

SENATE ESTIMATES HEARING

11 FEBRUARY 2013

OPENING STATEMENT BY PARLIAMENTARY BUDGET OFFICER

Madam Chair

I would like to take this opportunity to bring the Committee up to date on the PBO's progress since our last meeting on 15 October last year.

Staffing

You may recall that at that time the PBO had eight staff; three permanent and five temporary. We now have 24 staff; 20 permanent and four temporary. We have been able to recruit staff with a broad range of skills and experience directly relevant to the work of the PBO. We are continuing to recruit to bring the PBO up to its full complement of 30 to 35 staff on a permanent basis.

The PBO's senior management team of six SES is now in place with all but one of the positions having been filled on a permanent basis. The top structure comprises a Fiscal Policy Analysis Division (two SES), a Budget Analysis Division (three SES) and a Corporate Strategy Branch (one SES). Details of the PBO's top structure are on our website.

Workload

When we last met the PBO had received 44 costing requests of which we had completed two. The demand for our services and our capacity to respond has increased significantly since then. We have now received 207 requests for work and we have provided 152 responses. We expect that as our staff numbers continue to increase and our information bases become more mature our response rate to requests will also continue to rise.

Priority Setting

How we allocate our finite resources to address competing priorities is something that we consider on a regular basis. To date requestors have been very helpful in prioritising their requests. As we receive more requests for work from a broader cross section of the Parliament we will ensure that our resources continue to be deployed on a fair and equitable basis having regard to the

number, complexity and urgency of the requests that we receive from each requestor.

When we get to the caretaker period, we will attempt to finalise any outstanding confidential costings that were submitted prior to the caretaker period commencing. However, we cannot guarantee to do so since our first priority in the caretaker period will be to cost publicly announced policies received during the caretaker period. This is consistent with our obligation under the PBO's legislation to publicly release caretaker costing requests and the PBO's costings "as soon as practicable after the requests have been made". In these circumstances, we encourage Senators and Members to submit any confidential costing requests that they wish to make to the PBO well in advance of the commencement of the caretaker period. Costings prepared before the caretaker period may be resubmitted to the PBO for updating during the caretaker period against the latest budget report, namely the Pre-election Economic and Fiscal Outlook (PEFO). Any requests for costing updates and the PBO's responses during the caretaker period will be made public.

Access to Information

I wish to place on the record my gratitude to the wide range of departments and agencies that have been so helpful in responding to the many information requests that they have received from the PBO to date. Some of these requests have been very detailed and quite complex. Much information has been sought and provided within tight timeframes. This high level of cooperation in the provision of information to the PBO is much appreciated.

Access to budget information from Government departments and agencies, often at a level of detail that is not published routinely, is vital for the PBO to be able to undertake its role effectively. Much of this detailed information is of a nature that could be made public and would be provided in response to an FOI request. Such information, at a minimum, is to be provided to the PBO under the terms of the MOU between the Parliamentary Budget Officer and the Heads of Commonwealth Bodies in relation to the provision of information and documents.

From time to time we may also need to seek access to restricted information (eg Cabinet-in-Confidence, Commercial-in-Confidence material) to enable the PBO to undertake certain costings and/analyses. Where such information is provided,

the PBO, consistent with its obligations under the MOU, will take all necessary steps to protect the information from public disclosure.

Currently the PBO does not have access to certain detailed taxation information from the ATO. We are currently discussing with Treasury and the ATO the scope for workarounds to be put in place that would allow the PBO to utilize certain tax information for costing and analytical purposes without breaching the privacy provisions of the taxation legislation. The option of amending the Tax Administration Act to allow the PBO to access taxpayer protected information on a similar confidential basis to the exemption that applies to Treasury is also under discussion. This option would give the PBO access to the same detailed data used by Treasury in compiling the budget revenue estimates, with equivalent obligations on the PBO to protect taxpayer privacy.

Self-initiated Program

I now wish to turn briefly to the PBO's self-initiated program of published work. In our Work Plan for 2012-13 we indicated that the PBO's self-initiated program was aimed at helping to improve budget transparency and promote a better understanding of the budget and fiscal policy settings. We outlined the general approach that we proposed to take, including a focus on the underlying structure of the budget and the factors that could affect the sustainability of the budget over the medium to longer term.

One factor that provides a partial guide to budget sustainability is the structure of the budget relative to the economic cycle and the impacts of one-off or transitory impacts on revenues and expenses. Adjusting the budget balance for such cyclical and transitory factors reveals what is commonly known as the structural budget balance. The PBO's first published study will examine trends in the structural budget balance over the past decade and the projected shape of the structural budget balance over the 2013-14 budget and forward estimates period.

A number of institutions, including the IMF, OECD and certain parliamentary budget organisations, regularly prepare structural budget balance estimates using a range of different methodologies. The results of our analysis will be shaped by the methodology that we adopt and the assumptions that we make about key variables that are difficult to predict with any degree of certainty (such as movements in the economic cycle and changes in the terms of trade). We will, therefore, examine the implications of differing methodologies and

subject our key assumptions to sensitivity tests that will give us a range of feasible outcomes rather than simply point estimates.

Derivation of estimates of the structural budget balance, while far from an exact science, can provide useful guidance for fiscal policy making. However, a range of other factors also bear on the sustainability of the budget over the longer term. These factors include the health of the government's balance sheet (in particular the level of net debt), the strength of the economic outlook and trends in key drivers of the budget.

This financial year we also expect to publish a study of the key drivers of the budget by examining trends in major components of the budget over the past ten years and the 2013-14 budget and forward estimates period. This initial study into budget trends will be undertaken at a fairly macro level. It will examine the changing composition of the budget and identify the key components of the budget that will, other things being equal, dominate the structure of budgets in the foreseeable future.

Following on from this study we propose to examine in greater detail the longer term budgetary implications of a range of key budget drivers. In 2012-13 we propose to commence an analysis of social security and welfare transfer payments that currently account for approximately 30 per cent of total budget outlays. This work is not expected to be completed until 2013-14. We will then progressively turn our attention to other key drivers of the budget including health and education spending.

Participation in OECD PBO Network

For the information of the Committee, I have been invited to participate in the Fifth Annual Meeting of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions to be held in Ottawa, Canada from 21 –22 February. This is a very good opportunity for the PBO to learn from the experiences of similar organisations in other OECD countries. I plan to attend the forthcoming meeting and will ensure that the PBO becomes an active participant in the OECD network in the future.

Madam Chair, with these comments we are happy to address any questions from the Committee.

Thank you.