

Role of the proposed Parliamentary Budget Office

Introduction

- 3.1 Specialist research and analysis units or Parliamentary Budget Office (PBO) type bodies that have been established in other parliaments tend to have a broadly common mandate. Broadly this mandate has included: to better inform the quality of economic debate and contribute to financial scrutiny in the Parliament and the wider community. This chapter outlines the views presented to the committee on the mandate, functions and clients of the PBO.

Mandate

- 3.2 A number of contributors to the inquiry stressed the importance of providing the PBO with clear directions on its role, the scope of its work, the extent to which its work may be self-guided and its type of outputs. This section addresses the broad directions or mandate of the PBO. How the PBO's mandate should be captured, for example, in legislation, will be addressed in Chapter 4.
- 3.3 The Department of Parliamentary Services (DPS) advocated for the PBO to have a broad mandate to comment on legislation, and Government and non government policies.¹ Similarly, the Australian Chamber of

1 Department of Parliamentary Services, *Submission 4*, p. 5.

Commerce and Industry (ACCI) considered that the PBO should be enabled to provide analysis 'beyond fiscal and economic forecasts'.²

- 3.4 The Public Policy Institute suggested that the mandate of the PBO cover broad matters affecting the budget including 'economic policy generally; trade and commerce (domestic and international); Government revenues and expenditures; Federal fiscal arrangements; infrastructure and capital works; productivity; wages, salaries and income support'.³
- 3.5 In its draft legislation provided to the committee, the Federal Coalition proposed that the PBO be tasked to provide objective and impartial advice and analysis on:
- (a) the Commonwealth budget and budget cycle; and
 - (b) medium and long-term budget projections; and
 - (c) the costs of policy proposals; and
 - (d) other matters as requested by Members and Senators.⁴
- 3.6 The appropriateness of the PBO to assist with the development of policy, for example, by critiquing policies and making recommendations was raised with the committee. It was suggested that while the work of the PBO would invariably be used for political purposes, an association with policy development in such direct ways could lend a partisan tone to the work of the PBO and draw it into political debate, compromising its independence and impartiality.⁵

Examples from other jurisdictions

- 3.7 The main purpose of the New South Wales (NSW) PBO is 'to provide independent costings of election promises and, outside pre-election periods, to provide independent costings of proposed policies of Members of parliament'.⁶ Notably, the legislation specifically excludes 'developing policy proposals on behalf of Members of Parliament'.⁷
- 3.8 The mandate of the United States Congressional Budget Office (CBO), as summarised by the CBO is:

2 Australian Chamber of Commerce and Industry, *Submission 9*, p. 2.

3 Public Policy Institute, *Submission 15*, p. 2.

4 Clause 3, Draft Parliamentary Budget Office Bill 2010, attachment to *Submission 14*.

5 Mr Peter Hicks, *Submission 12*, p. 2.

6 Mr Michael Daley, 'Parliamentary Budget Officer Bill 2010', NSW Legislative Assembly, *Debates*, 19 October 2010, p. X.

7 Section 13(4), *Parliamentary Budget Officer Act 2010* (NSW).

Objective, nonpartisan, and timely analyses to aid in economic and budgetary decisions on the wide array of programs covered by the federal budget, and

The information and estimates required for the Congressional budget process.⁸

- 3.9 The actual legislated mandate, outlined in the Congressional Budget and Impoundment Control Act of 1974, now Chapter 17, Title 2 of the US Code (The Congress), requires the CBO:

... to provide to the Committees on the Budget of both Houses information which will assist such Committees in the discharge of all matters within their jurisdictions, including (1) information with respect to the budget, appropriation bills, and other bills authorizing or providing new budget authority or tax expenditures, (2) information with respect to revenues, receipts, estimated future revenues and receipts, and changing revenue conditions, and (3) such related information as such Committees may request. [and provide]

- Assistance to Committees on Appropriations, Ways and Means, and Finance ...
- Assistance to other Committees and Members ...
- Assignment of office personnel to Committees and joint committees
- Reports to budget Committees ...
- Use of computers and other techniques ...
- Continuing studies and federal mandate studies ...⁹

- 3.10 The primary objective of the Canadian Parliamentary Budget Officer, specified under the *Parliament of Canada Act*, is to:

... provide independent analysis to the Senate and to the House of Commons about the state of the nation's finances, the estimates of the government and trends in the national economy.¹⁰

- 3.11 The work of the CBO and Canadian PBO strives to be policy neutral, in that their assessments generally do not seek to comment on the merits of a

8 Congressional Budget Office, 'CBO Factsheet', <http://www.cbo.gov/aboutcbo/factsheet.cfm>, viewed 8 March 2011.

9 Section 602, 2 USC.

10 Section 79.2(a), *Parliament of Canada Act*.

policy under discussion and make no normative judgements or policy recommendations.¹¹

- 3.12 The mission of the Korean National Assembly Budget Office is 'to support legislative activities through analysis and evaluation of national finances and policies'.¹² Its mandate, however, is restricted to 'the final accounts of the national budget or the administration of national funds and finance'.¹³

Functions

- 3.13 The resolution of appointment for the committee envisaged that the PBO would primarily undertake fiscal analysis, research and costings and also have a public awareness role. The preamble to the committee's resolution of appointment states:

It is proposed that the PBO will provide information to assist the Parliament in its consideration of matters related to the budget, by undertaking fiscal analysis and other relevant research and by providing policy costings advice. The PBO will also promote greater public awareness of key budget and fiscal policy issues.¹⁴

- 3.14 The committee did not limit itself to consideration of these areas. Mr Barry Anderson of the Organisation for Co-operation and Economic Development (OECD) identified eleven core functions of PBOs. These functions included the preparation of economic forecasting and projections (eg. of spending and revenue), baseline estimates, analysis of the Executive's Budget proposals, analysis of proposed legislation and policies (which may include costings), options for spending cuts and medium and long term analysis of the above functions.¹⁵
- 3.15 The committee received evidence in regard to many of these areas. Discussion on the main functions follows.

11 Parliamentary Library, *Submission 10*, p. 17; Mr Sahir Khan, Office of the Parliamentary Budget Officer, Canada, *Transcript of Evidence*, 8 February 2011, p. 13.

12 National Assembly Budget Office, 'Mission and vision', http://korea.nabo.go.kr/eng/01_about/mission.page

13 Article 3, National Assembly Budget Office Act 2003.

14 House of Representatives, *Votes and Proceedings No. 15*, 18 November 2010, p. 211; Senate, *Journals of the Senate No. 12*, 22 November 2010, p. 372.

15 B Anderson, 'The changing role of Parliament in the budget process', *OECD Journal on Budgeting*, Vol. 1, 2009, pp. 41–43.

Research and analysis

- 3.16 Mr Stephen Bartos commented that fiscal research and analysis of Government expenditure and fiscal policy are the most important functions of a PBO. In particular, it was considered that the PBO could add value to the existing range of statements and reports and other Budget commentary by providing an independent explanation and analysis of Government proposals in plain language.¹⁶
- 3.17 The Business Council of Australia (BCA) suggested the adoption of the approach taken by the Australian Strategic Policy Institute (ASPI) in its post Budget analysis of the Defence portfolio. The BCA stated:
- ... the Australian Strategic Policy Institute's annual review of the defence Budget navigates the complexity of the Budget data and synthesises the context and implications, providing an excellent example of the transparency and value of independent analysis.¹⁷
- 3.18 Established as a Commonwealth owned company in 2001, APSI's mandate is to provide independent, non partisan policy information and analysis on 'strategic and defence issues, generate new ideas for Government, and foster strategic expertise in Australia'.¹⁸
- 3.19 Research and analysis available through the Parliamentary Library includes the preparation of confidential responses to Members of Parliament and other publications. In addition, the Economics Section of the Library presents a Seminar each May to assist parliamentarians in their consideration of the Budget. The Library also produces an annual Budget briefing book which examines key features of the Budget across a number of policy areas.¹⁹

Economic forecasting

- 3.20 The Department of the Treasury (the Treasury) has primary responsibility for preparing economic forecasts on behalf of the Government. The two main forecasting rounds each year are for the May Budget and the revised forecasts of the Mid-Year Economic and Fiscal Outlook report in October

16 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 28.

17 Business Council of Australia, *Submission 17*, p. 7.

18 Australian Strategic Policy Institute, 'About ASPI', <http://www.aspi.org.au/aboutaspi/aboutaspi.aspx>, viewed 8 March 2011.

19 Parliamentary Library, 'Budget Review 2010-11', <http://www.aph.gov.au/library/pubs/RP/BudgetReview2010-11/index.htm>, viewed 8 March 2011.

to January. Another two rounds of forecasting are held around June and December.²⁰

- 3.21 The Joint Economic Forecasting Group, consisting of officials from central agencies and the Reserve Bank of Australia, provide input into the development of forecasts. Other line departments contribute to forecasts where relevant. Key indicators subject to forecasting include economic growth, inflation, employment, household consumption, private and public demand, exports and imports.²¹
- 3.22 Forecasting is a costly and resource intensive exercise requiring technical staff to maintain an economic model and use it skilfully.²²

Examples from other jurisdictions

- 3.23 The purpose of the United Kingdom of Great Britain's (UK) Office for Budget Responsibility (OBR) is to produce the Budget forecast for the Government and provide independent assessments of the Government's ability to achieve its own fiscal goals, through the publication of a Budget and Pre-Budget Report. The OBR is an interim body. A parliamentary committee has made recommendations to enhance a future permanent body.²³
- 3.24 The Netherlands Bureau for Economic Policy Analysis (also known as the Central Planning Bureau or CPB) provides quarterly short term forecasts including the Central Economic Plan, published every Spring, and the Macro Economic Outlook, published jointly with the Annual Budget.²⁴
- 3.25 The Canadian PBO prepares projections based on average private sector forecasts and provides its analysis with the framework in which it was produced. The Canadian Parliamentary Budget Officer explained:

... we provide our projections; we provide detailed assumptions behind those projections; we do risk analysis based on track

20 The Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 27.

21 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 5; S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 16.

22 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 4.

23 House of Commons Treasury Committee, *Office for Budget Responsibility, Fourth Report of Session 2010–11*, Volume 1, 16 September 2010.

24 Netherlands Bureau for Economic Policy Analysis, 'What does CPB do?', <http://www.cpb.nl/en/what-does-cpb-do>, viewed 8 March 2011.

records of forecasting one, two and five years out; and we analyse the structural and cyclical nature of these fiscal balances.²⁵

- 3.26 The CBO produces a range of medium and long term forecasts. For example CBO publishes annual Federal Budget forecasts covering the following ten years, based on current policy settings. The Joint Committee on Taxation specialises in estimating the revenue impacts of proposed changes to tax laws.²⁶

Suggested role of the PBO

- 3.27 The BCA highlighted a need for more comprehensive and regular fiscal forecasting from an alternative source to Treasury. It was suggested that additional forecasting could complement the Intergenerational Report, which is required to be produced under the *Charter of Budget Honesty* (the Charter).²⁷
- 3.28 However, opinion was divided as to whether the PBO should undertake an economic forecasting role. Those in support of the PBO performing a forecasting role included the ACCI and the Federal Coalition²⁸
- 3.29 Treasury and Finance alerted the committee to the significant resources the PBO would require to undertake forecasting and questioned the public value in duplicating the Departments' work in this area.²⁹
- 3.30 Mr Stephen Bartos advised against the PBO taking on a forecasting role and stated:

I think it would clearly be a waste of resources for a PBO or an independent outside body to try and duplicate the efforts of Treasury in doing those economic forecasts. It is very resource intensive and, in any case, they come down to a matter of judgments in relation to the assumptions that you make, particularly on behavioural responses to particular government policies. So, almost inevitably, if somebody else tried to do a similar set of forecasts, there would be minor differences on all sorts of those forecasts. Even though they are only a matter of slight differences in assumptions, we know that the media would

25 Mr Kevin Page, Office of the Parliamentary Budget Officer, Canada, *Transcript of Evidence*, 8 February 2011, p. 10.

26 Civil Liberties Australia, *Submission 7*, p. 2.

27 Business Council of Australia, *Submission 17*, p. 6.

28 Australian Chamber of Commerce and Industry, *Submission 9*, p. 2; Clause 7(1)(a)(ii) Draft Parliamentary Budget Officer Bill, attachment to Federal Coalition, *Submission 14*.

29 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 4.

beat them up into some sort of scandal. You do not want that. It is dangerous for the reputations of both Treasury and the Parliamentary Budget Office.³⁰

3.31 An alternative to undertaking its own forecasting would be for the PBO to provide independent validation and commentary on Government forecasting. It was suggested that this role 'would provide a level of independent assurance that would improve both public and market confidence in fiscal governance in Australia.'³¹

3.32 The need for analysis and commentary on Government forecasting was supported by the Clerk of the House of Representatives who stated:

One of the major issues during each Budget is the overall performance of the economy and the Government's proposed fiscal program as a whole. While these matters do receive some coverage in Budget debates, discussion may be more comprehensive if Members had access to some additional quantitative analysis on how Government projections had been arrived at and their sensitivity to assumptions.³²

Costings of proposals

3.33 Treasury and Finance have primary responsibility for the preparation of costings on policy and legislative proposals for the Government. Relevant line departments assist the central agencies in conducting this work. There is currently no statutory process to enable the proposals of non government parliamentarians to be costed by those departments outside the election period.

3.34 However, the agreements between the current Government and the Australian Greens and three Independent Members of Parliament negotiated following the 2010 election provide those non government signatories access to Government departments, via the Office of the Prime Minister, for policy analysis and costing.

3.35 For example, the Government's Agreement with the Australian Greens contains the following provision:

... proposals may be formally submitted to the Office of the Prime Minister and forwarded to the appropriate Department and Minister for analysis. Where the proposal is likely to involve costs,

30 Mr Stephen Bartos, *Transcript of Evidence*, 1 February 2011, p. 74.

31 Mr Stephen Bartos, *Submission 18*, p. 2.

32 Department of the House of Representatives, *Submission 2*, p. 1.

it may also be sent to the Department of Treasury, and the Treasurer, and the Department of Finance and Deregulation, and the Minister for Finance, for costing.

i. The number of proposals that may be considered in this way is not limited in number but the Parties will ensure that the workload arising is reasonable

ii. Every endeavour will be made to provide required advice within ten business days

iii. The Parties acknowledge that during the six week period leading up to the Federal Budget, the turnaround time may be greater than ten business days.³³

- 3.36 The policy costings prepared for the Australian Greens and Independents in accordance with the agreements are not routinely published, although some have been released following requests made under the *Freedom of Information Act 1982* (Cwlth).

Election policy costings

- 3.37 The Charter provides for the costing of election commitments during the caretaker period for a general election. Under the Charter, the Prime Minister and the Leader of the Opposition, through the Prime Minister, may request the Secretaries of Treasury and Finance to prepare costings of publicly announced Government policies.³⁴
- 3.38 The Charter requires that each costing is to be publicly released as soon as practicable after each request is made. Other Commonwealth bodies have a statutory requirement to assist with the preparation of costings where necessary and subject to other laws. A total of 128 costings were released by Treasury and Finance for the 2010 Federal election.³⁵
- 3.39 According to the Charter, the timeframe in which costings may be requested is during the caretaker period, defined by the act as 'the period starting with the issue of the writ for the election and ending at the close of the poll on the polling day for the election'.³⁶
- 3.40 This differs with the guidance on caretaker conventions issued by the Department of the Prime Minister and Cabinet, which provides that the

33 The Australian Greens and the Australian Labor Party ('The Parties') – Agreement, 1 September 2010, part 5.1(f).

34 Section 29, *Charter of Budget Honesty Act 1998* (Cwlth).

35 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

36 Section 3(1), *Charter of Budget Honesty Act 1998* (Cwlth).

caretaker period 'continues until the election result is clear or, if there is a change of Government, until the new Government is appointed.'³⁷

- 3.41 Guidelines for the costing of election commitments specify that costings should be prepared in accordance with the methodologies used to prepare the Budget statements and fiscal reports required by the Charter. Costings are to focus on 'the effect of a policy on the Australian Government's key Budget aggregates' and may include 'behavioural responses, but will generally not incorporate the second round effects' of a policy.³⁸
- 3.42 The election costings provisions were designed to reduce the incumbency advantage of a Government by enabling the opposition to have access to the resources of the public service for costings on the same basis as the Government during the election period.³⁹ The purpose of these provisions was to 'allow the electorate to be better informed of the financial implications of election commitments.'⁴⁰
- 3.43 During the election period, Treasury and Finance also cost other policies which have not been submitted under the Charter. These costings, which are not usually published, are produced for the purpose of advising an incoming Government on the cost of its election commitments.⁴¹
- 3.44 The Parliamentary Library was also involved with costings work at the 2010 Federal election. This initiative was funded by a Budget allocation of \$0.5 million in 2010-11 and in 2013-14 'to assist non government parties in developing policies in the lead-up to federal elections'. The allocation was made as part of the Operation Sunlight reform agenda.⁴²
- 3.45 A Pre-Election Policy Unit (PEPU) was established within the Library to give effect to the new measure. The PEPU worked within principles established by the Joint Standing Committee on the Parliamentary Library

37 Department of Prime Minister and Cabinet, *Guidance on Caretaker Conventions*, DPMC, Canberra, 2010, p. 1. 'In summary, the conventions are that the government avoids: making major policy decisions that are likely to commit an incoming government; making significant appointments; and entering major contracts or undertakings' (p. 1).

38 Departments of the Treasury and of Finance and Deregulation, *Charter of Budget Honesty Costing Election Commitments: Guidelines issues jointly by the Secretaries to the Departments of the Treasury and of Finance and Administration*, Canberra, 2010, pp 4-5.

39 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

40 P Costello, 'Charter of Budget Honesty Bill 1996 [2] - Second reading', House of Representatives, *Debates*, 5 December 1997, p. 12 and 234.

41 Mr Nigel Ray, Department of the Treasury, *Transcript of Evidence*, 1 February 2011, p. 48.

42 Australian Government, Budget Paper no. 2, Budget Measures 2010-11 - Part 2: Expense Measures, 2010, p. 282.

and commissioned economic modelling from external consultants on behalf of non government Members.⁴³

3.46 Those reports commissioned were provided to the requesting Members on a confidential basis on the understanding that they were to be published on the Library website in the event that they were referred to on the public record by a party or parliamentarian. Some of those reports were used as costings to support certain election commitments and were subsequently published.⁴⁴

3.47 An evaluation of the service provided by the PEPU was undertaken in October 2010. The first two recommendations of the evaluation reflected a need for an ongoing costings and modelling service. These were:

Recommendation One: In the event a parliamentary budget office (PBO) is established, its brief should include provision of the kinds of assistance offered by the PEPU in 2010, such as costing and economic modelling.

Recommendation Two: Reflecting the iterative, interactive nature of policy development, this assistance should be available to parliamentarians on an ongoing basis.⁴⁵

Issues with the current election policy costing process

3.48 Many costings are not prepared prior to the election as parties can submit their costings requests very late in the election period. This has the effect of making it impossible for the departments to release a costing before polling day. One possible reason for there being a delay in requesting certain costings is that parties may seek political advantage by avoiding public scrutiny.

3.49 Rather than enabling the public to be better informed about the cost of election promises, it has been reported that the public nature of the costings process places pressure on Oppositions to withhold policies during the campaign period, so that the costings process cannot be used against them.⁴⁶

43 Joint Standing Committee on the Parliamentary Library, *Submission 5*, pp 7-9.

44 Parliamentary Library, 'Pre-Election Policy Unit', <http://www.aph.gov.au/library/pubs/PEPU/index.htm>, viewed 8 March 2011.

45 S Bartos, *Evaluation of the Pre-Election Policy service*, Australian Parliamentary Library, LECG, Canberra, 2010, p. 25.

46 Editorial, *Australian Financial Review*, 6 September 2010, p. 62.

- 3.50 Another reason for delaying the submission of policies for costings relates to the availability of the latest fiscal and economic estimates, so that they may be incorporated into the policy development process. Those estimates, in the form of the pre-election economic and fiscal outlook report, are not released until ten days following the issue of writs for an election.⁴⁷
- 3.51 In its response to the Operation Sunlight Report, the Government acknowledged the bias inherent within the costings provisions of the Charter. The Government stated:
- Policies of governments and oppositions are not costed fairly under the Charter. The Charter is heavily biased in favour of the government of the day including the release of the Pre-Election Economic and Fiscal outcome up to 10 days into the election campaign with no opportunity for independent scrutiny. Access to costing resources for the Opposition only applies during the heat of an election campaign whereas the Government has access year-round.⁴⁸
- 3.52 Moreover, the timeframe for submitting costings under the Charter does not allow for iterative development of policy as Mr Stepehn Bartos explained:
- ... during an election campaign is the wrong time for getting policies costed, because development of policy is an iterative process where people want to test ideas and see how much they are going to cost. If they are going to be hugely expensive and unsustainable, they want to amend those ideas and go through them again.⁴⁹
- 3.53 As part of Operation Sunlight the Government committed to amending the Charter to extend the period during which the Government and Opposition could request costings to 'within 12 months of the last day for issue of writs for a general election to the end of the caretaker period'.⁵⁰
- 3.54 A previous proposal to amend the Charter included allowing Oppositions to directly request costings from the secretaries of Treasury and Finance, rather than make a request through the Prime Minister, and to provide
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47 Part 7, *Charter of Budget Honesty Act 1998* (Cwlth).

48 Australian Government, *Operation Sunlight: Enhancing Budget Transparency*, December 2008, p. 15.

49 Mr Stephen Bartos, *Transcript of Evidence*, 1 February 2011, p. 71.

50 Australian Government, *Operation Sunlight: Enhancing Budget Transparency*, Department of Finance and Deregulation, December 2008, p. 16.

that the departments' dealings with the Opposition are not to be disclosed to the Government.⁵¹

- 3.55 However, extending the role of Treasury and Finance in providing costings, particularly during the non-election period, places those departments in a conflicted position. As noted in the Review of Operation Sunlight:

... potential conflict could arise for the public service if it had to balance two simultaneous requests from the Government and Opposition. As many of the requests for costing outside the caretaker period would be for policies that have not yet been announced, the current approach of receiving requests via the Prime Minister would not be appropriate.⁵²

- 3.56 Minor parties and Independent Members of Parliament do not have access to the costings process under the Charter. The exclusion of minor parties from the Charter's costings provisions compounds their existing disadvantages in relation to their staffing resources.⁵³
- 3.57 The Review of Operation Sunlight recommended amending the Charter to implement the Government's proposed expanded timeframe for costings and to enable 'reasonable access' to costings for minor parties.⁵⁴ The Government noted the recommendation.⁵⁵

Costings in other jurisdictions

- 3.58 As previously noted, the main purpose of the NSW PBO is to prepare election policy costings. The NSW *Parliamentary Budget Officer Act 2010* provides that a parliamentary leader or their nominee may request the costing of their own policies 'that are announced or proposed for implementation after the next State general election'.⁵⁶
- 3.59 Election policy costings may be requested during the 'pre-election period', defined as the period between the day of the last State Budget before the

51 Mr Tanner, 'Charter of Budget Honesty Amendment Bill 2005, First Reading', House of Representatives, *Debates*, 31 October 2005, p. 8.

52 Mr Andrew Murray, *Review of Operation Sunlight: Overhauling Budgetary Transparency*, June 2008, p. 54.

53 Mr Andrew Murray, *Review of Operation Sunlight: Overhauling Budgetary Transparency*, June 2008, p. 53.

54 Mr Andrew Murray, *Review of Operation Sunlight: Overhauling Budgetary Transparency*, June 2008, p. 54.

55 Australian Government, *Commonwealth Government Response: Operation Sunlight Overhauling Budget Transparency*, June 2008, p. 11.

56 Section 18, *Parliamentary Budget Officer Act 2010* (NSW).

election and the day of the election.⁵⁷ The costing is to be provided to the parliamentary leader who requested the costing and may be publicly released by that leader, or by the PBO once it has been notified that the policy concerned has been publicly announced, or with the release of the Budget Impact Statement (BIS).⁵⁸

- 3.60 In addition, the PBO is to prepare BISs for all costed policies in the pre-election period covering those requests made by each parliamentary leader. The BISs are to include the total net financial impact of all costed policies.⁵⁹
- 3.61 Outside the pre-election period, the NSW Parliamentary Budget Officer Act enables Members of Parliament to request the PBO to 'prepare a costing of a proposed policy', and 'any analysis, advice or briefing of a technical nature on financial, fiscal and economic matters (including in relation to the costing of proposals included in the State budget)'.⁶⁰ In relation to such costing requests, the documents prepared by the PBO may only be provided to the Member who made the request.⁶¹
- 3.62 There is no statutory requirement for costings or advice to be publicly released. The Clerk of the NSW Legislative Assembly advised that 'it may be appropriate for information on the number of requests made for such work and the types of requests to be noted in the Officer's annual report which is required to be furnished to both of the designated committees in accordance with section 15 of the Act'.⁶²
- 3.63 The Netherlands CPB offers political parties analysis of the economic implications of their policies well in advance of elections, but does not conduct 'last minute' costings in the non-election period.⁶³ On request, it also provides the same service for parties following an election where the formation of the new Government is under negotiation.⁶⁴
- 3.64 The CBO produces cost estimates for almost every bill reported by Congressional committees. Those estimates consider the implications of the bill on revenue and expenditure over the following five years or more.

57 The NSW budget cycle and fixed parliamentary terms provide a standard pre-election period of about two months.

58 Section 22, *Parliamentary Budget Officer Act 2010* (NSW).

59 Section 23, *Parliamentary Budget Officer Act 2010* (NSW).

60 Section 13(1), *Parliamentary Budget Officer Act 2010* (NSW).

61 Section 17(2)(b), *Parliamentary Budget Officer Act 2010* (NSW).

62 Clerk of the Legislative Assembly (NSW), *Submission 19*, p. 5.

63 Department of Parliamentary Services, *Submission 4.1*, p. 8.

64 Netherlands Bureau for Economic Policy Analysis, 'What does CPB do?', <http://www.cpb.nl/en/what-does-cpb-do>, viewed 8 March 2011.

Cost estimates of bills may also be prepared on the request of individual Members, although this service is limited to the availability of resources.⁶⁵

- 3.65 The UK's Institute for Fiscal Studies, a non government economic research institute, publishes its analysis of election policy proposals put forward by the three main political parties in their election platforms. Publications covering the three parties for the 2010 general election included proposals on environmental policies, families and children, and pensions and retirement policy.⁶⁶
- 3.66 The *Parliament of Canada Act* provides for the Parliamentary Budget Officer to 'estimate the cost of any proposal that relates to a matter over which Parliament has jurisdiction' on the request of a Member of Parliament or its committees.⁶⁷
- 3.67 In practice, the Canadian PBO undertakes costings on request for Private Members' Bills or on Government programs. Major costing reports on Government programs include engagement in Afghanistan and Aboriginal education infrastructure. It does not cost the election commitments for political parties.⁶⁸

Role for the Parliamentary Budget Office in policy costings

- 3.68 A particular challenge, should the PBO undertake policy costings, would be the significant workload and resourcing required to fulfil this function. Treasury and Finance indicated that the costings process involved the work of about 300 staff during the election period.⁶⁹
- 3.69 In addition to the number of staff needed, costings work generally requires high level skills, technical knowledge and data, the application of professional judgement and specialised economic models. Treasury and Finance stated:

... costings require highly experienced specific professional skills, access to and familiarity with specialised data, as well as 'off the

65 Congressional Budget Office, 'Background on cost estimates', <http://www.cbo.gov/costestimates/CEBackground.cfm>, viewed 8 March 2011.

66 Institute for Fiscal Studies, 'About IFS', <http://www.ifs.org.uk/aboutIFS>, viewed 8 March 2011.

67 Section 79.2(d), *Parliament of Canada Act*.

68 Dr Mostafa Askari, Office of the Parliamentary Budget Officer, Canada, *Transcript of Evidence*, 8 February 2011, p. 13.

69 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

shelf' and tailored financial and economic models designed for specific public policy costings.⁷⁰

- 3.70 Treasury and Finance also identified a number of risks for the PBO in undertaking election costings while the current Charter costings processes remain in place. These were identified as:

... having two separate publicly funded sets of costing arrangements duplicating each other's role would not be cost-effective from a public finance perspective, may create confusion, and is unlikely to be feasible in any case, certainly in the short term, given that many of the necessary resources are already in short supply.⁷¹

- 3.71 Treasury and Finance considered that a more appropriate role for the PBO may be to analyse costings of major Government programs, provide costings to non government parliamentarians outside the election period, and retain the Charter's costings provisions during the election period.⁷²

- 3.72 Given that Treasury and Finance already undertake costings of a wider range of policies than those submitted under the Charter, it is likely that the election costings prepared by the PBO may also be informally costed by those departments. In addition to the issue of duplication, it is probable that the cost of a given policy determined by the PBO would differ from that of Treasury and Finance, given the use of different methodologies, assumptions, judgements and data used.

- 3.73 Furthermore, compared with the resources of the public service, costings prepared by the PBO may not have the same status. The Department of Finance explained:

The question is about the status of the costing and whether or not that costing is the result of the same level of rigour, experience and judgment and has the same standing in a decision-making process as you would get if you went to a costing by the departments.⁷³

- 3.74 A risk of enabling the PBO to undertake costings is that following an election, Treasury and Finance may determine that the true cost of a party's election platform is quite different than that estimated by the PBO

70 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

71 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

72 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 10.

73 Mr Stein Helgeby, Department of Finance and Deregulation, *Transcript of Evidence*, 1 February 2011, p. 66.

during the election period. This could lead to an unedifying debate about whose costings are most accurate.⁷⁴

- 3.75 A number of suggestions were put to the committee to enhance the rigour of costings undertaken by the PBO and promote consistency with current processes undertaken by Treasury and Finance.
- 3.76 The Auditor-General suggested that the PBO may consider providing a draft of its estimates to the relevant Government department for comment. This approach is similar to the ANAO's current process of providing draft audit reports to agencies, so that their comments can be incorporated into the final product. The ANAO requires agencies to respond to draft reports with 28 days.⁷⁵
- 3.77 Alternatively, the PBO could act as a confidential intermediary between parliamentarians and Government departments to gain assistance with policy costings outside the election period. While dependent on the cooperation of the Government, this process could enable the preparation of costings using departmental data and methodologies, consistent with that currently used by Treasury and Finance.⁷⁶
- 3.78 Another approach put forward was that the PBO should not undertake costings, but work with parliamentarians in developing their proposals so that they are well developed when they are formally submitted to Treasury and Finance for costing. The PBO could also provide independent analysis on the costings prepared by departments.⁷⁷

Promotion and public awareness role

- 3.79 A broader role of education was also envisaged for the PBO in the committee's resolution of appointment. DPS and Treasury and Finance supported inclusion of a broader educational role for the PBO.⁷⁸
- 3.80 Treasury and Finance suggested the PBO's education role could be primarily focused on Members of Parliament. Treasury and Finance stated:

74 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 23.

75 Mr Ian McFee, Australian National Audit Office, *Transcript of Evidence*, 28 February 2011, p. 5.

76 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 23.

77 Professor Scott Prasser, Public Policy Institute, *Transcript of Evidence*, 28 February 2011, p. 20.

78 Department of Parliamentary Services, *Submission 4.1*, p. 4

In view of the scope for an educative role for a PBO, there may be merits in a PBO producing: regular publications such as an annual post-Budget commentary which analyses the Government's budget papers; research items covering relevant topics on budget and fiscal policy issues; and educational products and seminars for members of parliament.⁷⁹

3.81 According to Mr Stephen Bartos:

For most of the community budgeting remains a mysterious 'black box' process inside Government. A feature of a healthy democracy is informed debate on important policy issues; economic policy should not be an exception.⁸⁰

3.82 Another benefit of a public awareness role offered to the committee was that the PBO could raise important issues that have been left off the political agenda. Mr Stephen Bartos stated:

The independent body would be able to raise awareness of uncomfortable or difficult fiscal questions and propose tough options for dealing with them, without the Government necessarily having to take sides in that debate or commit itself prematurely to unpopular causes.⁸¹

Other suggested functions

3.83 The Clerk of the Senate advised the committee that a PBO could play a role in identifying inappropriately classified items in Appropriation Bill No. 2, 'although it would be preferable that such analysis continues to be undertaken by Senate officers who bring institutional knowledge to the task.'⁸²

3.84 Associate Professor Charles Lawson proposed that the PBO should be tasked to set the requirements and standard for the information provided to the Parliament by the Executive. Moreover, the PBO should regulate the Executive's compliance with those standards. It was argued that this would ensure that the Parliament receives the information that it needs to fulfil its scrutiny and financial responsibilities.⁸³

79 Departments of the Treasury and of Finance and Public Administration, *Submission 16*, pp 7-8.

80 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 4.

81 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 35.

82 Department of the Senate, *Submission 6*, p. 5.

83 Associate Professor Charles Lawson, *Submission 21*, p. 1.

Clients of the Parliamentary Budget Office

- 3.85 The terms of reference for the inquiry suggest that the PBO is intended to serve the Parliament and that individual Members of Parliament may request 'non-routine' work of the PBO. The *Agreement for a Better Parliament* provides that the PBO is to serve all Members of Parliament, especially non government Members.⁸⁴
- 3.86 There are many ways in which the PBO could serve the Parliament, the Houses, all Members, non government Members and possibly committees. There may also be reasonable grounds to restrict certain services to certain categories of Members such as non government Members, party leaders and Independent Members.

Members of Parliament

- 3.87 The *Parliamentary Service Act 1999* (Cwlth) requires the Parliamentary Librarian to serve the Parliament 'on the basis of equality of access for all Senators, Members of the House of Representatives, parliamentary committees and staff acting on behalf of Senators, Members or parliamentary committees'.⁸⁵
- 3.88 The Parliamentary Librarian suggested that its model of equality of access for all is an appropriate framework for the PBO to serve the Parliament.⁸⁶ This was supported by the Joint Standing Committee on the Parliamentary Library.⁸⁷ The Federal Coalition's draft legislation also provided for responses to the 'requests of individual Members and Senators'.⁸⁸
- 3.89 While all parties and Independent Members require the research services of the Parliamentary Library, in practice, it is the non government Senators and Members who have the greater demand for the service.⁸⁹
- 3.90 The Clerk of the Senate was of the view that all Senators and Members should have access to the PBO:

84 Agreement for a better Parliament, para 16.1.

85 Section 38B(2)(c), *Parliamentary Service Act 1999* (Cwlth).

86 Parliamentary Library, *Submission 10*, p. 8.

87 Joint Standing Committee on the Parliamentary Library, *Submission 5*, p. 5.

88 Clause 7(1)(c), Draft Parliamentary Budget Officer Bill, attachment to Federal Coalition, *Submission 14*.

89 Parliamentary Library, *Submission 10*, p. 8.

On the basis that parliamentary services are provided on an equal basis to all members and senators, I do not think you could put any restrictions on the service the PBO might offer...⁹⁰

- 3.91 The NSW PBO legislation restricts requests for election policy costings to 'parliamentary leaders'. The Act defines a parliamentary leader as the Premier, the Leader of the Opposition, a parliamentary leader of a registered party and an Independent Member of Parliament not elected as an endorsed candidate of a registered party.⁹¹

Parliamentary committees

- 3.92 There are a number of jurisdictions where PBOs have formal relationships (created through legislation) with parliamentary committees and public sector agencies. The aim of having formal relationships with committees allows the PBO to support the work of the Parliament by contributing to committee inquiries through providing: submissions, financial analysis and appearing as a witness.
- 3.93 The OECD stated that the relationship between the PBO and parliamentary committees should be legislated for and that the PBO should principally serve committees and subcommittees rather than individual Members. In addition, the PBO 'should have the right to testify before committees of parliament.'⁹²
- 3.94 The Canadian PBO has formal relationships with three parliamentary committees in addition to the estimates committees. These committees are: the Standing Committee on Finance of the House of Commons; the Standing Committee on National Finance of the Senate; and the Standing Committee on Public Accounts of the House of Commons. These committees can request the Canadian PBO to undertake financial research and analysis.⁹³ The Canadian PBO can also provide such information to a committee of either House of Parliament.⁹⁴
- 3.95 The Scrutiny Unit attached to the House of Commons in the UK has the aim of assisting select committees of the House to perform their financial and analytical scrutiny function, by providing expert staff to assist with inquiries and research as needed. The Scrutiny Unit also provides general research support 'when the committees' own staff teams are over-

90 Dr Rosemary Laing, Department of the Senate, *Transcript of Evidence*, 1 February 2011, p. 30.

91 Section 3(1), *Parliamentary Budget Officer Act 2010* (NSW).

92 Organisation for Economic Co-operation and Development, *Submission 8*, p. 2.

93 Office of the Parliamentary Budget Officer, Canada, *Exhibit 1*, p. 6.

94 Office of the Parliamentary Budget Officer, Canada, *Exhibit 1*, p. 14.

stretched, ... [and] for the Liaison Committee, which consists of the Chairs of the main select committees.’⁹⁵

3.96 In contrast to PBOs with legislated relationships with committees, under its establishing Act, the NSW PBO is not enabled to work for the committees of the Parliament.⁹⁶

3.97 There were also a number of suggestions in regard to creating a legislated relationship between the PBO and the Joint Committee of Public Accounts and Audit (JCPAA) for the purpose of parliamentary oversight, similar to that in place between the Auditor-General and the JCPAA. This issue is discussed in more detail in Chapter 4.

Concluding comments

Mandate

3.98 The committee considers that the Parliamentary Budget Office (PBO) should have a mandate to support and inform the Parliament by providing independent, non-partisan and policy neutral analysis on the annual Budget, Government expenditure, fiscal policy and the financial implications of proposals.

Functions

3.99 In fulfilling this mandate, it is further proposed that the key functions of the PBO are to prepare responses to the requests of individual Senators, Members and parliamentary committees, make formal contributions to committee inquiries, initiate its own work in anticipation of the interests of its clients, and prepare costings of election commitments during the caretaker period.

3.100 Given the resource intensive nature of the work and the need to minimise the duplication of work produced elsewhere, the PBO should not be required to produce its own fiscal forecasts. Rather, it should provide analysis of the Government’s fiscal forecasts, commenting on the assumptions, judgements and overall reliability of Government assessments.

95 House of Commons Scrutiny Unit, *Submission 11*, p. 1.

96 Section 13(4), *Parliamentary Budget Officer Act 2010* (NSW).

- 3.101 Between elections, the routine research and analytical work of the PBO should include the estimation of costs of proposed policies and draft legislation. It is expected that the preparation of costings by the PBO in the non-election period will provide a process for the iterative development of policy and enhance proposals well before elections are announced.

Costings of proposals

- 3.102 The committee found that the election costings provisions of the *Charter of Budget Honesty Act 1998 (Cwlth)* (the Charter) has significant shortcomings in enabling the electorate to be better informed about the financial implications of election commitments. Key limitations of the Charter include:

- The limited time available for the submission of costings requests and an inability for the opposition to have their policies costed at any other time, severely restricts the opportunity for the preparation of costings;
- The requirement that requests are made through the Office of the Prime Minister does not engender the trust of the Opposition;
- The requirement that proposals must be publicly announced and that costings are published does not enable the iterative development of policies; and
- Minor parties and Independent Members of Parliament are excluded from the Charter processes altogether, compounding other disadvantages they face in resourcing (although agreements with the Government enable limited support in this area for some minor party and Independent parliamentarians).

- 3.103 These limitations amount to clear disincentives for the non government parties to use the Charter provisions to help promote their policy platform to the electorate with transparency and accountability during the campaign period. The level of bias in favour of the incumbent Government of the present costings system is evident, especially given the ability of the Government to access confidential costings from Treasury and Finance on an ongoing basis.

- 3.104 The quality of political debate during election time suffers as a consequence, as voters go without an independent and potentially very valuable source of information.

- 3.105 However, the committee is faced with some dilemmas in addressing the question of costings. It is recognised that the resources required to produce rigorous costings is significant and would be costly to reproduce

by the PBO. In any case, the public benefit of duplicating the process would be highly questionable considering there would inevitably be differences in estimates produced by the PBO and those of Treasury and Finance. A public debate over the technicalities of costings methodologies does not serve the public interest.

- 3.106 Further, the role of Treasury and Finance would be conflicted if it were to expand its costings role during the non-election period. It is accepted that the legitimate role of Government departments is to serve the Executive. The committee also acknowledges the expertise and the rigour that Treasury and Finance bring to the costings process.
- 3.107 The committee has chosen to focus on improving the current costings process through a series of new measures to provide incentives for parties to use a costings process for the ultimate purpose of enhancing transparency and accountability of election campaigns.
- 3.108 It is accepted that minor parties and Independent Members of Parliament have an interest in having access to the Charter's provisions on election costings. There is also a public interest in providing access to minor parties and Independents following their rise in electoral support over recent decades.
- 3.109 Broadening the eligibility for election costings by the departments would have major resource implications. In order to limit the likely demands on Treasury and Finance for election period costings for minor parties, the committee considers that costings under the Charter should be available for political parties with a set minimum number of elected Members.
- 3.110 The *Parliamentary Allowances Act 1952 (Cwlth)* and the *Parliamentary Entitlements Act 1990 (Cwlth)*, provides additional resources for leaders of recognised non government political parties with five or more parliamentary representatives.⁹⁷ The committee considers that five parliamentary representatives is an appropriate benchmark for eligibility to the Charter's costings processes.
- 3.111 This would effectively legislate, for the election period, the current arrangements for costings negotiated between the Australian Greens and the Government.
- 3.112 The Charter currently restricts the requests for costings to the caretaker period, ending on polling day, rather than the conventional ending of the caretaker period when the election result is clear or when the new

97 Schedule, *Parliamentary Allowances Act 1952 (Cwlth)*, Section 3, *Parliamentary Entitlements Act 1990 (Cwlth)*.

Government is appointed. This prevents the costings process from being used following an election, in the period were the formation of a new Government might be under negotiation by political parties and Independent Members.

- 3.113 The committee considers that there is value in extending the ability to request costings to the period following polling day to the formation of the Government, to enable transparent and accountable negotiations in the event of a future hung Parliament.
- 3.114 Given the current disincentives for the Opposition to cost policies under the Charter and the proposed exclusion of minor parties with less than five Members, and Independent Members, the committee believes that costings would more likely be requested if there was to be an alternative source providing costings. The committee is therefore recommending that the PBO be empowered to prepare election costings, on request, for publicly announced election commitments.
- 3.115 While the costings produced by the PBO may in some cases lack the rigour of those produced by Treasury and Finance, it is considered that there is a public benefit from increased accountability and transparency if the PBO were to offer an election costing service. While the availability of accessing costings through the PBO fulfils obligations under the Charter, in practice, the availability of an alternative policy costings service may result in the Government continuing to use Treasury and Finance for costings, while non government parliamentarians may prefer to use the PBO.
- 3.116 The demand for the election costings service of the PBO could be confined in a similar way to that of the NSW Parliamentary Budget Officer, which would limit the service to parliamentary leaders and Independent Members who were originally elected and are seeking re-election, as Independent Members, without the endorsement of a registered political party.
- 3.117 The committee is of the view that individual election commitments should not be costed by both the PBO and Treasury and Finance. To avoid duplication, it is expected that the PBO and Treasury and Finance would consult prior to the preparation of each costing.
- 3.118 Finally, the committee recognises that the functions attributed to the mandate of the PBO may produce a significant workload. While the work plan and the priorities of the PBO are discussed in Chapter 4, the provision of election costings should be clearly established as the absolute priority during the caretaker period.

Self-initiated work

- 3.119 In addition to preparing responses to individual requests for research and analysis from Senators, Members and committees, the PBO should be able to initiate its own work, consistent with its mandate, in anticipation of issues likely to be of interest to its clients.
- 3.120 Examples of self-initiated work could include regular analytical reports following key Government publications such as the annual Budget and the statements required under the Charter. It is expected that the publication of material produced by the PBO will perform a broader public awareness role.

Members of Parliament

- 3.121 The PBO should be accessible to every Senator and Member for research, analysis and advice in relation to the matters covered in its mandate, and respond to individual requests. It is expected that non government parliamentarians would have the greater demand for the PBO's service.

Parliamentary committees

- 3.122 The PBO will create special working relationships with parliamentary committees and Government departments by virtue of its mandate.
- 3.123 The committee believes that the Parliamentary Budget Officer through his/her mandate and independence of office should be able to contribute to committee inquiries by providing submissions and also appear as a witness at public hearings. In addition, the committee believes that it would serve the information needs of the Parliament if all committees would be able to make requests for financial analysis and advice from the PBO.

Recommendation 2

- 3.124 **The committee recommends that the Government establish the mandate of the Parliamentary Budget Office as to inform the Parliament by providing independent, non-partisan and policy neutral analysis on the full Budget cycle, fiscal policy and the financial implications of proposals.**

Recommendation 3

- 3.125 The committee recommends that the Government empower the Parliamentary Budget Office to undertake the following functions, consistent with its mandate:
- prepare responses to the requests of individual Senators and Members, regardless of party or Government status, and parliamentary committees, including the preparation of costings in relation to proposed policies and bills outside the caretaker period,
 - make formal contributions to committee inquiries,
 - initiate its own work in anticipation of the interests of its clients, and
 - prepare costings of election commitments during the caretaker period.

Recommendation 4

- 3.126 The committee recommends that the Government amend the *Charter of Budget Honesty Act 1998* (Cwlth) to enable the leaders of parliamentary parties with a minimum number of parliamentary members to access the election costings provisions of the Act. The minimum number of parliamentary members should be consistent with similar requirements set out in the *Parliamentary Allowances Act 1952* (Cwlth) and the *Parliamentary Entitlements Act 1990* (Cwlth), which is currently five members or more.

Recommendation 5

- 3.127 The committee recommends that the Government amend the *Charter of Budget Honesty Act 1998* (Cwlth) to enable the costing of election commitments in the period starting from the issue of the writ for the election and ending when the election result is clear or, if there is a change of Government, until the new Government is appointed.

Recommendation 6

- 3.128 The committee recommends that the Government empower the Parliamentary Budget Office (PBO) to provide election costings on request, in relation to publicly announced policies, starting from the issue of the writ for the election and ending when the election result is clear or, if there is a change of Government, until the new Government is appointed. Apart from the conditions for who can make a request for costings, the caretaker period costings service of the PBO is to be consistent with that of the *Charter of Budget Honesty Act 1998* (Cwlth).

Recommendation 7

- 3.129 The committee recommends that the election costing service of the Parliamentary Budget Office be limited to requests from nominated parliamentary party representatives and Independent Members originally elected and seeking re-election, as Independent Members, without the endorsement of a registered political party.

Recommendation 8

- 3.130 The committee recommends that the election costing service of the Parliamentary Budget Office be limited to requests from nominated parliamentary party representatives and Independent Members (as defined in recommendation 7), in relation to their own policies.

Recommendation 9

- 3.131 The committee recommends that individual election commitments are not able to be costed by both the Parliamentary Budget Office (PBO) and the Departments of the Treasury and of Finance and Deregulation, and that to avoid duplication, the PBO and Treasury and Finance confer prior to the preparation of each costing request.