



PBO Guidance 02/2020

Requests for budget analysis against COVID-19 medium term fiscal scenarios

Parliamentarians submitting policy proposals to the Parliamentary Budget Office (PBO) can ask us to undertake a scenario analysis of the financial impact of their policy on the budget that takes account of the economic and fiscal impact of COVID-19. This guidance note provides details of how to make such a request, what we will include in the response, and how the response should be interpreted.

In summary:

- Consistent with its legislation, the PBO undertakes costings using the most recent budget baseline, currently this is the *2019-20 Mid-year Economic and Fiscal Outlook (2019 MYEFO)* released on 16 December 2019. The impact of the COVID-19 pandemic on the economy, the government's policy response, and the deferral of the 2020-21 Budget until October 2020 mean that this budget baseline is now significantly out of date.
- The Economic and Fiscal Update (EFU) of 23 July 2020 provided a partial update to the 2019 MYEFO, but it does not constitute a new budget baseline against which the PBO can cost policy proposals.
- As an alternative, consistent with its legislation, the PBO is also able to provide responses to requests for budget analysis, including responses to requests for analysis of policy proposals using scenarios. Scenario analysis provides an avenue for better informing parliamentarians about the budget impact of their proposals. Such analysis does not constitute a costing because it does not assess the impact of a proposal against the most recent government economic and fiscal outlook statement. Rather, it is provided to give parliamentarians a better indication of what the impact of their proposal would be if more complete budget information were available.
- With the release in June of the PBO's report *Medium-term fiscal projection scenarios: impact of COVID-19 pandemic and response*, the PBO has the capacity to provide parliamentarians with budget analysis using a medium term scenario that takes account of the impact of COVID-19 on their policy proposal.
 - Such scenario analysis may be requested at any time, but the value of scenario analysis may diminish once a new budget baseline becomes available.
- Parliamentarians should submit requests for budget analysis using the template available from the PBO webpage pbo.gov.au (click [here](#)). Further information is set out below on the process for requests.

Impact of COVID-19 on PBO functions

The *Parliamentary Service Act 1999* sets out the functions of the PBO, which includes undertaking costings and requests for budget analysis.

Consistent with this legislation, the PBO undertakes costings using the economic forecasts and parameters and fiscal estimates contained in the government's most recent budget report released under the Charter of Budget Honesty Act (the Charter).¹ Currently, the most recent economic and fiscal outlook statement released under the Charter is the 2019 MYEFO, released on 16 December 2019. The next full economic and fiscal outlook statement will be the 2020-21 Budget, which is scheduled for 6 October 2020.

The events of the last eight months, which have included the bushfire emergency and the COVID-19 pandemic, have had significant impacts on the Australian economy and budget that are not included in the 2019 MYEFO baseline. The EFU of 23 July 2020 was not an economic and fiscal outlook statement released under the Charter of Budget Honesty and so, under the terms of our legislation, does not provide us with a new or modified budget baseline that we can use for costings of policy proposals.

While the EFU provides us with a snapshot of the impact of the COVID-19 pandemic on the economy and of the government's policy response, it only partially updated the information contained in the 2019 MYEFO. This is because the EFU only provided updated economic forecasts and fiscal estimates for 2019–20 and 2020–21, meaning that, apart from the measures announced in the EFU², the original MYEFO estimates are still the most recent published government estimates for years from 2021–22 to 2022–23. Further, the EFU did not provide an update of the medium term budget aggregates set out in the 2019 MYEFO.

This means that there is currently a high level of uncertainty associated with many costings, because the impact of COVID-19 is not reflected in the most recent available economic and fiscal outlook estimates, which are the starting point for costings, and the EFU only provided a partial picture of the impact on the Budget over the forward estimate years. For some costing requests handled by the PBO, this could make a significant difference to our estimates of the fiscal impact. For others, the impact may be minimal.

This lack of an up-to-date budget baseline has limited the ability of the PBO to provide a reliable costing function to parliamentarians in recent months. As a result, we have examined ways in which we can provide better information to support parliamentarians and determined that this is best done by boosting our capacity to receive requests for budget analysis from parliamentarians. This will involve the PBO accepting requests for budget analysis of the financial impact of policy proposals against a medium term fiscal scenario.

¹ *Parliamentary Service Act 1999* sections 64E(2) and 64E(3).

² In the EFU, the financial impacts of measure were provided for the five years from 2019–20 to 2023–24.

Requests for budget analysis

A request for budget analysis can be broadly defined as the provision of information *relating to* the budget.³ Requests for budget analysis differ from costings in these key ways:

- A costing provides estimates of the impact of a policy proposal on the budget, measured against the budget baseline as set out in the most recent economic and fiscal outlook report issued by the Government (usually the Budget or MYEFO).
- A budget analysis can provide information about the budget as well as a wide range of analyses of budget and fiscal policy issues:
 - Information about the budget can include details of budget programs, expenditures and revenue.
 - Analyses of budget and fiscal policy issues can cover a wide range of issues, including the sensitivity of budget programs or policy proposals to different economic scenarios or fiscal policy settings.

Although it is possible for the PBO to undertake analysis of the sensitivity of the budget to observed variations in economic conditions between budget updates, this is not a common request as the scenario analysis would normally not differ materially from the current budget baseline.

Scenario analysis

The magnitude of the economic impact of the COVID-19 pandemic and the government's policy response mean that a scenario analysis could now be expected to show a significant difference from the 2019 MYEFO baseline for many policy proposals, particularly in the latter two years of the forward estimates period and over the medium term.

Consistent with its mandate to support the Parliament and improve understanding of the budget and fiscal policy, the PBO is able to undertake requests for budget analysis against a COVID-19 medium-term scenario. This will provide parliamentarians with a more accurate estimate of how their policy proposal is affected by the economic impact of COVID-19 and the government's policy response. It will also ensure that the impact of COVID-19 on the budget is not incorrectly attributed as the impact of a policy proposal.

The scenario analysis will show how much the financial impact of a proposal differs from costings done using the 2019 MYEFO baseline. It will show the impact of the COVID-19 pandemic on the cost of the proposal taking account of the impact on the economy and the impact from the government policy responses to the crisis announced in the EFU of 23 July 2020.

³ *Parliamentary Service Act 1999*, section 64E(1)(c)

Where parliamentarians request a scenario analysis, we will provide them with a response that contains:

- the cost of their proposal against the baseline set by the most recent government economic and fiscal outlook statement (currently the 2019 MYEFO baseline).
- an assessment of the financial impact of their proposal against an economic and fiscal scenario that takes account of developments since the last budget update to the extent possible:
 - These will be consistent with the central ('baseline') case scenario set out in the PBO research paper *Medium-term fiscal projection scenarios: impact of COVID-19 pandemic and response*, issued on 5 June 2020 (or subsequent revisions of that scenario), which was based on the economic outlooks published in the Reserve Bank of Australia's February and May *Statements on Monetary Policy*.
 - We will also take account of any other information available to us, such as policy measures announced in the EFU of 23 July 2020.

This approach will provide parliamentarians with an indication of the magnitude of the budget impact of their proposal and of how much it is likely to have changed as a result of COVID-19. Consistent with our approach to responding to costing requests by parliamentarians, we will provide scenario analysis estimates over the medium term.

Public references to budget analysis

In any public discussion about specific PBO budget analysis, the results should be referred to as 'PBO analysis'. It would not be correct to describe the results as 'costings'. For example:

PBO analysis of [our proposal] shows that, taking account of the impact of COVID-19, it would [change/increase/decrease] the budget balance by \$xx million over the forward estimates years.

This distinction is important because the economic scenarios we will use to do our analysis are not economic forecasts and the fiscal impacts are not against a revised baseline. Our scenario analysis uses credible inputs to deliver plausible impacts compared to the updated 2019 MYEFO baseline, but the results still should be considered as indicative only.

Process for parliamentary requests

To obtain a COVID-19 scenario analysis of their proposal, parliamentarians should submit a request for budget analysis using the template available from the PBO webpage (click [here](#)) and include a statement requesting that the response should include an analysis of the impact of COVID-19 on the financial impact of the proposal.

Details of the information that should be included in a request are set out under the heading "What information should the proposal's policy specification include?" in the PBO guidance note "Guidance on submitting a request" (click [here](#)).