

Mr Russell Chafer
Committee Secretary
Joint Select Committee on the Parliamentary Budget Office
Parliament House
CANBERRA ACT 2600

Dear Mr Chafer

SUBMISSION TO THE INQUIRY INTO ESTABLISHMENT OF A
PARLIAMENTARY BUDGET OFFICE

Thank you for the invitation to provide a submission to the Committee. I am providing this submission in my capacity as a private citizen rather than on behalf of any organisation. I note however that I have permission from clients for whom I have conducted work in this field to draw on that work in my evidence to the committee.

This submission reflects recent work in my area of expertise, public sector governance. Of particular relevance is my recent work for the Parliamentary Library in conducting an evaluation of the Pre-election Policy Unit. The report of that evaluation has been published on the Library website. I have also recently completed a large independent study for another client on options in this area, which has not yet been released publicly.

I have consulted widely with a number of officials, staff of parliamentarians, other commentators and academics in the course of this recent work. A number of key themes have recurred consistently:

1. *The desirability of having an independent fiscal body in Australia.* A growing number of countries have seen the value of having such a body, and the recent experience in almost all countries with such bodies has been a positive one. They have contributed to better understanding of economic and fiscal issues, fostered debate on options, and assisted in improving decision making. The Global Financial Crisis has been one of the factors that has prompted some European countries recently to establish Fiscal Councils, but the relevance and importance of their role was well documented prior to the GFC.
2. *The need for this body to be independent of current budget agencies.* There are numerous reasons, well canvassed by Senator Murray in his report on Operation Sunlight, why provision of independent advice is at odds with the responsibilities of public servants to their Minister. It is possible to create stand alone public service bodies with a strong independent role (for example, the Productivity Commission or ANAO) provided this is their dedicated role; it would not be possible to ask Treasury or the Department of Finance and Deregulation to on the one hand advise their Ministers while at the same time providing independent advice on similar subject matter that could enter the public domain.

3. *The dangers of applying an international model.* Of the various models currently in place internationally, probably the United Kingdom and Sweden offer the most relevant lessons to Australia. There is however no ‘best practice’ model or template that can be applied from one jurisdiction to another, every independent budget office is a product of its own country’s institutional history.
4. *Going beyond costings.* There is a huge unmet demand from parliamentarians for a service such as that provided by the Pre-Election Policy Unit to be provided on an ongoing basis. Many stakeholders consider though that it will be a wasted opportunity for Australia if the only thing the new Office is asked to do is to assist non-government parties with policy costings. An independent fiscal office can play a valuable role in raising not only parliamentary but also community and media understanding of fiscal and economic policy, explaining options for achieving better value for money, and shedding light on areas of government revenue and expenditure that are comparatively neglected. The high value placed on the CBO in the USA is testament to this.
5. *A validation role would be useful.* There is a reasonable consensus that duplicating the work of the bureaucracy in preparing economic forecasts would not be a good use of resources; however, many stakeholders do see a valuable role for an independent body in validation of the forecasts and commentary on official fiscal documents. This would provide a level of independent assurance that would improve both public and market confidence in fiscal governance in Australia.
6. *The need for a clear mandate.* A Parliamentary Budget Office or other similar independent fiscal body cannot be all things to all stakeholders. It needs a very clear mandate, and a recognition that some roles are in conflict. For example, one of the key lessons from Canadian experience is that reporting lines and accountabilities have to be established early, and clearly, for an office to function effectively. There is also a tension between provision of confidential advice to parliamentarians (which then may be used in political debate) and the desirability of putting work on fiscal issues into the public domain. In the event of a conflict, the best interests of Australia would be better served by giving primacy to the interest of transparency.
7. *Match resourcing with the mandate.* Depending on what the Office is asked to do, its resource needs will vary considerably. As a general rule, the broader the mandate, the larger the resource requirement.
8. *Specify the functions to be performed by the body, preferably in legislation.* Linked to the issue of a clear mandate is the need to specify what functions the body will perform. Again, the type of body to be established will depend very much on what functions it is allocated. It would be desirable to include within these functions a power for the body to initiate its own inquiries into matters of importance, rather than only respond to external references or inquiries.

9. *An external governing body.* If the body is established within the Parliament, it should have a reporting and accountability line to a committee of the Parliament. If outside the Parliament, it would desirably have an independent Board. Such a Board could include parliamentarians (among other directors) if desired.
10. *Decide the objectives before the governance.* The consideration of governance arrangements should come after, not before, the decision on the role, objectives and functions of the organisation. Governance ought to reflect the desired objectives. If the key objective is briefings for parliamentarians, then a structure within the Department of Parliamentary Services would be appropriate. If the desired objective is more arms length, independent and public scrutiny of fiscal matters, then a separation from government through a wholly owned company (eg the ASPI model) may be more appropriate.

I would be very happy to elaborate on these findings for the committee.

For convenience, I have attached the executive summary of my report on the Pre-Election Policy service.

Yours Sincerely

Stephen Bartos

Evaluation of the Pre-Election Policy service, Australian Parliamentary Library Executive Summary

The Pre-Election Policy Unit (PEPU) in the Parliamentary Library was funded in the 2010-11 Federal Budget to “enhance the capacity of the Parliamentary Library to assist non-Government parties in developing policies in the lead-up to federal elections”.

The Library aimed to ensure that the PEPU provided services that would not otherwise be provided by the Library in its usual course of business. This objective was delivered successfully.

The main role clients perceived for the PEPU was to obtain costing and modelling of the impacts of proposed policies. Although they made little distinction between the PEPU and the Library, they did see the products delivered by PEPU as different to the kinds of information and analysis they normally received from the Library, and as an important and valuable aid to parliamentarians.

The Unit operated under principles approved by the Joint Standing Committee on the Parliamentary Library in June 2010. It provided assistance to Opposition, Green and independent parliamentarians.

There was a relatively small number of requests in the period between the establishment of the Unit in early July and the announcement of the election on 17 July, followed by the election itself on 21 August. Had the election been held late in 2010 or early in 2011 then the Unit would most likely have had a higher volume of requests for assistance in the intervening period.

The PEPU facilitated the provision of costing and economic modelling through use of external consultants. Clients put a high value on access to this external advice. The process for engagement of external consultants complied with procurement guidelines and was conducted efficiently. The Unit encouraged as much of a competitive bidding process among potential suppliers as was practical in the limited timeframe available. It was not an ideal process – exemption from open tendering under the Commonwealth Procurement Guidelines was required on grounds of urgency, and in the tight timetable involved some providers approached were unable to bid. A more open process for seeking expressions of interest from providers in provision of these services would have been preferable, but was not possible given the timetable for reports to be provided before the election.

As it was, there were some difficulties experienced with suppliers not being able to meet contracted deadlines, which meant that in some instances clients were not provided with the advice they sought within a timetable that they had been promised. The PEPU maintained close communications with clients about such delays, keeping them informed of progress.

More fundamentally, the overwhelming message from clients was that during an election campaign period is not when costing and modelling is most needed. Although the kind of advice provided by the PEPU was in principle highly valuable, in practice it was not as useful as it might have been, because of the election timing.

Key findings

The services provided by the PEPU have the potential to aid considerably in the development of sound and workable policies by non-government parliamentarians. However, the timing of the introduction of the PEPU shortly before an election meant that the potential of the PEPU was not fully realised in 2010.

There is an unmet need for a comparable service to be available to parliamentarians on an ongoing basis. This is likely to be overtaken by discussions on the proposed parliamentary budget office, which is outside the scope of this evaluation. Nevertheless many of the lessons for the future would be equally applicable to that new organisation.

In the event that resource constraints prevent establishment of an ongoing source of costing and modelling support, an earlier timetable for the provision of a PEPU service – 12 to 18 months prior to the last available date for calling of a Federal election – would be an improvement. This would require shifting the allocation of funding already shown in the forward estimates from the 2013-14 financial year to 2012-13.

Recommendations

1. 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.
2. Reflecting the iterative, interactive nature of policy development, this assistance should be available to parliamentarians on an ongoing basis.
3. In the event parliamentarians had access to costing and economic modelling on an ongoing basis, the funding provided to PEPU would not be anywhere near sufficient to meet demand. Either significant additional funding would be required or a strict rationing mechanism based on a notional division of funding in proportion to parties' representation in the parliament would need to be introduced.
4. A clear outline of the division of roles and responsibilities between the PEPU/PBO and the Parliamentary Library should be formulated and published. The underlying principle needs to be clarity in the separation of roles while still allowing coordination and exchanges of information.
5. A PEPU/PBO should have the capacity, subject to budget constraints, to publish reports on its own initiative on key economic and fiscal issues of general interest.
6. A list of consultants available to provide costing advice, economic modelling, fiscal policy advice and other related services should be selected through an open and competitive tender process.
7. Protocols and procedures for the operation of the PEPU/PBO should be drafted, circulated for consultation, and published.