



Parliamentary
Budget Office

Guide to reading PBO costings

July 2022

At a glance

This guide is for anyone wanting a quick overview of how to read a Parliamentary Budget Office (PBO) costing, including parliamentarians and their staff, journalists and members of the public.

Every budget has a 'baseline' that extends over 4 years. The baseline is the total cost of all the pre-existing policies. When policies change, the costs change. A costing shows how much that change is.

Any parliamentarian (or parliamentary committee) can request a costing from the PBO, and we can help in developing requests, as well as responding to them.

A parliamentarian requesting policy costings from the PBO may request that a costing be treated as either public or confidential when they lodge the request (except during the caretaker period).

Parliamentarians can also request analysis of the budget from the PBO. These requests can ask for any information about the budget or fiscal policy setting. We will respond to the requests subject to any limitations on data access and use.

The rest of this guide covers in more detail what a costing is, the process of requesting a costing and how to read a costing from the PBO.

More information on how to make a costing and budget analysis request can be found on the PBO website. To get started, see [Costings and budget information – Parliament of Australia \(aph.gov.au\)](#) where you will find key information and contacts.

What is the Parliamentary Budget Office (PBO)?

The PBO was established in 2012 to 'inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals' (Section 64B of the *Parliamentary Service Act 1999*).

We do this in 3 main ways:

- by responding to requests made by senators and members for [costings of policy proposals](#) or for analysis of matters relating to the budget
- by publishing a [report](#) after every election that provides transparency around the fiscal impact of the election commitments of major parties, and
- by conducting and publishing [self-initiated work](#) that enhances the public understanding of the budget and fiscal policy settings.

Further information and an introduction to PBO's services is available here: [Guide to services of the Parliamentary Budget Office \(PBO\)](#).

What is a PBO costing?

A costing is an assessment of how much a policy proposal, if implemented, would change the budget surplus or deficit.

A PBO policy costing:

- is an impartial and independent estimate of the financial impact of a policy proposal on the budget, produced on a comparable basis to a costing that the government might publish in the budget
- is not an assessment of the merits of a policy, and does not provide policy advice or recommendations
- does not assess any economic impacts except those on the Australian Government budget, and does not assess the non-financial impacts of a policy.

What does a costing capture?

Our costings reflect the direct impacts on the budget, including the expected response of directly affected individuals or businesses to the proposed policy change (called 'behavioural responses'). This can include:

- the change in quantity demanded for a good or service due to a change in price (sometimes called the 'price elasticity of demand')
- the change in demand for alternative goods or services (sometimes called 'substitution effects')
- the proportion of people (or businesses) eligible to benefit from the policy who choose to opt in or apply for the benefit (the 'take-up rate')
- changes to the timing of transactions (either bringing them forward or deferring them until a later time), in order to benefit from or to avoid a policy change
- any other avoidance or minimisation behaviours, where people or entities modify their behaviour in order to increase or decrease the extent to which they are subject to a policy proposal.

Costings do not reflect the broader economic effects of a policy (that is, impacts which arise due to the effects of the policy on the wider economy). For example, a costing would not reflect the financial impact of a change in economic growth, which might arise where a policy has a material effect on prices, wages, investment, or productivity.

Some costings are complex and are based on multiple models and assumptions. Other costings are simpler and allocate a fixed amount of money to a program. For these simpler costings the maximum amount of government spending on the program will not change, even if costs are higher than expected. These are known as 'capped costings'. The PBO does not assess whether the funding provided is enough to meet the stated policy objective.

The costing process

Any parliamentarian (or parliamentary committee) can request policy costings from the PBO.

When the PBO receives a costing request, we consult with the parliamentarian to ensure we clearly understand the policy and that it is comprehensively specified. The PBO will undertake research on the policy topic, lodge a request for any confidential data needed from other agencies to model the policy, and proceed to build or update the costing model (we can often re-use or adapt models where a similar policy has been costed before). Finally, the PBO will write up the key information and results in a costing minute, which is provided to the parliamentarian.

Are costings confidential?

Parliamentarians may request that a costing be treated as either public or confidential when they lodge the request. The PBO cannot disclose any information about a confidential request unless the parliamentarian who made the request later says that it is not to be treated as confidential and/or releases the PBO costing response in full.

The only exception is where costing requests are lodged with the PBO during the caretaker period – these must be publicly released by the PBO.

All PBO costing responses not subject to the confidentiality provisions are published on the Costings page of the PBO website.

Are PBO costings different to the costings in the Government's budget?

PBO costings are generally comparable to those prepared by government agencies for the budget (usually either by the Department of the Treasury or the Department of Finance).

The PBO uses the same budget rules, economic parameters and costing conventions, as well as comparable models and data. However, sometimes the PBO may make different assumptions from government, and this may result in different costing estimates.

PBO costings always include:

- budget impacts over the full medium term (the budget year plus the next 10 years, rather than only the next 3 years, known as the 'forward estimates')
- an assessment of how policy changes would impact public debt interest payments.

Not just costings

In addition to policy costings, parliamentarians can also request analysis of the budget from the PBO. These requests can ask for any information about the budget or fiscal policy settings. For example:

- the amount of money allocated to a particular program, including spent and available funds
- a breakdown of the components of spending on government programs or of revenue measures and the projected budget impacts in each year.

When costing commitments for the Election commitments report (ECR) the PBO primarily draws on statements that have been made in public. For more information see the PBO's Guide to the ECR.



Example costing minute

The below is an excerpt from the publicly released costings which can be found on the [Costings](#) page of the PBO website and shows parts of a typical PBO costing.

Click on the numbers to view the descriptions of each part.

Policy costing

| Locally-Owned Renewables | |
|--|---|
| Party: | Independent Member for Indi |
| Expiry date of the costing: | Release of the next economic and fiscal outlook report. |
| Summary of proposal: The proposal has 2 components to drive investment in locally owned renewable energy in regional Australia. Component 1 would establish a dedicated fund for community energy projects in regional Australia, with \$300 million allocated over 4 years. Component 2 would conduct an independent review of the Australian Renewable Energy Agency (ARENA) and Clean Energy Finance Corporation (CEFC) to identify opportunities to better support regional community energy projects. The final report to the minister would be due by 1 November 2022 with the government response no later than 1 January 2023. The proposal would have effect from 1 October 2022. | |

Costing overview

The proposal would be expected to decrease the fiscal and underlying cash balances by around \$313 million over the 2022-23 Budget forward estimates period. This impact reflects an increase in administered and departmental expenses.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including a separate public debt interest (PDI) table) over the period to 2032-33 is provided at Attachment A.

The Parliamentary Budget Office (PBO) has not made any assessment as to whether the specified funding amount for Component 1 is sufficient to meet the objectives of the proposal.

Table 1: Financial implications (\$m)^{(a)(b)}

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Total to 2025-26 |
|-------------------------|---------|---------|---------|---------|------------------|
| Fiscal balance | -82.3 | -76.9 | -76.9 | -76.9 | -313.0 |
| Underlying cash balance | -82.3 | -76.9 | -76.9 | -76.9 | -313.0 |

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Key assumptions

The PBO has made the following assumption in costing this proposal.

Methodology

The administered expense for Component 1 is as specified in the proposal.

The departmental expenses were based on the cost of administering similar programs and would be in addition to the funding amount.

The cost of the independent review of ARENA and CEFC was estimated based on similar budget measures.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The Treasury and the Department of Finance provided economic parameters as at the *Pre-election Economic and Fiscal Outlook 2022*.

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Locally-Owned Renewables – financial implications

Table A1: Locally-Owned Renewables – Fiscal and underlying cash balance (\$m)^(a)

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | Total to 2025-26 | Total to 2032-33 |
|---|--------------|--------------|--------------|--------------|---------|---------|---------|---------|---------|---------|---------|------------------|------------------|
| Payments | | | | | | | | | | | | | |
| Administered | | | | | | | | | | | | | |
| <i>Community Energy Projects Fund</i> | -75.0 | -75.0 | -75.0 | -75.0 | - | - | - | - | - | - | - | -300.0 | -300.0 |
| Total – administered | -75.0 | -75.0 | -75.0 | -75.0 | - | - | - | - | - | - | - | -300.0 | -300.0 |
| Departmental | | | | | | | | | | | | | |
| <i>Community Energy Projects Fund</i> | -3.8 | -1.9 | -1.9 | -1.9 | - | - | - | - | - | - | - | -9.5 | -9.5 |
| <i>Independent review of ARENA & CEFC</i> | -3.5 | - | - | - | - | - | - | - | - | - | - | -3.5 | -3.5 |
| Total – departmental | -7.3 | -1.9 | -1.9 | -1.9 | - | - | - | - | - | - | - | -13.0 | -13.0 |
| Total – payments | -82.3 | -76.9 | -76.9 | -76.9 | - | - | - | - | - | - | - | -313.0 | -313.0 |
| Total (excluding PDI) | -82.3 | -76.9 | -76.9 | -76.9 | - | - | - | - | - | - | - | -313.0 | -313.0 |

Indicates the department will spend \$9.5m more under this policy when compared to the budget baseline, NOT that it spends \$9.5m in total.

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A2: Locally-Owned Renewables – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 | 2032-33 | Total to 2025-26 | Total to 2032-33 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------|---------------------|
| <i>Fiscal balance</i> | -0.9 | -2.8 | -4.6 | -6.4 | -7.4 | -7.6 | -7.9 | -8.1 | -8.4 | -8.6 | -9.5 | -14.7 | -72.2 |
| <i>Underlying cash balance</i> | -0.8 | -2.5 | -4.3 | -6.2 | -7.3 | -7.6 | -7.8 | -8.1 | -8.3 | -8.6 | -9.4 | -13.8 | -70.9 |

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in any tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary².
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

² [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)

For more explanations of key budget terms, see the PBO's [Online budget glossary](#).

The PBO has also published a range of information papers which provide further information on costings and their components:

- [What is a Parliamentary Budget Office costing?](#) – explains in more detail what a costing is, how it is produced and how a PBO costing minute should be interpreted.
- [PBO costing processes, timeframes and prioritisation framework](#) – provides information on the costing process, the factors that affect how long it takes for the PBO to respond to costing requests, and how the PBO prioritises competing demands for costing resources.
- [Behavioural assumptions and PBO costings](#) – details how the PBO determines behavioural assumptions to use when costing a policy.
 - As part of our commitment to transparency, the PBO has published a searchable online list of the details of behavioural assumptions used in published costings, along with the evidence and justification for our assumptions.
- [Including broader economic effects in policy costings](#) – discusses the challenges of incorporating broader economic effects in policy costings and the PBO's approach.
- [Factors influencing the reliability of policy proposal costings](#) – explains the factors that commonly affect the reliability of costing estimates and how these are reflected in PBO costing advice.

Feedback

If you found this report useful, or have suggestions for improvement, please provide feedback to feedback@pbo.gov.au.