



Parliament of Australia
Parliamentary Budget Office

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Senator Dean Smith
Committee Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Senator Smith

I am pleased to report on the Parliamentary Budget Office's (PBO) implementation of the recommendations of the 2016-17 independent review of the PBO (the Review).

The Review judged the establishment of the PBO as having been a successful institutional development in Australia and reported that the PBO is widely regarded as an independent and non-partisan organisation that produces rigorous analysis relevant to the public policy debate. It provided 16 recommendations to further improve the operational effectiveness of the PBO, and we agreed with all of the recommendations.

The Review's recommendations focussed on four main themes: improving transparency around internal processes and procedures; increasing external engagement and consultation; enhancing evaluation and feedback mechanisms; and increasing the focus of the research and publication program on medium-term fiscal issues.

The recommendations to improve transparency around internal processes and procedures identified the importance of an organisation like the PBO being open about both what it does and how it goes about its work. We have responded to these recommendations by publishing a range of information papers and making this information available on our website. One of these papers provides detail around PBO costing processes and timeframes, and outlines our prioritisation framework to ensure that we are open with parliamentarians about how we allocate our resources between competing priorities. The other three papers aim to clearly and accessibly explain some conceptual issues such as what a policy costing is, factors that influence the reliability of policy costings, and how broader economic effects are captured in policy costings. The aim of these information papers is to better inform both parliamentarians and the public more generally about the costing advice we provide.

The Review considered that the PBO could improve the quality and relevance of its work by increasing its external engagement and consultation. In response to these recommendations we have established a panel of expert advisors to help ensure our work is of the highest analytical quality, and to assist with the development and evaluation of our work program and methodologies. Many of the

external panel members have already been consulted on specific methodological issues or research projects and, in June, we will hold the first annual meeting of the panel. The annual panel meetings will be used to garner feedback on our publications over the preceding year and consult on our work program for the forthcoming year.

We have also established arrangements to more regularly engage with Commonwealth agencies to ensure appropriate information sharing and collaboration on the development of models, and we have expanded our secondment program. The secondments will further build the capability of our staff and assist us in managing surges in demand around election periods.

The third set of recommendations from the Review related to enhancing our evaluation and feedback mechanisms to ensure we are continuously improving our operations and ensuring their relevance. We have now established an evaluation methodology and program to help identify areas for improvement in future costings and we have also implemented technological changes to improve our internal costing and workflow processes. In addition to receiving feedback from the expert panel, the PBO has engaged more directly with parliamentary committees on our work plan, with this engagement now embedded in our annual work planning processes. In February, we conducted a stakeholder survey to obtain feedback on our performance. We are also embedding mechanisms in our annual performance processes to obtain stakeholder feedback on a more regular basis through a range of different channels.

The Review recommended that the PBO's publication and research program increasingly focus on issues that relate to medium-term fiscal sustainability issues. The PBO's research program has continued to evolve and we have increasingly invested in capability to analyse the policy and structural drivers of changes that affect medium-term developments in individual payments programs and major areas of receipts. This analysis has enabled the PBO publications to highlight trends in, and risks to, fiscal sustainability. In addition, we have agreed that the next post-election report of election commitments will include a medium-term assessment of the fiscal impact of the election commitments of the major parties and we will be providing guidance material to parliamentary parties in respect of the implementation of this new approach before the next election period. In preparation for this work, the PBO amended its costing processes, from April 2017, to provide medium-term assessments of the fiscal cost of all policy proposals.

The specific actions we have taken to address each Review recommendation is attached for the Committee's information. All but one of these recommendations have now been addressed and, where relevant, incorporated in adjustments to business-as-usual processes and activities. The only exception is Recommendation 12 which relates to the timing of the publication of the post-election report. This is a recommendation that requires legislative amendment and, while we support this recommendation, its progression is a matter for Government.

My senior officers and I would be happy to discuss any aspect of this report with the Committee at its convenience.

I have provided a copy of this report to the Presiding Officers for their information.

Yours sincerely



Jenny Wilkinson

30 April 2018

Parliamentary Budget Office Review 2016–17

Recommendations from the report of the independent review panel

No.	Description	Action
1	<p>The PBO should replace the reliability rating in its costing response documents with a statement on the factors that can affect the uncertainty of that type of policy costing. The PBO's costing response documents should expand existing qualitative comments on reliability to highlight particularly uncertain elements of the specific policy when that is appropriate.</p>	<p>Since 31 March 2017, the PBO has replaced the single word reliability rating in its costing response documents with a more detailed qualitative statement on the factors that affect the uncertainty of a costing. This has enabled the PBO to highlight the source and degree of uncertainty associated with any particular costing. On 13 September 2017, the PBO published an information paper – <i>Factors influencing the reliability of policy proposal costings</i>. The paper is designed to raise awareness of the factors influencing uncertainty in costings and how the PBO deals with them.</p>
2	<p>The PBO should further develop and publish principles and processes to help set priorities in relation to requests from parliamentarians for costings and budget analysis, having regard to:</p> <ul style="list-style-type: none">• the relevance of the request to matters expected to be before the Parliament• the level of representation of the requesting political party in Parliament• the level of priority given to the request by the parliamentarian's political party and/or the parliamentarian, and• the level of resources required to complete the request.	<p>In late 2017, the PBO consulted with stakeholders on its approach to the prioritisation of requests from parliamentarians. On 15 February 2018, the PBO published an information paper - <i>PBO costing processes, timeframes and prioritisation framework</i>. This paper provides information on the details of the costing and budget analysis process, the factors that affect the time it takes for the PBO to respond to parliamentarian requests, and the framework that the PBO applies to prioritise competing demands for costing and budget analysis resources. The purpose of this paper is to provide additional transparency around the factors that affect how the PBO deploys its analytical resources.</p>

No.	Description	Action
3	<p>The PBO should take action within its resource constraints to improve the quality and timeliness of its responses to parliamentarians' requests for policy costings in peak periods, including:</p> <ul style="list-style-type: none"> entering into secondment arrangements, including reciprocal arrangements, with Government Departments and Agencies, and exploring other mechanisms, such as using technology to streamline the costing process, and increasing collaboration with Government Departments and Agencies on model development. 	<p>The PBO is acutely aware of the value that parliamentarians place on high quality and timely responses to their requests for advice and is continuously enhancing its processes to improve our responsiveness given our available resources.</p> <p>The PBO introduced an electronic workflow management and data analysis system in mid-2016 to streamline the monitoring and management of costing requests, and is in the process of implementing enhancements to this system following an internal review of its performance.</p> <p>The PBO has also been working effectively with a number of Commonwealth agencies to improve the timeliness of its access to updated information and models following economic updates. As part of this work, the PBO has entered into, and expanded, standing arrangements with a number of agencies for the provision of information as soon as practicable following the publication of an updated economic and fiscal outlook.</p> <p>In a number of instances, having ready access to this information positions the PBO to be in a ready state to respond to requests rather than having to first ask for information from an agency. These initiatives also reduce the burden the PBO places on agencies for the provision of information and will facilitate greater opportunities for collaboration on modelling methodology.</p> <p>The PBO has also agreed arrangements with a number of agencies to establish remote access to data and model warehouses held by agencies that hold some of the key microdata sets used for costings and analyses. These arrangements expand the information that can be efficiently analysed and used in responses to parliamentarian requests, without placing additional burdens on agencies.</p> <p>The PBO is aware that there are benefits for the PBO and for Commonwealth agencies in establishing ongoing secondment arrangements. These build capability in the PBO and agencies, and expand the pool of potential candidates that the PBO can draw upon during election periods when surge capacity is required. Three secondments have been established in 2017–18 and our intention is to have a similar ongoing level of secondments into the future.</p>
4	<p>The PBO should establish a small, independent, expert advisory panel that it could consult on cross-cutting issues associated with policy costings and fiscal analysis. This advisory panel would not be provided with information on confidential costings of parliamentarians and would have no direct role in their preparation and provision.</p>	<p>The PBO established a panel of expert advisors in late 2017. The inaugural panel consists of seven people with significant experience and expertise in economic analysis, fiscal policy matters and public finance. The PBO is engaging with all panel members in seeking broad advice on our research program, and specific technical advice on policy issues and the development of costings models. The first annual gathering of all panel members is scheduled for early June 2018 to discuss and seek feedback on the scope, quality and effectiveness of the PBO's work program and operations.</p>

No.	Description	Action
5	<p>The PBO should ensure that the JCPAA is provided with sufficient data to allow it to regularly monitor the provision of information to the PBO through the Memorandum of Understanding.</p>	<p>The PBO issues a comprehensive activity report three times a year, in addition to its reporting through the annual report. This activity report provides information on the level and demand for PBO services and on our responsiveness.</p> <p>An important element of this report relates to the level and timeliness of the provision of information from Commonwealth agencies to the PBO in response to specific information requests that are issued to these agencies, and standing information requests that have been agreed with agencies. The provision of this information in a timely manner is critical to the response time that the PBO can provide to parliamentarians. The provision of information is governed by a Memorandum of Understanding agreed by the Secretaries of the Department of the Treasury and the Department of Finance, and Protocols agreed by the Prime Minister, the Treasurer and the Minister for Finance.</p> <p>The PBO provides its activity report to the JCPAA secretariat at the same time the report is published and provided to the Estimates Committee secretariat, and has made an open offer to the JCPAA to provide a briefing on the PBO's performance, publications and activities at any time.</p>
6	<p>The PBO should continue to work collaboratively with Government Departments and Agencies on information requests and model development, consistent with maintaining the confidentiality of parliamentarians' policy proposals. The PBO should ensure that it includes sufficient context to enable the provision of the most appropriate information in response.</p>	<p>Over time, the PBO has increasingly built effective, collaborative relationships with Commonwealth agencies to ensure that information requests are efficiently responded to and model developments are shared.</p> <p>Following engagements between the PBO and agencies, the PBO is increasingly obtaining information used in costings and analyses under standing request arrangements. These arrangements see agencies automatically providing information to the PBO following release events such as the publication of an updated economic and fiscal outlook, the availability of end-of-year data or the update of key models.</p> <p>As noted in Recommendation 3, the PBO has also collaborated with some agencies to secure remote access to data and model warehouses.</p> <p>In addition to the ongoing engagements between staff in the PBO and in Commonwealth agencies, the PBO has established a new quarterly forum to support a more strategic discussion about how information sharing arrangements with Commonwealth agencies can continue to be enhanced.</p>

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7	<p>The PBO should periodically conduct an ex-post analysis of a limited selection of its policy costing estimates, to help identify areas for improvement in future costings, and report the results to the JCPAA.</p>	<p>The PBO has an ongoing process of refining key models and costing approaches. Every time a new costing is received, the PBO considers whether there is an existing model that is suitable to be used or whether a new model needs to be developed. Where an existing model is available, we carefully examine whether any improvements to the model or approach should be adopted, for example on account of new data or information that is available.</p> <p>The PBO has also established an ongoing process for the formal evaluation of a selection of completed costings. These evaluations may include consulting with relevant agencies, external stakeholders or members of the expert panel. One evaluation has been conducted and is in the process of being finalised. Other evaluations are in the information gathering or consultation stages. To date, evaluations have focussed on publicly released costings, which allows for more detailed conversations with parties external to the PBO.</p>
8	<p>To improve the relevance of its self-initiated work, the PBO should:</p> <ul style="list-style-type: none"> • develop deeper and broader consultation with the JCPAA and other parliamentary committees • align more closely its self-initiated work with, and help build the capacity of, PBO costing work, and • consider a possible evolution of its self-initiated work program by: <ul style="list-style-type: none"> – expanding its existing focus on medium-term fiscal sustainability issues – building its capacity to analyse underlying drivers of the budget over the longer term, including, but not limited to, demographic analysis, and – ensuring it has the capacity to further develop its longer-term analytic ability to allow consideration to be given to transferring responsibility for the next Intergenerational Report (scheduled for 2020) to the PBO. 	<p>The PBO is conscious of the need to ensure that its self-initiated work program is relevant and valued, and will be using a range of metrics (including drawing from the stakeholder survey) to report on this element of our performance in the annual report.</p> <p>In preparing the <i>Parliamentary Budget Office work plan 2017–18</i>, the PBO consulted with a range of Senate and House of Representatives committees to seek their comments on the proposed research program. This consultation process has been embedded in the PBO’s annual work planning processes.</p> <p>The PBO will also be consulting with members of the expert panel in the development of its forthcoming work program.</p> <p>The PBO’s self-initiated work program is focussed around analysis that improves and informs our assessment of the medium-term trends and pressures facing Australia’s fiscal position. This involves building an understanding of the underlying drivers of the Budget, including historic factors and future demographic changes, and improving models to project the medium-term developments in key revenue and expenditure areas. Given that costing advice now covers a 10-year horizon on a regular basis, the integration between our medium-term analysis work and our costing capability has been enhanced.</p>

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9	The PBO should more fully explain the methodology underlying the policy costing process, including in a non-technical fashion.	As an advocate for transparency, the PBO is supportive of releasing information to improve an understanding of the costing services that we provide. On 30 November 2017 the PBO published two information papers – <i>What is a Parliamentary Budget Office costing?</i> and <i>Including broader economic effects in policy costings</i> – which aim to explain the concepts involved in estimating the fiscal cost of a policy proposal. On 13 September 2017 the PBO published an information paper – <i>Factors influencing the reliability of policy proposal costings</i> – to explain the sources of uncertainty that affect a costing and how we address these in our costing advice. We have endeavoured to draft all of these papers for a non-technical audience, including hierarchies of information to suit the different audiences for these papers.
10	The PBO should publish regular data on the number of policy announcements made with reference to PBO costings, and whether or not, and when, the underlying PBO costing response document was released by the party or parliamentarian concerned.	<p>The PBO activity report, which is published three times a year, has been expanded to include a summary of all costings that have been publicly released by parliamentarians. This information will also be presented in the annual report.</p> <p>The PBO publishes on its website all costing minutes published in full by parliamentarians for whom the costings have been prepared.</p> <p>On 11 August 2017 the PBO published guidance to parliamentarians to outline the operation of this new policy, see <i>Guidance: 02/2017 - PBO publication of responses that have been publicly released by parliamentarians</i>.</p>
11	<p>The Post-election Report of election commitments should include the financial impact over the medium term (in addition to the forward estimates period) of:</p> <ul style="list-style-type: none"> • the top ten policy proposals by dollar value • any proposal with an impact of over \$1 billion in a year • proposals with a materially different impact beyond the forward estimates, and • the overall election platform for each political party. 	<p>The PBO intends to implement this recommendation in the next post-election report. This will increase transparency around the medium-term impact of the election commitments of major parties, and will be valuable given that a range of policy commitments and election commitments are likely to have a significant effect beyond the forward estimates.</p> <p>Implementation of this recommendation will require all election commitments to be costed over the medium term, a requirement that has been in place for all PBO costings since April 2017.</p> <p>Guidance will be released before the end of 2017–18 on the approach the PBO intends to adopt in the post-election report, including the implications for broad policy commitments such as announced caps on taxation as a proportion of Gross Domestic Product.</p>
12	The timing of the publication of the Post-election Report of election commitments should be delayed to the later of the first sitting day of Parliament following a general election or 30 days after the return of the writs from a general election.	The PBO supports this recommendation because the later timeframe would allow the post-election report to be released nearer to, or at, the resumption of Parliament, and better accommodate the additional work required to cost election commitments over the medium term. Implementation of this recommendation, however, would require a legislative amendment to the <i>Parliamentary Service Act 1999</i> , so its progression is a matter for Government.

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13	<p>The PBO should provide parliamentary political parties with fewer than five Members or Senators the option to have the financial impact of their election commitments included in the PBO's Post-election Report of election commitments.</p>	<p>The inclusion of additional parties in the post-election report would provide transparency around the fiscal impacts of smaller party election commitments. This could be a very resource intensive task and the ability of the PBO to complete it within tight timeframes would depend heavily on the extent of earlier engagement the PBO has had with the relevant parties, and the detail and breadth of their election commitments.</p> <p>A number of factors require consideration in designing arrangements to allow non-designated parliamentary parties to opt in to the post-election report. To set out some of these factors and to gather feedback on the implementation of this recommendation, the PBO released a consultation paper on 5 March 2018. The consultation paper provided information on the process for preparing the post-election report and set out some of the considerations in allowing small parties to opt in to the report. These considerations balance the benefits of providing transparency around the financial impact of parties' election commitments with the practicality and resource implications of the task.</p> <p>On 27 April 2018, the PBO published guidance to parliamentarians to outline how these new arrangements will be implemented, see <i>Guidance 01/2018 – Allowing minor parties to opt in to the PBO's post-election report of election commitments</i>.</p>
14	<p>The PBO should consider the value of continuing to publish the chart pack following each fiscal update.</p>	<p>Chart packs, which are released by the PBO after each Budget, seek to add to the transparency of the Budget by presenting key budget information in a readily accessible form. They provide a visual summary of the key drivers of the change in budget estimates between Budget updates. The PBO has refined its chart packs over time. Rather than examining all major heads of revenue and payment programs, the chart pack has more recently focussed on the areas which explain the significant changes between Budget updates.</p> <p>In the recent stakeholder survey, 93 per cent of respondents to questions about the chart pack indicated they were interested in, aware of, or had read, the most recent chart pack, suggesting there is value in continuing to publish it.</p> <p>The PBO plans to continue to release a chart pack after each annual Budget update, with a focus on providing an accessible and concise overview of the Budget and identification of the significant changes that have been incorporated.</p>

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15	<p>The PBO should ensure that the JCPAA is regularly provided with sufficient information on the PBO's workload, resource requirements and efficiency, to enable the JCPAA to monitor their impact on the level and timeliness of the PBO's outputs.</p>	<p>The PBO has regular, ongoing correspondence with the JCPAA regarding the PBO's resource requirements, workload and efficiency. The PBO has an open offer to the JCPAA to provide a briefing on the PBO's performance, publications and activities at any time.</p> <p>As noted in the actions on Recommendation 5, the PBO provides the JCPAA with a comprehensive activity report three times a year. This report includes information on the level of demand for our services, and the information provided to the PBO from Commonwealth agencies.</p> <p>In addition to this, the PBO will continue to engage with the JCPAA on PBO resourcing in advance of the Budget each year.</p>
16	<p>The PBO should conduct a survey once in each term of Parliament to get feedback on its performance from its stakeholders.</p>	<p>The PBO welcomes ongoing feedback on its publications and services to ensure we are continuously improving the way we work, and seeks this as part of our regular engagements with stakeholders.</p> <p>The PBO conducted a stakeholder survey during February and March 2018. Results of the survey will be included in the PBO's activity report in May 2018 and the annual report.</p> <p>In addition, we are looking at ways to gather more regular feedback through a range of channels to enhance reporting on the PBO's performance as part of the annual performance statement in the annual report. This will include capturing information on the relevance of our services and publications as measured by mentions in Parliament and the media.</p> <p>We will also be seeking feedback from members of the recently established panel of expert advisors on our performance in enhancing transparency around, and public understanding of, the Budget and fiscal policy issues.</p>