded as an authoritative, trusted and independent source of budgetary and fiscal policy analysis. The PBO has made a significant contribution to levelling the playing field for all parliamentarians. Stakeholders consulted during the course of this audit all agreed that, for the first time, all parliamentarians have access to independent policy costing and information request services during all periods of the parliamentary cycle. In addition, parliamentary and peer group stakeholders viewed the costings prepared by the PBO as being of

high quality, and those involved in the costing process agreed that the PBO was professional to deal with. These stakeholders also agreed that the PBO's work has improved the transparency around election commitments, and facilitated a more informed public debate about budgetary matters that has the potential to increase as the PBO releases further information and the public becomes better educated about these topics.<sup>1</sup>

3.4 Submissions to this inquiry generally support the ANAO's assessment. The Grattan Institute commented:

Since it was created in 2012, the PBO has established itself as an important institution making significant contributions to Australian policy debate and understanding. It is generally fulfilling its aims of providing independent and non-partisan analysis of the budget cycle, fiscal policy and financial implications of proposals. It has been effective and professional in discharging its remit to provide independent advice on fiscal policies to both political parties and the public.<sup>2</sup>

3.5 The Australian Greens also agreed:

Having been closely involved in the establishment of the Parliamentary Budget Office (PBO), the Australian Greens are highly satisfied with the quality of its work, the contribution to informed public debate that the PBO has made and the professionalism of the staff.<sup>3</sup>

The PBO is now a vital institution that has strengthened our democracy by bringing greater accountability and transparency to the policy costings process, particularly during elections.<sup>4</sup>

## Pre-election period

3.6 The ANAO's analysis of PBO data also shows extensive utilisation of the PBO services by parliamentarians, with the then opposition Liberal-National Coalition (500 requests) and the Australian Greens (404 requests) making the most requests in the lead up to the election outside of the caretaker period. During the same time-frame, there were a further 12

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1 ANAO, Performance Audit Report No.36 20-13-14: *The Administration of the Parliamentary Budget Office*, June 2014 (hereafter referred to as (ANAO Report))

2 The Grattan Institute, *Submission 2*, p. 2.

3 Senator Christine Milne, *Submission 4*, p. 1.

4 The Greens, *Submission 5*, p. 1.

requests made by individual parliamentarians (independent member or private members).<sup>5</sup>

## Election period

- 3.7 A different set of protocols applies during the election period – also known as the caretaker period. This is the period preceding an election for the House of Representatives. It begins at the time the House of Representatives is dissolved – in this case, 5 August 2013 – and continues until the election result is clear or, if there is a change of government, until the new government is appointed.<sup>6</sup>
- 3.8 The 2013 election was the first for the PBO and, as a result of its work; it was also the first time that a minor party – the Australian Greens – was included in the caretaker costing process.<sup>7</sup>
- 3.9 During the caretaker period the PBO received 85 requests for costings, and all were completed before polling day – 7 September 2013 – in an average response time of 2.2 business days.<sup>8</sup>

## Post-election period

- 3.10 The PBO also helped improve the transparency of budgetary and fiscal issues through its *Post-Election Report of Election Commitments* (the 'Post-Election Report'). This Post-Election Report was a significant achievement as it was the first time the effect of all major parties' election commitments on the budget had been publicly released. Stakeholders interviewed by the ANAO were generally positive about the report, but commented that the report had little publicity and this may have reduced the report's impact.<sup>9</sup>
- 3.11 Parliamentarians also considered the report to be a success, but feedback on the process was mixed. One political party was satisfied with the process, but another party reported concern about the compressed preparation time (the report has to be released 30 days after the end of the caretaker period), and the extensive detail that was given in the report to costing assumptions for individual policies.<sup>10</sup>

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5 ANAO Report, p. 23.

6 This definition is provided through the ANAO Report, footnote 43, p. 35.

7 ANAO Report, p. 89.

8 ANAO Report, p. 86.

9 ANAO Report, p. 26.

10 ANAO Report, p. 26.

## ANAO Recommendations

3.12 The ANAO made only one recommendation which was agreed to by the Parliamentary Budget Officer:

In the interests of greater transparency, the ANAO recommends that the Parliamentary Budget Office includes in all costings, estimates of administrative expenses, where significant.<sup>11</sup>

## Funding and resources

3.13 In 2011–12, the Budget allocation for the PBO was A\$24.9 million over four years, including \$500,000 to provide additional costing capability during the 2013 election. In 2012–13, the PBO had a departmental budget of A\$6.1 million and was allocated a special appropriation of A\$6 million (the prior year's unspent funding, as provision for costs related to the PBO's permanent accommodation and secure IT network project). An additional budget measure in 2013–14 provided the PBO with A\$4.5 million over five years to enhance capability and functions, and to produce the Post-Election Report. This also included \$500,000 for the 2015–16 election period.<sup>12</sup>

3.14 The Parliamentary Budget Officer is of the view that for the current mandate, the resources allocated to the organisation are adequate. However, if the mandate of the Parliamentary Budget Officer is expanded and functions added consideration would need to be given to legislative change and the appropriate level of resourcing.<sup>13</sup> The work involved, and the resources required, to report on the Government's adherence to the fiscal strategy as proposed by the National Commission of Audit depends very much on the mandate and nature of the monitoring and reporting.<sup>14</sup>

3.15 The highest level of independent assurance would involve the PBO preparing independent economic and fiscal forecasts and projections based on government policies over the forward estimates and medium term. This approach would also be the most resource intensive. Indeed, the joint submission of the Departments of Finance and Treasury to the Joint Select Committee on the Parliamentary Budget Office provided detail

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11 ANAO Report, p. 30.

12 ANAO Report, p. 53.

13 PBO, *Submission 1*, p. 21.

14 PBO, *Submission 1*, p. 21.

of the 'considerable resources' used to provide economic and fiscal forecasts.<sup>15</sup>

## Other international financial institutions

3.16 International comparisons with IFI's<sup>16</sup> established in other countries can be problematic as these institutions do not necessarily work under the same mandate, or are structured in the same way.<sup>17</sup> For example, the United States has had an independent and well-staffed Congressional Budget Office while the UK Office for Budget Responsibility tends to have a relatively small number of permanent employees and 'out-sources' much of its work to individuals who are technically employed by other agencies. Germany has an appointed five person 'Council of Economic Experts' who are supported by research staff and issue a report once a year on economic conditions generally.<sup>18</sup> Canada has a small team and like Australia, they are attached to the Canadian Parliament while South Korea's National Assembly Budget Office has a staff of over 100 and is also attached to the parliament.

### USA

3.17 In the United States, the Congressional Budget Office was established in 1974 and has a staff of about 220. Most of those people are economists or public policy analysts with advanced degrees, but the agency also employs lawyers, information technology specialists, editors, and people with other areas of expertise that contribute to the agency's mission.<sup>19</sup> The CBO's annual budget for financial year 2014 was US\$ 45.7 million (approx. A\$ 52.1 million)<sup>20</sup>.

### UK

3.18 The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK's public finances. The OBR's Annual Report 2014 lists their Comprehensive Net Expenditure as

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15 PBO, *Submission 1*, p. 21.

16 A list comprehensive list of IFI's is included on the UK Office for Budget Responsibility's website: <<http://budgetresponsibility.org.uk/links/#overseas>> accessed 2 October 2014.

17 Professor Miranda Stewart, *Submission 3*, p. 2. See also Attachment B of the Parliamentary Budget Office, *Submission 1*, pp. 28-29.

18 An English web-page can be found at: <<http://www.sachverstaendigenrat-wirtschaft.de/ziele.html?&L=1>> accessed 2 October 2014.

19 Congressional Budget Office website, <<http://www.cbo.gov/about/organization-and-people>> accessed 2 October 2014.

20 Congressional Budget Office website, 'Testimony on CBO's Appropriation Request for Fiscal Year 2015', <<http://www.cbo.gov/publication/45162>> accessed 2 October 2014.

£1.74 million<sup>21</sup> (approx. A\$ 3.2 million) and the average number of full-time equivalent persons employed during the year was 15.8.<sup>22</sup> In practice, OBR utilises staff resources and expertise in other departments and draws on approximately 125 full-time equivalent staff at different times of the year.<sup>23</sup>

## Canada

3.19 The Canadian Parliamentary Budget Officer was established in 2006 with a mandate to provide independent analysis to Parliament on the state of the Canada's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which the Canadian Parliament has jurisdiction. The CPBO had a staff of 16 and a budget of C\$ 2.8 million (approx. A\$ 2.9 million) for FY 2013-14.

## Germany

3.20 Since 1963, the Federal Republic of Germany has had a five person Council of Economic Experts (CEE), which is supported by the twelve members Scientific Staff chaired by the secretary general. Members are government appointed but the Council enjoys complete independence with respect to its advisory activities.<sup>24</sup> The CEE's task is to assess Germany's macroeconomic development and aims to aid the general public and relevant institutions in making informed judgements about economic developments. The CEE appears to have no set budget, with administrative support being drawn from existing Federal and State institutions with individual CEE member's remuneration and allowances determined by two Federal Ministers.<sup>25</sup>

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21 Office for Budget Responsibility, *Annual Report and Accounts 2013-14*, <<http://budgetresponsibility.org.uk/wordpress/docs/Final-AR-web-version.pdf>>, p. 29, accessed 2 October 2014.

22 Office for Budget Responsibility, *Annual Report and Accounts 2013-14*, <<http://budgetresponsibility.org.uk/wordpress/docs/Final-AR-web-version.pdf>>, p. 35, accessed 2 October 2014.

23 *External Review of the Office of Budget Responsibility*, September 2014, <http://budgetresponsibility.org.uk/first-external-review-obr-published>, p. 32 accessed 10 October 2014.

24 An English web-page can be found here: <<http://www.sachverstaendigenrat-wirtschaft.de/ziele.html?&L=1>> accessed 2 October 2014.

25 Provisions are described under the establishment law: 'Act on the Appointment of a Council of Experts on Economic Development', <[http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Sonstiges/act\\_council\\_of\\_economic\\_experts.pdf](http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/Sonstiges/act_council_of_economic_experts.pdf)> accessed 2 October 2014.

## South Korea

3.21 The Republic of Korea is served by the National Assembly Budget Office (NABO). Established in 2003, the NABO as a fiscal institution that supports the activities of the legislative body. It aims to enhance the National Assembly's efficiency keeping the government in check and monitoring its operation of national finances.<sup>26</sup> The NABO has a staff of 125 people<sup>27</sup> and, like Australia and Canada, the NABO is attached to the parliament. In 2009, the NABO had a budget of US\$ 10.6 million.<sup>28</sup>

## Committee comment

3.22 The committee acknowledges the Parliamentary Budget Officer's significant achievements in a short space of time. The PBO has, in only two years, developed into a well-regarded and credible professional parliamentary body that is providing high-quality advice in an impartial manner in accordance with its mandate.

3.23 However, the PBO's future role may yet develop and expand. With this in mind, it would be fruitful to continue to observe overseas IFIs as some of their activities may also strengthen transparency and fiscal responsibility in Australia if adopted. Should the Parliamentary Budget Officer's mandate grow, then the committee recognises that an increase in funding and resources would almost certainly be necessary.

3.24 Further discussion on the possible expansion of the Parliamentary Budget Officer's mandate to report against the government's adherence to fiscal rules and medium term projections is contained in chapter 5.

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26 National Assembly Budget Office, 'Establishment and Objective', [http://korea.nabo.go.kr/eng/01\\_about/establishment.page](http://korea.nabo.go.kr/eng/01_about/establishment.page) accessed 20 October 2014.

27 National Assembly Budget Office, 'FAQs', <http://korea.nabo.go.kr/eng/generalBBS.do?psStep=list&bbsCD=faqEng> accessed 20 October 2014.

28 See OECD presentation, 'Profile of the National Assembly Budget Office Profile', <<http://www.oecd.org/governance/budgeting/42466211.pdf>> accessed 20 October 2014.

