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Submission to the Western Australia Standing Committee on Estimates and Financial Operations

Inquiry into the establishment of a Parliamentary Budget Office



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Introduction

- 1 Independent fiscal institutions are independent public institutions with a mandate to critically assess and provide non-partisan advice on fiscal policy issues. While fiscal decision making is ultimately the responsibility of democratically elected officials, these institutions serve—often in combination with fiscal rules—to promote sound fiscal policy and sustainable public finances.¹

¹ L von Trapp and S Nicol, *Designing effective independent fiscal institutions*, OECD, p1.

- 2 Over the past decade, the number of independent fiscal institutions at a national level around the world has increased considerably. In 1990 there were six in place and now there are around 40. These include the Congressional Budget Office (USA), the Office of Budget Responsibility (UK), the Netherlands Bureau for Economic Policy Analysis and the Canadian Parliamentary Budget Office, as well as a large number of fiscal councils and parliamentary budget offices across Europe and in other countries.
- 3 Some of these independent fiscal institutions have a primary responsibility to monitor compliance with the government’s fiscal rules. Some assess the government’s macroeconomic and/or fiscal forecasts. Some are responsible for setting the macroeconomic forecasts themselves. Some have a role in independently assessing the fiscal cost of policy proposals. They have widely varying budgets and staffing profiles.²
- 4 There is no “one size fits all” model for these institutions—they each reflect individual country circumstances and contexts—however there are some common elements in their design. Almost all of them are:
 - explicitly independent of government, and non-partisan
 - charged with increasing transparency around fiscal issues
 - expected to increase the focus on fiscal sustainability in both the short and medium term.
- 5 This means that they independently analyse and release research on fiscal and budgetary issues, operate openly and transparently, and, through this work, contribute to important fiscal debates which are relevant to the welfare of current and future generations.
- 6 Independent fiscal institutions generally, including the Australian Parliamentary Budget Office (PBO), have contributed to an increased focus on fiscal issues and have improved the transparency of the debate around fiscal matters. The PBO has achieved this by supporting parties to fully cost their policy proposals and by publishing independent research on budget and fiscal policy matters.
- 7 In our view, the PBO’s success can be attributed to a range of factors which are discussed in more detail below. These include:
 - independence and transparency in how we operate
 - confidentiality of the requests made to us, our responses and the information we hold
 - cooperative relationships with government agencies and access to information
 - adequate funding, including in election years, to ensure we can meet the demand for our services and conduct research
 - independent reviews providing opportunities to improve the efficiency and effectiveness of our operations.

² See OECD Independent Fiscal Institutions Database, 2019 <http://www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx>.

Australian Parliamentary Budget Office

- 8 The Australian PBO was established in 2012. It is an independent and non-partisan institution of the Australian Parliament.
- 9 The PBO's purpose, independence, confidentiality, accountability and oversight arrangements are set out in the *Parliamentary Service Act 1999*. The PBO's access to information from government agencies is governed by the *Australian Government Protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer* (the Protocols), and the *Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents* (the MoU).³

Purpose

- 10 The purpose of the PBO is articulated in section 64B of the Parliamentary Service Act and comprises three main elements, which are to:
 - enable fiscal impacts to be considered during policy development by providing policy costing and budget analysis services to all parliamentarians
 - improve public understanding of budget and fiscal policy issues by conducting and publishing research in these areas
 - enhance transparency around election commitments by preparing a post-election report on the budget impacts of the election commitments of parliamentary parties.

Functions

- 11 The PBO has three core functions: policy costings, research, and reporting on election commitments.
- 12 More specifically, the PBO:
 - provides all parliamentarians with access to advice on the financial implications of their policy proposals, based on the policy specifications they provide. Outside of the caretaker period for an election, parliamentarians may submit requests for policy costings on a confidential basis, in which case both the request and our response are kept in confidence.
 - provides parliamentarians with access to information relating to the budget. This can include information such as expenditure on particular programs and more detailed disaggregated information (where available) on specific budget measures.
 - responds to requests for assistance from parliamentary committees on issues that fall within its mandate.

³ Available at:

https://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Guidance_for_Commonwealth_Agencies

- publishes research which focusses on the fiscal sustainability of the Australian Government budget, particularly over the medium term (ie 10 years). The PBO also seeks, through its publications, to improve budget transparency and promote a better public understanding of the budget and fiscal policy settings.
- publishes a report after each federal election that presents the budget impacts of each of the election commitments of the major parliamentary parties, including their aggregate impact on the fiscal position. This report includes estimates of impacts over the medium term.

Resourcing

- 13 The PBO's annual budget is approximately \$9 million with additional funding of \$0.5 million in election years.
- 14 The PBO employs around 42 full-time equivalent staff on an ongoing basis. This has temporarily increased to around 55 staff, through secondment arrangements with other agencies, in the lead up to the 2019 federal election.
- 15 Approximately two thirds of the PBO staff are allocated to the preparation of costings and budget analysis as this is the most resource-intensive function. Resources for this function are augmented in the lead up to a federal election to meet the increased demand for these services.
- 16 Approximately one quarter of our staff contribute to the published research program and related activities. During and immediately after a caretaker period, these staff assist with costings and the preparation of the post-election report.
- 17 A small team of staff is dedicated to managing corporate service delivery and compliance functions, including outsourced payroll, financial transactions and ICT services.

Costing role

- 18 Our costing role stands the PBO apart from many other independent fiscal institutions. In our view, the provision of this costing function has made a constructive contribution to the policy debate.
- 19 There has been a very high demand from parliamentarians for our costing and budget analysis services—across all political parties—particularly in the year leading up to a federal election. In 2017–18, for example, the PBO responded to over 1,500 requests for costings or budget analysis. In 2015–16, the year preceding the last federal election, the PBO responded to over 3,200 requests.⁴
- 20 While it was initially expected that demand for these services would be focussed around election periods, our experience has been that there is an ongoing, strong level of demand throughout the parliamentary term. This demonstrates that the establishment of the PBO has effectively supported an ongoing policy development process within opposition parties, rather than leaving much of this activity to election campaigns. The PBO is also increasingly being used during parliamentary debates on significant pieces of legislation, to assist parliamentarians

⁴ *Parliamentary Budget Office Annual Report 2017–18*, p47.

understand the fiscal implications of the legislation, and potential amendments that are being considered.

- 21 In February 2018 we released an information paper to provide additional transparency on the framework we apply to prioritise competing demands for costing resources.⁵ We also enhanced our prioritisation processes by establishing more regular consultation with parliamentarians about the progress of their requests and their priorities. This ensured that we focussed our efforts on the requests most urgent to each parliamentarian, particularly during periods of heightened demand for policy costings.
- 22 The fact that we are available to provide these services has had a number of implications.
 - It has established a new norm that the fiscal implications of policy proposals are considered as part of the policy development process.
 - It has assisted parties develop well-specified policies, as a policy has to be well-specified in order to be costed.
 - It has provided access to advice to smaller parties, independent parliamentarians and backbenchers who may have had difficulty in accessing this type of advice in the past due to a lower level of resourcing and networks.
 - It has provided more transparency around existing government programs and the roll out of these programs.
 - It has encouraged more focus on the medium-term fiscal implications of policy proposals—since April 2017 every costing we have completed has provided an estimate of the cost of the proposed policy over the next 10 years.
 - Overall, it has largely removed debate around the veracity or otherwise of the fiscal costs of policy proposals, enabling debate to focus on the merits of the policy proposals themselves.
- 23 Our view is that, by providing this function, the PBO has contributed to an improvement in the quality of the public policy debate and has ensured that fiscal implications are given appropriate attention in these debates.
- 24 It has also improved public participation in the Commonwealth budget and parliamentary processes because it has provided the tools for all parliamentarians, as representatives of the people in their electorate, to engage in the policy debate. It is not unusual for the PBO to cost a policy for a parliamentarian who is exploring a matter that one of their constituents has raised directly with them.

⁵ Parliamentary Budget Office, Information paper 01/2018, *PBO costing processes, timeframes and prioritisation framework*, 2018.

Access to information and engagement with agencies

- 25 Timely access to data and costing models has been essential to enable the PBO to perform its functions. The Parliamentary Service Act does not provide the PBO with a legislative right to obtain information from government agencies other than during the caretaker period,⁶ however the Parliamentary Budget Officer is provided the authority to enter into an agreement with Commonwealth bodies covering the provision of information and documents⁷.
- 26 Access to information from government agencies is governed by the Protocols and the MoU.
- 27 The Protocols, signed by the Prime Minister, the Treasurer and the Minister for Finance, provide a broad statement of the Government's intent to support the PBO in the performance of its functions and outline the expectations for how government agency staff should engage with the PBO. The Protocols emphasise that there should be an open exchange of views and information between agencies and the PBO, to ensure a high level of consistency and transparency.
- 28 As the Parliamentary Service Act allows the Parliamentary Budget Officer to provide confidential advice to parliamentarians, the Protocols support this arrangement. To ensure the confidentiality of requests, the Protocols set out requirements that Ministers and their staff must not ask about, and Commonwealth agency heads must not disclose, details of agencies' specific dealings with the PBO.⁸
- 29 The MoU between the Parliamentary Budget Officer and the Heads of Treasury, Finance and 22 other agencies is consistent with the Protocols. It describes the roles and responsibilities of parties, the process for requesting and providing information, avenues of communication and dispute resolution. It allows for confidential information to be provided to the PBO subject to caveats preventing its release to a third party.
- 30 The MoU sets out a commitment to a pro-disclosure approach. Agencies are encouraged to ensure that all reasonable efforts are made to respond to requests from the PBO in a timely manner, that information provided is current as at the latest fiscal update, and that agency staff are accessible and available to discuss information that has been provided.
- 31 At a minimum, agencies are expected to provide sufficient relevant information that would be made available if a formal request was made under the *Freedom of Information Act 1982* (FOI Act). Information provided under the MoU is exempt from release under the FOI Act to support the PBO provision of confidential advice.⁹
- 32 In addition, to ensure the PBO can effectively cost tax proposals, the *Taxation Administration Act 1953* was amended to give the PBO the same access as The Treasury to confidential de-identified taxpayer unit record data to use in the costing of taxation proposals.

⁶ *Parliamentary Service Act 1999*, ss64KA and 64MB.

⁷ *Parliamentary Service Act 1999*, s64F.

⁸ *Australian Government Protocols governing the engagement between Commonwealth Bodies and the Parliamentary Budget Officer*, released 15 January 2014, Canberra.

⁹ *Freedom of Information Act 1982*, s45A.

- 33 The PBO has put in place arrangements with a number of agencies for the regular provision of information to the PBO after each fiscal update, and obtained access to some agency data warehouses. The intent of these arrangements is to reduce the administrative burden on agencies in responding to information requests.
- 34 The provision of information from agencies to the PBO works well, reflecting the cooperative relationships between the PBO and agencies and the broader support within government for the PBO's operations. There are rarely instances where the provision or accuracy of costing responses have been affected by the lack of access to information. Over time, there has been improvement in the timeliness of the provision of information from agencies to the PBO and a significant reduction in the percentage of late responses.¹⁰
- 35 In other countries, independent fiscal institutions have had issues accessing information which has limited their effectiveness. This has even occurred in those institutions that have legislated information gathering powers.¹¹
- 36 More broadly, effective engagement with and support from government agencies has been a critical element that has contributed to the successful operations of the PBO. When the PBO was established, appropriately qualified and experienced staff from key agencies were temporarily seconded to the PBO. Over the period since then, there has been a continuous movement of staff between government agencies and the PBO under both recruitment and secondment arrangements.
- 37 The PBO participates in the Parliament of Australia graduate program. This program enables participants in graduate programs in government agencies to undertake a secondment of up to six months with the PBO to learn about the role and functions of the PBO, as well as the Parliament generally. Each year we aim to bring in up to eight graduates. In doing this, it provides the PBO with a pool of ready-trained analysts that we can seek to second back to the PBO during our peak work period around each election.

Independence, confidentiality, oversight and accountability

- 38 The independence and non-partisanship of the PBO, and the ability to work confidentially, are essential characteristics that give parliamentarians the confidence to interact with the PBO as they formulate their policy proposals. These characteristics also enable the PBO to publish analysis of the budget and fiscal policy settings unconstrained by external influences.
- 39 To preserve its non-partisan status, the PBO does not provide policy advice, nor does it make policy recommendations. The PBO carefully monitors any references to it in the media and ensures any misrepresentations about its role or advice are resolved quickly if they occur.
- 40 The independence of the PBO is enshrined in the Parliamentary Service Act. The Parliamentary Budget Officer is appointed by the Presiding Officers of the Parliament, with the approval of the Joint Committee of Public Accounts and Audit (JCPAA), for a term of four years, with the total length of office not exceeding eight years.¹²

¹⁰ See *Parliamentary Budget Office Annual Report 2017–18*, p47.

¹¹ See, for example, <https://o.canada.com/news/national/defence-officials-dodged-pbo-requests-to-meet-on-f-35-then-launched-all-out-critique-emails>.

¹² *Parliamentary Service Act 1999*, s64X.

- 41 With independence, the requirement for accountability becomes more important than ever. The Parliamentary Budget Officer reports to the Presiding Officers on the operation and administration of the PBO.¹³ However, the Parliamentary Service Act provides that the Parliamentary Budget Officer is not subject to a direction by a Presiding Officer in relation to the performance of their functions, and can only be removed from office due to misbehaviour, physical or mental incapacity, or insolvency.¹⁴
- 42 The JCPAA is responsible for overseeing the operations and resourcing of the PBO.¹⁵ As part of that oversight, the JCPAA can request the Parliamentary Budget Officer to establish an independent review of the operations of the PBO after a federal election, with the review to be completed within nine months after the end of the caretaker period for the election.¹⁶
- 43 The PBO and the Parliamentary Budget Officer are exempt agencies under the FOI Act.¹⁷

Independent reviews

- 44 Since its establishment, the PBO has been subject to three independent reviews. These reviews have enabled independent examinations of different aspects of the PBO's operations and provided a range of recommendations, in particular to further improve the operational effectiveness of the PBO as it has matured and evolved over time.
- 45 In November 2013, the Australian National Audit Office (ANAO) commenced a performance audit into the administration of the PBO. The objective of the audit was to assess the effectiveness of the PBO from its establishment in July 2012 to the publication of the 2013 Post-election report on election commitments.¹⁸
- 46 The ANAO found that since commencing operation in July 2012, the PBO had effectively undertaken its statutory role and was already well regarded as an authoritative, trusted and independent source of budgetary and fiscal policy analysis.¹⁹
- 47 In 2014, the JCPAA conducted its own review of the PBO's operations based on the Auditor-General's performance audit. The review report stated that "the success of the Australian PBO is due in no small measure to a clear legislative mandate; the provision of adequate resources, qualified staff and the co-operation built up between the Parliamentary Budget Officer and Executive agencies. Importantly, the PBO operates in a secure environment under a legal obligation to protect sensitive information at the request of Executive agencies. This has helped to build confidence between the Executive and the PBO, and enables a greater sharing of information under a non-binding Memorandum of Understanding".²⁰

¹³ *Parliamentary Service Act 1999*, s64N.

¹⁴ *Parliamentary Service Act 1999*, ss64P and 64XE.

¹⁵ *Parliamentary Service Act 1999*, s64S.

¹⁶ *Parliamentary Service Act 1999*, s64T.

¹⁷ *Freedom of Information Act 1982*, Schedule 2, Part I, Division 1.

¹⁸ Australian National Audit Office, Audit Report No. 36 2013–14, *The Administration of the Parliamentary Budget Office*, 2014, p 16.

¹⁹ *ibid*, p 18.

²⁰ Joint Committee of Public Accounts and Audit, Report 446, *Review of the Operations of the Parliamentary Budget Office*, 2014, pp vii-viii.

- 48 The most recent review of the PBO was conducted after the 2016 federal election. This 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.²¹ It provided a number of recommendations for further strengthening the PBO which were implemented over the subsequent 12 months.²²

Concluding comments

- 49 The establishment of the PBO as an independent and non-partisan institution of the Parliament was a significant initiative to enhance the Commonwealth's fiscal responsibility framework and the PBO is now an important part of Australia's institutional arrangements.
- 50 Our success to date can be attributed to our legislative and governance framework, the relationships we have been able to build and maintain, and the support we receive to access the information we need to perform our functions. The value parliamentarians place in our costing role, in particular, is evidenced by the continuing strong demand for these services, including in non-election years. The PBO's research publications are widely cited by major media outlets in discussions around fiscal issues.
- 51 There is a growing number of PBOs in our region. The New South Wales (NSW) PBO was established in the lead up to the 2011 NSW election and was stood up again in the lead up to the 2015 and 2019 NSW elections. The NSW PBO has a legislated duration of around nine months for each state election. The Victorian PBO was established as a permanent PBO in 2018. The New Zealand government has recently committed to establishing an independent fiscal institution.
- 52 The establishment of a wider network of Commonwealth and state PBOs is presenting opportunities to build capability, share knowledge and to work together to manage peak pressures around election periods. The establishment of such a network may also provide the opportunity for fiscal analysis to be undertaken with a national focus providing greater transparency around national budget and fiscal matters.
- 53 As new PBOs are established within Australia, these institutions will be able to tap into the learnings and strengths of the existing PBOs to enable them to quickly establish themselves as an effective new institution to support the parliament and broader public in their jurisdiction.

²¹ I Watt AC and B Anderson, *Parliamentary Budget Office Review 2016–17*, 2017, p ii.

²² Parliamentary Budget Office, *PBO report on the implementation of the 2016–17 review recommendations*, April 2018.