

**THE PARLIAMENTARY BUDGET OFFICE**  
**AN INDEPENDENT AND NON-PARTISAN INSTITUTION OF**  
**THE AUSTRALIAN PARLIAMENT**

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by

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At the outset I wish to thank CPA Australia for inviting me to give this keynote address. It is a very good opportunity for me to spread the word about the newly-created Parliamentary Budget Office (PBO).

Today I wish to give you an overview of the role and functions of the PBO, and explain what the establishment of the PBO means in practical terms for the Parliament. I will also talk briefly about how important it is for the PBO to have timely access to information from Commonwealth departments and agencies, often on a confidential basis. I will conclude with some brief remarks about some of the challenges facing the PBO and my longer term vision for the Office.

The theme of this year's Congress, "*Your guide through uncharted territory*" is very apt for the current uncertain times. It certainly resonates with me and my colleagues in the PBO, as I expect it does with the PBO's Parliamentary stakeholders.

The PBO commenced operations as the fourth Parliamentary department on 23 July 2012; the day that I took up my appointment as the inaugural Parliamentary Budget Officer. Not only is the PBO a new institution, but it has been given a role that has not previously been undertaken within the Australian political system.

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 Parliamentary Budget Office. The Committee reported in March 2011 and unanimously supported the establishment of a Parliamentary Budget Office. 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 role and functions of the PBO are set out in the Parliamentary Service Act and I will discuss them in some detail shortly. However, the manner in which the PBO approaches its role and how it interacts with its Parliamentary stakeholders will of necessity evolve over time. In this sense the PBO is still in relatively uncharted territory. There will be an element of learning through doing, particularly in the early stages of the PBO's establishment.

We are, of course, looking to international practice; specifically the operations of other more well-established and experienced parliamentary budget organisations, to help guide the operations of the PBO. The detailed mandates and levels of resourcing of parliamentary budget organisations around the world vary considerably, as do the political systems within which they operate. However, they all play their part in helping to enhance budget transparency and the integrity of fiscal policy in their individual jurisdictions.

The best known of these organisations is undoubtedly the highly respected and influential Congressional Budget Office (CBO) of the United States. It commenced operations in 1975 and has approximately 250 staff. Others include the UK Office for Budget Responsibility that was established in 2010 with approximately 17 staff, the Canadian Parliamentary Budget Office that has been operating since 2008 with approximately 16 staff, and, in our own region, the Korean National Assembly Budget Office that was set up in 2003 and now has around 125 staff. The Australian PBO has a budget for approximately 30 to 35 staff.

A network of parliamentary budget officials was established by the OECD in 2009. This network builds on the success of the OECD's network of Senior Budget Officials that has been in existence for many years. We will participate actively in the OECD's network of parliamentary budget officials to share good practices and lessons learned from the practical experiences of similar organisations in other OECD member countries.

### **The Role and Functions of the PBO**

I will shortly turn to the role and functions of the PBO; but first a small anecdote from the United States.

In the early days of the establishment of the CBO there was much debate as to what its role should be. Inaugural CBO Special Assistant Bob Reischauer, who some years later became CBO Director, helped the first Director, Alice Rivlin, establish the CBO. Reischauer, characterised what some in the Congress wanted from the CBO as: *“basically a manhole in which Congress would have a bill or something and it would lift up the manhole cover and put the bill down it, and you would hear grinding noises and twenty minutes later a piece of paper would be handed up with the cost estimate answer on it. No visibility, just some kind of mechanism down below ground level...”* Others, including inaugural CBO Director Rivlin, had more ambitious expectations for the CBO, and today the remit of the CBO is probably the broadest of any of the parliamentary budget organisations.

Our PBO, like the CBO, is charged with preparing costings of policy proposals. I can assure you though that our costings will not be prepared in a manhole, nor in the mechanistic manner favoured by some members of the US Congress in 1975. While the PBO's costing function is important and perhaps most well-known, the PBO has a range of other functions that it is required to undertake.

The role of the PBO as set out in the Parliamentary Service Act is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. In brief the legislation gives the Parliamentary Budget Officer the following functions: (1) to prepare budget analyses and policy costings on request by

Senators and Members; (2) to prepare submissions to inquiries of Parliamentary Committees; and (3) at its own initiative, to conduct and publish research on the budget and fiscal policy settings. The PBO's analyses of the budget are not constrained to the annual budget but extend to the entire budget cycle.

Following consultation with the Joint Committee of Public Accounts and Audit (JCPAA), the PBO released its first work plan on 12 October 2012. The work plan is posted on the PBO's home page on the Australian Parliament House website.

The key priorities identified in the PBO's work plan for 2012-13 are:

1. to place the PBO on a fully operational footing with the capacity to fulfil its mandate as a responsive and effective independent institution of the Parliament; and
2. to gain the trust of the Parliament in the PBO as a valued source of budget and fiscal policy analyses and policy costings that strengthen the policy development process and enhance the transparency of the budget and fiscal policy.

The PBO is located in Parliament House, we are accessible to our Parliamentary stakeholders, and we are open for business. We have been accepting requests for work since early September.

The PBO currently has a staff of 12. We expect to be at or near our full complement of approximately 30 to 35 staff by early next year. Each and every staff member of the PBO will need to bring a relevant set of professional skills to the organisation. Layers of management will be kept to a sensible minimum and staff will be deployed with maximum flexibility. The PBO will also engage temporary staff and specialist consultants or advisers to help fill skills gaps and meet peak workloads. CPAs with appropriate experience could be well-suited to many of the positions within the PBO.

It is important to be clear that the PBO's mandate is to inform the Parliament on budgetary and fiscal policy issues. The PBO will work to help improve the policy development process through providing analyses of the budget and fiscal policy settings, and policy costings. But, the PBO does not have a policy advisory role and it will not make policy recommendations. The PBO also has no audit or compliance role.

The PBO has not been established to compete with or duplicate the work of the Treasury or the Department of Finance and Deregulation (Finance). Some of the PBO's functions are similar to those of Treasury and Finance, particularly during the caretaker period for a general election. However, the PBO has been established to provide a range of services to the Parliament that Treasury and Finance, as departments of State, are not mandated to provide.

It is also important to understand the differences between the PBO's costing roles during and outside of the caretaker period. The Parliamentary Service Act makes a very clear distinction between how the PBO may go about its policy costing role outside of the caretaker period, as opposed to during the caretaker period. Outside of the caretaker period the PBO may 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. During the caretaker period the PBO may only prepare costings of publicly announced policies on request by authorised members of

Parliamentary parties or independent members of Parliament. The PBO's costings prepared during the caretaker period must also be made public. This is consistent with the public nature of all costings undertaken during the caretaker period under the Charter of Budget Honesty.

The PBO may prepare budget analyses on a confidential basis over the entire course of the electoral cycle. Likewise the PBO is not constrained as to when it may publish its own studies.

### **Implications for Parliamentary Stakeholders**

What does all of this mean in practice for the PBO's Parliamentary stakeholders? How do the services provided by the PBO differ from the services available to Senators and Members under the previous arrangements? How can the work of the PBO add value and help to enhance the quality of public policy debates?

I will outline five features of the PBO's operations that differ from the previous arrangements and have considerable potential to improve the policy development process.

First, with the creation of the PBO, all members of Parliament, for the first time, have access to independent and non-partisan budget analyses and policy costings over the entire course of the three year electoral cycle. This is a major difference, particularly for non-government members of Parliament who in the past have not had access to such services.

Under the previous arrangements, policies were only able to be submitted to Treasury and Finance for costing under the provisions of the *Charter of Budget Honesty Act 1998*. The Charter requires that only publicly announced policies may be costed and they may be costed only during the caretaker period. In practice this means that the costing provisions of the Charter apply to a period of approximately four to six weeks in an electoral cycle of three years. Moreover, parties with fewer than five members in the Parliament, and independent Members of Parliament have no access to Charter costings. That has now changed, with the PBO being able to provide costings and budget analyses over the entire electoral cycle.

Second, outside of the caretaker period, the PBO's services will be provided on a confidential basis if that is the wish of the requestor. I am not aware of any other similar institution elsewhere in the world that is able to undertake work of this nature on behalf of individual members of parliament, let alone on a confidential basis. This means that the requestor can now deal confidentially with the PBO and use the process in an interactive and more measured fashion to help develop more robust policies that have been properly costed before they are publicly announced at a time of the requestor's choosing.

Political parties and independent members of Parliament are no longer bound to run the gauntlet of the Charter of Budget Honesty costing process with publicly announced policies that have not been professionally costed in advance of their public release. In the past there have been examples of policies that have been publicly announced with costings that, when reviewed by Treasury and/or Finance under the Charter costing arrangements, have been found to be very wide of the mark. Such discrepancies in costings can have a very detrimental effect on the credibility of the policies involved. In extreme cases major shortfalls in costings could even damage the election prospects of the political party concerned. With the PBO now in place, such undesirable situations should be avoidable.

Third, because the new services are provided by an independent and non-partisan institution of the Parliament, when individual parliamentarians or political parties request the PBO to undertake work on their behalf, they can be assured that the PBO will respond to their requests in an objective fashion.

The independence of the PBO is enshrined in the Parliamentary Service Act. The Parliamentary Budget Officer reports to the Presiding Officers of the Parliament on the operation and administration of the PBO. However, the Act provides that the Parliamentary Budget Officer is not subject to a direction by a Presiding Officer in relation to the performance of his/her functions.

The PBO's independence is reinforced by the fact that the Parliamentary Budget Officer is appointed by the Presiding Officers, following the approval of the JCPAA, for a term of four years. There are also stringent requirements that must be met, including a majority vote in each House of the Parliament, before the Parliamentary Budget Officer may be removed from office.

In essence, the independence of the Parliamentary Budget Officer is subject to similar protections to those that apply to the independence of the Auditor-General.

Fourth, the PBO's mandate gives it the flexibility to work in a relatively informal and interactive manner with its stakeholders, particularly outside of the caretaker period. For instance, we are encouraging our stakeholders to have informal discussions with us before formally submitting their requests to us. This will help to ensure that the requests, whether for costings or budget analyses, are adequately explained and the necessary supporting material is provided to enable the PBO to undertake its work and come to its best professional judgements in a timely fashion.

We are also happy to engage with stakeholders during the preparation of our responses. We may initiate discussions to clarify issues or to seek additional information. Requestors too may wish to contact us if they become aware of any additional information that could have a material bearing on the work that they have requested the PBO to undertake.

This level of informal interactive engagement between the PBO and Senators and Members on policy costings and budget analyses has not been possible in the past. This is a positive development that has considerable potential to improve the policy development processes.

Fifth, through its published work program the PBO will be a source of independent analysis of the budget and fiscal policy settings. This program provides the PBO with the scope to examine a range of issues that could impact on the structure and sustainability of the budget over the medium to longer term. There are a number of "think tanks" and professional firms that undertake work of this nature. However, the Parliament now has an institution of its own that it can call on to undertake independent analyses of this nature.

Let me recap briefly on what is new that the PBO brings to the policy development table: (1) the PBO can prepare costings and budget analyses over the entire course of the electoral cycle, not just during the caretaker period; (2) the PBO can provide budget analyses on a confidential basis at all times, and undertake costings on a confidential basis outside of the caretaker period; (3) the

statutory independence of the Parliamentary Budget Officer provides assurance as to the objectivity of the PBO's work; (4) the PBO can engage interactively with its Parliamentary stakeholders to help enable them to develop their policies in a more measured and well-considered fashion; and (5) the PBO provides the Parliament with a new independent and non-partisan source of published budget and fiscal policy analysis. These five points of difference flowing from the establishment of the PBO characterise a new and enhanced environment for public policy development.

### **The PBO's Access to Information**

It is essential for the PBO to have access to a wide range of information in a timely fashion for it to be able to undertake its work effectively. It is also important for our Parliamentary stakeholders to be assured that the confidentiality of their requests to the PBO will be preserved when that is their wish.

I am very pleased, therefore, to have concluded a *Memorandum of Understanding with the heads of Commonwealth bodies in relation to the provision of information and documents* (the MoU) to the PBO. The MoU was posted on the PBO's website on 10 October 2012. The MoU has a pro-disclosure bias and provides that heads of Commonwealth bodies should aim to provide sufficient relevant information to satisfy each request within reasonable timeframes. The MoU also places strict confidentiality obligations on the Parliamentary Budget Officer and the Heads of Commonwealth bodies.

To facilitate its role in undertaking confidential work for Senators and Members, the PBO is an exempt agency under the *Freedom of Information Act 1982* (FOI Act). Without this exemption the PBO's effectiveness as a source of confidential budget analyses and policy costings would be seriously compromised.

The confidentiality provisions of the MoU have been bolstered by recent actions taken by the Government. The Government issued protocols on 28 September 2012 that mandate that Ministers and their staff will not ask heads of Commonwealth bodies for any information which would disclose the nature of a confidential request from the Parliamentary Budget Officer.

The Government also introduced legislation into the House of Representatives on 10 October 2012 to amend the FOI Act to provide an exemption under the FOI Act for information held by departments and agencies that relates to a confidential request to the PBO. The amendment has been passed by the House of Representatives and is expected to be debated in the Senate shortly. Passage of this amendment to the FOI Act will be important to assure Senators and Members that, consistent with the spirit of the PBO's confidentiality mandate, their confidential requests to the PBO cannot be accessed under the FOI Act at any point in the process.

### **Concluding Comments**

The establishment of the PBO as an independent and non-partisan institution of the Parliament represents a significant strengthening of Australia's public sector governance framework. These new arrangements have the potential to provide Senators and Members with a more level playing field from which to access analyses of the budget and fiscal policy, and costings of policy

proposals. If used effectively, the PBO can work with the Parliament to help improve the integrity of the policy development process, better inform public policy debates, and strengthen budget transparency.

Journalist Verona Burgess, writing in the Australian Financial Review recently, described the role of the Parliamentary Budget Officer as “*one of the most delicate high-wire acts in the Commonwealth.*”

There can be little doubt that the period from now to the next general election will be a very challenging one for the PBO, as well as for the Commonwealth departments and agencies that we rely so heavily on for much of the information that we need to undertake our work. A key challenge for the PBO will be to work with our Parliamentary stakeholders to prioritise the PBO’s workload to ensure that the PBO’s finite resources are allocated in the most appropriate manner.

At the same time, the pre-election period presents an early opportunity for the PBO to demonstrate the value that it can add by helping to strengthen policy development, minimise the scope for argument about the accuracy of costings, and sharpen the focus of the public debate where it belongs, namely on the substantive policy issues.

My vision for the PBO is that it will become a respected independent and non-partisan institution of the Parliament that is effective in helping to improve budget transparency and the integrity of fiscal policy. To realise this vision the PBO will continue to build its capability, forge close links with its Parliamentary stakeholders, and maintain a clear and unswerving focus on its mandate to inform the Parliament on the budget, fiscal policy and the financial implications of proposals. The PBO’s performance will be judged by the quality, timeliness and relevance of its outputs as assessed by feedback from its Parliamentary stakeholders.

I trust that my address today has given you a reasonable appreciation of the role of the PBO and the potential impact that it can have on policy development and budget transparency. I am happy to take questions from the floor.