

The Parliamentary Budget Officer's mandate

Introduction

- 5.1 This chapter canvasses views on the possible expansion of the Parliamentary Budget Officer's role to include:
- reporting of Government progress against a new set of fiscal rules, as recommended by the National Commission of Audit (NCA);
 - reporting against medium-term projections of the fiscal outlook beyond the forward estimates; and
 - an extension of the post-election report analysis of the election commitments of designated parliamentary parties to include medium term projections.

National Commission of Audit – Fiscal Rules

The NCA's recommendation

- 5.2 Under the *Charter of Budget Honesty 1998* each new Commonwealth Government is required to release a fiscal strategy at its first budget to inform future policy decisions.
- 5.3 The NCA was established by the Abbott Liberal-National coalition Government in October 2013 to:
- examine the scope and efficiency of the Commonwealth Government;
 - comment on the state of its finances; and
 - advise on steps to ensure Australia's long-term fiscal strategy is responsible and sustainable.

- 5.4 The NCA released its report in February 2014 and concluded that the high level fiscal strategy should have clear objectives and be based on principles of sound fiscal management and a sustainable medium term framework.¹ In order to achieve the high level strategy, the NCA also recommended that the Commonwealth adopt a set of fiscal rules.
- 5.5 The nature and scope of the fiscal rules recommended by the NCA is outside the scope of this inquiry. However, the NCA found that there is no extant official mechanism for reporting the government's progress against, and adherence to, fiscal strategy. Including such a mechanism would improve accountability and transparency of government's fiscal situation and direction.
- 5.6 In this regard, the NCA concluded that the Parliamentary Budget Office (PBO) could play a formal role in assessing fiscal policy and tracking the government's decisions against the fiscal rules. It recommended that the *Charter of Budget Honesty Act 1998* be amended to require the PBO to report progress against the government's medium-term fiscal strategy following the release of the Final Budget Outcome each year.²

Responses by other parties

- 5.7 In response, the PBO observed that the NCA's recommendation was consistent with international practice, with more than half of the IFIs having a mandate to monitor, assess and report on progress against fiscal rules. It is also consistent with empirical evidence that the effectiveness of fiscal rules is improved by their independent assessment by IFIs.
- 5.8 The PBO noted that any decision on whether to expand the PBO's mandate is a matter for the Government and, ultimately, the Parliament. The PBO maintained that if it is to monitor fiscal rules it should do so by relying on official economic forecasts and projections but prepare independent medium term fiscal projections.³
- 5.9 The Australian National Audit Office (ANAO) observed that of the seventeen IFIs in OECD countries, six have no role in monitoring compliance with fiscal rules (Australia, Canada, Korea, Mexico, the Netherlands and the United States).⁴ If fiscal rules are to be adopted the

1 National Commission of Audit Report, pp. 58-59.

2 National Commission of Audit Report, pp. 58-59.

3 PBO, *Submission 1*, p. 20.

4 ANAO Audit Report 36, 2013-14, 'Audit Report Summary' <<http://www.anao.gov.au/Publications/Audit-Reports/2013-2014/The-Administration-of-the-Parliamentary-Budget-Office/Audit-summary>> accessed 23 September 2014.

ANAO suggested the Government should report against its own progress.⁵

5.10 The Grattan Institute supported the NCA's recommendation and noted that it would be consistent with the role of many overseas IFIs. The Grattan Institute cited International Monetary Fund (IMF) reports that more than 75 per cent of the 'new generation' fiscal councils (i.e. post 2004) have an explicit role in monitoring fiscal policy rules and that the IMF nominates this function as one of the features of an effective fiscal council.⁶

5.11 Professor Miranda Stewart supported the existing arrangement and was critical of changes to the PBO's mandate. Professor Stewart argued that:

Fiscal rules are political in nature and cannot be enforced through legal or "independent" political mechanisms. A better approach is to establish guidelines, procedures and institutions that can educate, cost and publish fiscal policies and outcomes with a prudent and longer term framework and as transparently as possible. This is a reason why IFIs have become increasingly recommended in recent years, as it is recognised that institutional and procedural approaches are needed to ensure fiscal prudence. The Australian approach of a flexible and transparent fiscal framework is sensible. A risk is that the short-term timeframe of our political process will undermine medium and long term goals of fiscal sustainability. There is a role for the PBO in publicising the medium term consequences, not just immediate fiscal consequences, of policies.⁷

5.12 Senator Christine Milne, Leader of The Greens in the Parliament and The Greens party itself both made submissions to the inquiry but did not comment on this aspect of the PBO's operations.⁸ The Department of Finance similarly declined to comment in this issue,⁹ while Matthew Jensen from the Centre for Policy Development's submission implicitly rejected the concept of tighter fiscal rules.¹⁰

The Government's response

5.13 The Abbott Government has yet to respond to the NCA's recommendation on the adoption of fiscal rules, or the role of the Parliamentary Budget

5 ANAO, *Committee Hansard*, 28 August 2014, p. 7.

6 The Grattan Institute, *Submission 2*, p. 6.

7 Professor Miranda Stewart, *Submission 3*, p. 3.

8 Senator Christine Milne, *Submission 4*; and The Greens, *Submission 5*.

9 Department of Finance, *Submission 6*.

10 Mathew Jensen, Centre for Policy Development, *Submission 7*, p.7.

Officer in monitoring and reporting on Government adherence to fiscal strategy.

Reporting against medium-term projections

- 5.14 In its submission to the committee, the PBO made a number of observations about medium-term fiscal projections. First, the time period over which fiscal estimates are published has important implications for the ability of the parliament and the public to assess the sustainability of the budget as a whole, and the financial implications of policy proposals.¹¹
- 5.15 Australia's budget papers include detailed estimates of the components of revenue and expenditure over the so-called 'forward estimates' period - the current (budget) fiscal year and the following three years. This reflects an assumption that the ongoing financial implications of most measures adopted in the budget would reach maturity within that four-year period.¹²
- 5.16 The PBO noted that over time there have been a number of instances where the financial impact of policy measures is significantly different beyond the forward estimates period.¹³ The period covered by medium term projections is generally accepted to be ten years, and medium term fiscal projections have taken on a more prominent role.
- 5.17 The PBO observed, however, that while
- The increasingly prominent role of aggregate medium term fiscal projections has seen the level of detailed modelling underpinning medium-term fiscal projections increase over time. However there has not been a commensurate increase in the level of detail published. While projections of medium-term tax receipts are prepared by revenue head, only total receipts are published. Similarly, medium-term expenditure projections are based on modelling of major demographic spending areas and interest payments on Commonwealth Government Securities, but only total payments are published.¹⁴
- 5.18 The PBO concluded that the publication of detailed figures underpinning the aggregate medium-term fiscal projections would improve the

11 PBO, *Submission 1*, p.17.

12 PBO, *Submission 1*, p. 17.

13 PBO, *Submission 1*, p. 18.

14 PBO, *Submission 1*, p. 18.

transparency and accountability of the budget and ultimately contribute to achieving and maintaining fiscal sustainability.¹⁵

- 5.19 The PBO itself has been developing the technical capability to produce and assess detailed estimates of the medium-term fiscal position and expects to be publishing reports on the structural drivers of government expenditure over the medium term and the sensitivity of medium-term projections to economic shocks in the near future.¹⁶
- 5.20 Ideally, the PBO argued that the Government should expand its current medium-term projections in the annual budget papers to also publish the more detailed estimates of revenue and expenditure that underpin these projections. The PBO also argued that there would also be value in the budget papers providing commentary on the underlying drivers of revenue and expenditure over the medium term, including the key assumptions made in their derivation.¹⁷

Committee comment

Fiscal rules

- 5.21 With regard to fiscal rules, the existing practice is for governments to outline their fiscal strategy in the Budget Papers at the time of its first Budget. The current Abbott Government has not yet responded to the National Commission of Audit recommendation that Australia adopt more prescriptive fiscal rules to underpin the high level fiscal strategy. In the absence of a clear government policy on fiscal rules, the committee refrains from making a recommendation about the possible role, if any, that the PBO might play in that regard.
- 5.22 The committee endorses the view that PBO's purpose and role is both to increase transparency, and enable neutral analysis of the long term sustainability of government spending. PBO's corporate strategy includes a program of research and analysis as a means of investigating these broader issues, including the underlying methodologies.
- 5.23 In May 2013, the PBO published estimates of the Australian Government's Structural Budget Balance for the period 2001-02 to 2016-17.¹⁸ The PBO

15 PBO, *Submission 1*, p. 18.

16 Parliamentary Budget Office, *Submission 1*, p. 19.

17 Parliamentary Budget Office, *Submission 1*, p. 19.

18 Parliamentary Budget Office, 'Estimates of the structural budget balance of the Australian Government: 2001-02 to 2016-17', available at:

also plans to research and analyse the effectiveness of fiscal responsibility frameworks –including fiscal rules, and their effectiveness in supporting fiscal discipline’.¹⁹

Medium term projections

- 5.24 In relation to publishing medium term projections of the fiscal outlook, the committee acknowledges the PBO’s concern about the lack of detail provided in the Budget Papers and notes the PBO’s observation that this is primarily a government responsibility and should be a part of the Budget process.
- 5.25 The committee supports the PBO’s commitment to publish analysis on longer term issues and trends. In August, the PBO published *Projections of Government spending over the medium term*, which provides a detailed assessment of twenty-one programs that account for three-quarters of projected growth in spending over the medium term.²⁰ The paper is a welcome example of the high quality analysis that PBO can contribute to on the sustainability of spending over the medium term.²¹
- 5.26 The research program of the PBO for 2014-15 also includes:
- an analysis of the sensitivity of the budget estimates over the medium term to changes in key economic parameters; and
 - projections of Government revenue by major revenue head over the medium term and key economic drivers of these projections.²²
- 5.27 The committee agrees that more detailed medium term fiscal projections would make a valuable contribution to informed public debate and promote fiscal responsibility. The medium term projections should

<<http://www.aph.gov.au/~media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/Parliamentary%20Budget%20Office%20Structural%20Budget%20Balance.pdf>> accessed 24 September 2014.

19 Parliamentary Budget Office, ‘PBO Work Plan 2013-14’, available at: <<http://www.aph.gov.au/~media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/2013-14%20Work%20Plan/131218%20PBO%202013-14%20Work%20Plan.pdf>> accessed 24 September 2014.

20 *Projections of Government spending over the medium term*, Parliamentary Budget Officer, August, 2014.

21 Parliamentary Budget Office, ‘Projections of Government spending over the medium term’, available at: <http://www.aph.gov.au/~media/05%20About%20Parliament/54%20Parliamentary%20Depts/548%20Parliamentary%20Budget%20Office/Reports/02-2014%20Projections%20of%20Government%20spending%20over%20the%20medium%20term/Report%2002_2014%20Projections%20of%20Australian%20Government%20spending%20over%20the%20medium%20term.pdf> accessed 24 September 2014.

22 PBO, *Workplan 2014-15*, Commonwealth of Australia, 2014, p.3.

- include analysis that examines the sensitivity of major expenditure and revenue items to varying economic, fiscal and demographic factors.
- 5.28 The annual preparation and publication of medium term projections would fill a gap that currently exists by providing a link between the higher level fiscal strategy, the forward estimates and the longer term intergenerational reporting.
- 5.29 The committee believes this would a worthwhile and cost effective extension of the functions of the Parliamentary Budget Officer. However, it is important that the PBO is properly resourced to ensure that the professional standards of quality and timeliness established in the first two years of operation are maintained. Accordingly, there will need to be consideration of whether a small amount of additional dedicated resources are required.

Recommendation 7

- 5.30 **The committee recommends that the Parliamentary Budget Officer should prepare and publish medium term projections on an annual basis. The Government should bring forward the necessary amendment to section 64E of the *Parliamentary Service Act 1999* to include the annual preparation of medium term projections as a core function of the Parliamentary Budget Officer.**

The Parliamentary Budget Officer should be consulted, and if required, the Government should provide additional resources to enable the Parliamentary Budget Officer to carry out the new function.

Post-election report – medium term projections

- 5.31 During the caretaker period for a general election the Government, the Opposition and minor parties (with at least 5 members in the Parliament) may obtain a costing of their publicly announced election commitments from the Parliamentary Budget Officer or the Secretaries of the Treasury or the Department of Finance and Deregulation.²³ Other parliamentary parties or sitting independents seeking re-election may use the services of the Parliamentary Budget Officer for this purpose.

23 Requests for costings of an election commitment are made under either s.64J *Parliamentary Service Act 1999* or clause 29 Schedule 1 *Charter of Budget Honesty Act 1998*. The Secretary to the Treasury is responsible for costing policies affecting taxation revenue and taxation expenditure; while the Secretary of the Department of Finance and Deregulation is responsible for costing policies that affect outlays and expenses and non-taxation revenue.

- 5.32 There is no compulsion on any party or independent to announce or have their election commitments costed. However, costings of publicly announced election commitments are made public as part of promoting greater transparency during election campaigns.²⁴
- 5.33 As noted in chapter 4, in 2013 the role of the Parliamentary Budget Officer at election time was expanded to include the preparation of a post-election report.²⁵ Section 65MA (1)(a)(b) of the *Parliamentary Service Act 1999* requires that the post-election report sets out:
- the costings of all election commitments of each ‘designated parliamentary party’ the Parliamentary Budget Officer reasonably believes would have a material impact on the Commonwealth budget and fiscal estimates for the current financial year and the following 3 years;²⁶ and
 - the total combined impact of those election commitments on the Commonwealth budget and the fiscal estimates for the current financial year and the following 3 financial years.
- 5.34 The objective is to ensure the electorate is better informed about the budget implications of the election commitments of the Government, the Opposition and significant minor parties. Consequently, each ‘designated parliamentary party’ is legally required to submit a list of its publicly announced election commitments by 5 pm on polling day to the Parliamentary Budget Officer.²⁷ The Parliamentary Budget Officer has the discretion to include both the listed policies and those he or she has identified from public announcements made by the party before or during the caretaker period.²⁸
- 5.35 The post-election report includes the costings prepared by the Parliamentary Budget Officer under the provisions of the *Parliamentary*

24 Section 64L, 64LA *Parliamentary Service Act 1999*, clauses 31, 31A Schedule 1, *Charter of Budget Honesty Act 1998*.

25 Sections 64MA (1), 64MC (1) *Parliamentary Service Act 1999* requires the report to be published within 30 days of the end of the caretaker period

26 A ‘designated parliamentary party’ means a political party with at least five members who were members of the Parliament of the Commonwealth immediately before the caretaker period, as defined in section 7 of the *Parliamentary Service Act 1999*.

27 Section 64MA (3) *Parliamentary Service Act 1999*.

28 Sections 63MA (3)-(8) set out the requirements of the designated Parliamentary parties to submit a list of election commitments to the Parliamentary Budget Officer, and for the Parliamentary Budget Officer to provide an opportunity for those parties to comment on his or her final selection of policies for analysis.

Service Act 1999, and/or by the Secretary to the Treasury and the Secretary to Finance under the *Charter of Budget Honesty Act 1998*.²⁹

- 5.36 The Pre-Election Economic and Fiscal Outlook (PEFO) released by the Secretaries of Treasury and Finance within 10 days of the issue of a writ for a general election provide the baseline of the analysis.³⁰ The Parliamentary Budget Officer's costings are also prepared in accordance with the Charter of Budget Honesty Policy Costing Guidelines issued by the Secretary to the Treasury and the Secretary of Finance.³¹
- 5.37 During the public hearing, the question was raised whether medium term projections could be produced in relation to the policies of the non-government parliamentary parties. Although, it would be difficult to produce comparative projections during the parliamentary cycle, the Parliamentary Budget Officer agreed that at the time of the post-election report the PBO has virtually the same information from government and the main non-government parties about their election platforms.
- 5.38 The Parliamentary Budget Officer stated:

In the post-election report, we have in fact produced that analysis and aggregated the impact of election commitments on the budget for all of the major parties.

...

That analysis, as required by our legislation, is a partial analysis in the sense that we are not reviewing the entire budget but we are aggregating the impact of election commitments by these parties and their impact on the budget. Legislation requires us to do it over the budget and forward estimates but, in addition to that, we have identified in the report where there would be significant divergences from those estimates in the out years.³²

29 *Post-election report of election commitments: 2013 general election*, Commonwealth of Australia, 2013, p.2.

30 In performing the functions of the PBO, the Parliamentary Budget Officer must use the economic forecasts and parameter and fiscal estimates contained in the most recent report released under Part 5, 6 and 7 of Schedule 1 to the *Charter of Budget Honesty Act 1998*; the PEFO is prepared under Clause 22, Part 7, Schedule 1 *Charter of Budget Honesty Act 1998*.

31 Under section 64G the Parliamentary Budget Officer must prepare policy costings using approaches and costing conventions recommended in the most recent guidelines issued under the Charter of Budget Honesty. The Parliamentary Budget Officer may, with the agreement of the responsible Secretaries, publish his own written principles. No separate or alternative principles have been published by the Parliamentary Budget Officer, who is therefore required to follow The Policy Costing Guidelines issued under clause 30, Part 8, Schedule 1 of Charter of Budget Honesty Available at: <http://www.finance.gov.au/publications/charter-of-budget-honesty/>, accessed 3 November 2014.

32 Mr Phil Bowen, PSM FCPA, Parliamentary Budget Officer, *Committee Hansard*, 28 August, 2014, p.11.

- 5.39 This approach is consistent with the Policy Costing Guidelines, which state that:

Costing estimates will be provided for the current financial year plus the following three years. Where a revenue/expense cost is likely to be significantly different beyond this forward estimates period – for example, because the measure is not scheduled to commence or reach ‘maturity’ until after the forward estimates period – it may be necessary to include a statement about the financial impact of the policy in the relevant years beyond the forward estimates. For instance, where a measure is terminating after the four forward estimates years (for example, after a 10 year period), the Secretaries will endeavour to provide their best estimate of the cost of the policy in the relevant years beyond the forward estimates.³³

Committee comment

- 5.40 The budget impacts of policies are often not felt until beyond the forward estimates and it is important therefore that, wherever possible, the more detailed analysis of the longer term implications of policies is available.
- 5.41 Under the existing Policy Costing Guideline, the statements on the longer term impacts of election commitments are a valuable addition to the analysis of budget impacts over the forward estimates. However, these statements are general in nature.
- 5.42 While it is not practicable to broaden the scope of the proposed annual medium term projection to include a comparison between the major parties, there is one point in the electoral cycle when the Parliamentary Budget Officer has access to reasonably equivalent information to form the basis of those projections. We consider that, where possible, medium term projections can provide a more complete picture of the real impacts of election commitments and promote fiscal responsibility across the political spectrum.
- 5.43 The *Parliamentary Service Act 1999* already requires ‘designated parliamentary parties’ to provide a list of publically announced policies to the Parliamentary Budget Officer by 5 pm on polling day. Some further consideration about the timing and detail of information provided to the Parliamentary Budget Officer may be necessary, to ensure he or she has all the relevant information on which to base the analysis of the longer term impact of election commitments.

33 *Charter of Budget Honesty: Policy Costing Guidelines*, Commonwealth of Australia, 2012, p.12.

Recommendation 8

5.44 **The committee recommends that the Government bring forward amendments to the *Parliamentary Service Act 1999*, to extend the analysis in the post-election report beyond the period of 4 years (current financial year and 3 year forward estimates) to include, where possible, 10 year medium term projections of the budget impact of the election commitments of the designated parliamentary parties.**

The committee recommends that the Government consult the Parliamentary Budget Officer about the timing and detail of the information required on which to base the analysis.

Conclusion

5.45 The PBO has quickly established itself as credible and expert source of information and analysis, but this does not mean its roles and responsibilities are permanently fixed. Several comparable institutions overseas perform a range of additional roles, including monitoring the fiscal performance of government. Whether it is appropriate for the mandate of the Parliamentary Budget Officer to be expanded to report against the government adherence to fiscal rules would require more detailed examination if and when Australia adopts fiscal rules.

5.46 Over time the self-initiated research program will provide deeper analysis on a range of issues including fiscal frameworks, and medium term projections. However, the preparation of independent medium term projections would fill an existing and significant gap in the framework of analysis and encourage informed debate and fiscal responsibility. The committee has concluded therefore that the mandate of the Parliamentary Budget Officer should be expanded to include the annual preparation of detailed medium term projections, which include sensitivity analysis.

5.47 The post-election report also affords an opportunity to provide medium term projections of the budget impact of the election commitments of the designated parliamentary parties. This extension of the post-election report will more fully inform the public debate on the financial implications of the electoral platforms of the main parties.

5.48 The committee has also made six recommendations in relation to access to information. These issues are explored in detail in chapter 4.

5.49 There is scope for strengthening the legal authority of Parliamentary Budget Officer by amending the *Parliamentary Service Act 1999* to include a

statutory right of access to information, and an obligation for Heads of Agencies to provide all relevant information in a timely manner and free of charge to the PBO.

- 5.50 The tightening of the legal framework would underpin the MoU and codify existing practice into law without imposing further burdens on Executive agencies. The MoU was negotiated in good faith and with the intention of fostering speedy, informal and efficient cooperative relationships. That approach should be maintained and has benefits to both parties. The committee also encourages Executive agencies to adopt standing agreements that provide routine updates of information. This will build PBO's capacity and reduce the number of information requests.
- 5.51 Importantly, the MoU contains reasonable timeframes designed to enable the PBO to respond in a timely way to the requests of parliamentarians. The committee reminds all Executive Agencies that the Commonwealth has an obligation to fulfil its responsibilities under the MoU and Part 7 Division 2 of the *Parliamentary Service Act 1999*, which are now part of the governance arrangements of the Commonwealth. The Government should reiterate its commitment to the MoU and ensure that Commonwealth bodies respond to requests from the Parliamentary Budget Officer within the agreed time frames.
- 5.52 The committee has also recommended that the PBO have access to the detail of individual components of the Contingency Reserve; and, access to information and data held by third parties where an agency has outsourced policy costing and budget estimates work.
- 5.53 The Commonwealth should also review the statute book and remove legislative barriers to maximise the release of data to PBO. The policy of releasing information and data to the Parliamentary Budget Officer should also be reflected in the Legislation Handbook.
- 5.54 Finally, the PBO is a permanent and indispensable part of the architecture of good government, contributing to transparency and accountability in fiscal policy, policy costings and the budget. It is making information and analysis available to all parliamentarians and strengthening informed public debate. The committee will continue to monitor and support the PBO as it consolidates its operations, practice and procedures and evolves to meet the expectations of the Parliament and the public.

Dr Andrew Southcott MP
Chair