

## Parliamentary Budget Office

September 2014

On 23 July 2012, the Gillard Labor Government established the Parliamentary Budget Office (PBO) to provide the Parliament with independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policy proposals.

The PBO is a separate Parliamentary Department, with an independent statutory office holder—the Parliamentary Budget Officer—responsible for leading and managing the Parliamentary Budget Office. The PBO plays a significant role in focusing political parties, parliamentarians and policy makers on the fiscal consequences of decisions and highlighting underlying budget trends that may not be obvious in budget materials.

The PBO was established as part of the ‘Agreement for a Better Parliament: Parliamentary Reform’ negotiated with independent MPs following the 2010 Federal election. The need for a PBO for Australia has been raised at various times since the 1980s, usually with reference to the United States’ Congressional Budget Office. Importantly, the PBO’s remit is broader than that of its US counterpart, as it is also able to provide costings of election policy proposals from government and non-government parties.

At an address to the National Press Club in September 2014, Shadow Treasurer the Hon Chris Bowen MP outlined Labor’s plans for an improved PBO. The centrepiece of this was legislating to enable the PBO to prepare economic forecasts and projections to underpin budgets and economic statements, for the PBO to publish an annual report on whether the Budget is in structural deficit or surplus, and to prepare the five yearly Inter-generational Report independently of government.

The current Parliamentary Budget Officer is Mr Phil Bowen PSM FCPA.

The Parliamentary Budget Office website is available [here](#).

The mandate and functions of the PBO.....	2
Policy costings.....	2
Post-election Reports .....	3
Parliamentary Budget Offices in other jurisdictions.....	4
Australian States and Territories .....	4
Worldwide .....	5
Labor’s plans for the PBO .....	6

## The mandate and functions of the PBO

The role of the PBO, as defined in the *Parliamentary Service Act 1999*, is to 'inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.' The PBO has no direct input to the development of the Budget or the monitoring of budget outcomes, it does not engage in normative analysis and it does not make policy recommendations.

In essence, the PBO's mandate is in two parts: to support the Parliament in a range of budget-related matters; and to help inform the public debate on the budget and fiscal policy issues.

The PBO is able to perform the following functions:

- To prepare **policy costings** on request by Senators and Members of the House of Representatives.
  - Outside the caretaker period for a general election, the requests and the PBO's responses may be kept confidential if so requested.
  - During the caretaker period for a general election, the PBO can prepare costings of *publicly* announced policies.
- To prepare responses (other than policy costings) to **requests relating to the budget** by Senators or Members of the House of Representatives.
- To prepare **submissions to inquiries of Parliamentary committees** on request by such committees.
- To conduct **research and analysis of the budget and fiscal policy settings**.

## Policy costings

The PBO is probably best known for its role in costing policy proposals.

At the request of parliamentary parties or independent parliamentarians, the PBO is able to cost policy proposals on a confidential basis outside the caretaker period for a general election, and on a public basis for requests made during the caretaker period for a general election.

Budget analyses or requests for information about the Federal Budget may be responded to by the PBO on a confidential basis at any time, including during the caretaker period.

### Operation

Since its inception in 2012, the PBO has received over 1000 requests for policy costings, budget information and analyses. Excluding the small number of requests that lapsed or were withdrawn, the PBO has responded to all requests. The majority of these responses were to confidential requests made outside of the caretaker period.

In providing these services, the PBO plays a significant role in enabling all political parties, particularly non-government parties and independents, to access similar costing and budget

information services to develop policies. As such, the body addresses the previous asymmetry of access to costing and budget information services between government and non-government parties and parliamentarians.

Outside the caretaker period, the confidentiality of PBO analysis also enables parliamentary parties and independent parliamentarians to engage iteratively in private with the PBO to develop, modify and refine their policies.

### Methodology

The PBO, Treasury and the Department of Finance use a common set of principles for undertaking policy costings, set out in the Charter of Budget Honesty Policy Costing Guidelines. This helps to ensure that a consistent approach to costings is taken across all three organisations.

The guidelines are available [here](#).

### Working arrangements with Commonwealth Bodies

In order to perform its statutory functions, the PBO requires access to information and documents owned, held, managed or administered by Commonwealth bodies that are potentially confidential.

At the same time, Commonwealth bodies are also required to handle confidential costing requests lodged with the PBO. Disclosure of confidential costings requests from non-government parties and independent parliamentarians to the government or the general public risks jeopardising the PBO's mandate.

In order to protect confidential Commonwealth information, and confidential costings requests, a Memorandum of Understanding between the PBO and the Heads of Commonwealth Bodies in relation to the provision of information and documents was signed in 2012.

On 15 January 2014 the Treasurer released Australian Government protocols governing the engagement between Commonwealth Bodies and the PBO. The protocols govern both the provision of information to the PBO from Commonwealth Bodies, and the responsibilities of Heads of Commonwealth Bodies to respond to requests from the PBO and ensure appropriate measures are taken to maintain the confidentiality of a request if called for by the PBO.

The Memorandum of Understanding is available [here](#). The protocols are available [here](#).

### **Post-election Reports**

The preparation of a post-election report of election commitments was not originally part of the PBO's mandate. In 2013, an amending Act—the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013*—provided for a post-election report to be prepared that set out, for each political party, costings of all its election commitments and their combined impact on the Commonwealth Budget and general government sector fiscal estimates.

The post-election report for the 2013 Federal election was released on 18 October 2013, 30 days from the end of the caretaker period. The report is available [here](#).

## Parliamentary Budget Offices in other jurisdictions

### Australian States and Territories

#### New South Wales

In 2010, the NSW Labor Government passed legislation to establish a permanent Parliamentary Budget Office. The NSW PBO's role was to 'provide independent costings of election promises and, outside pre-election periods, to provide independent costings of proposed policies of Members of Parliament'. The legislation specifically excluded 'developing policy proposals on behalf of Members of Parliament'.

In 2013, the NSW Liberal Government passed legislation limiting the PBO's operation to a 9–10 month period surrounding the election. PBO operations are now limited to once every four years, and the sole function of the body is to prepare election policy costings. As such, the PBO is not able to assist non-government parties and independent MPs cost and develop their policies and proposals throughout the electoral cycle.

The NSW Parliamentary Budget Officer's appointment starts on 1 September in the year prior to each State election (1 September 2014 for the next NSW election) and it ends within three months after the election.

#### Victoria

In 2013, the Victorian Liberal Government proposed the establishment of a PBO. In contrast the Federal PBO, the Victorian model proposed was to be a temporary body available to cost election policy proposals in the final three months of each four-year electoral cycle.

The Labor Opposition and Independent MP Geoff Shaw voted against the measure in February 2014 over concerns that the PBO model proposed was not sufficiently independent, and that due to its temporary nature it would not be able to adequately assist non-government parties in policy development and costings.

#### Other states and territories

Western Australia, Tasmania, Queensland, South Australia and the Northern Territory do not have PBOs. Most of these jurisdictions have legislative provisions to facilitate public scrutiny of government financial policy and performance. While divergent in their specificities, the measures are generally similar to the Pre-Election Fiscal Outlook at the Federal level. Importantly, none of these jurisdictions have an independent body to provide independent costing of policy proposals, particularly for non-government parties.

In 2009, the ACT Standing Committee on Administration and Procedure conducted an inquiry into the merit of establishing a PBO. The Committee concluded that given the Assembly's size, it was more appropriate to engage an expert consultant to provide advice to the Select Committee on Estimates to assist it with scrutinising the budget. As for election costings, the *Election Commitment Costings Act 2012* enables the Director-General of the ACT Treasury Directorate to cost party election commitments before and after polling day for a ACT Legislative Assembly election at the request of political parties.

## **Worldwide**

An increasing number of countries have set up independent budget units as their legislatures become more involved in the budget process. This shift is occurring across both presidential and parliamentary systems, and within and outside the OECD area. Most of these units provide some form of independent assessment of the budget. The Netherlands is the only other jurisdiction whose budget unit also plays a central role in the electoral process through costing campaign promises of political parties.

### The Netherlands

The oldest independent budget unit, formed in 1945, is the Dutch Central Planning Bureau (CPB). The CPB conducts analyses of the budget and provides estimates of the campaign promises of politicians.

The Bureau issues quarterly forecasts of the development of the Dutch economy which 'provide a basis for extended social-economic decision-making in the Netherlands.' At the start of the election cycle, the CPB also provides medium term forecast covering a four year period which 'offers a foundation for the development of policy plans by political parties and the negotiations for a new government after the general elections.'

Over time, the CPB's estimates of campaign promises have played an increasingly important role in the Dutch election process. According to the OECD, there is now a public expectation that all campaign promises by political candidates are accompanied by estimates of the budgetary costs.

### United Kingdom

The UK established an Office for Budget Responsibility (OBR) in 2011 through the *Budget Responsibility and National Audit Act 2011*. The OBR's role is to examine and report on the sustainability of public finances.

As for the costing of election promises, the Institute for Fiscal Studies (IFS) has published policy briefings during election times since 1997. These briefings review and cost the policies proposed by the three main parties. The IFS is not a government unit or agency, rather is an independent body similar to a think-tank without political ties that does not appear to be subject to any oversight body.

### The United States of America

The largest budget office worldwide is the United States Congressional Budget Office (CBO). It aims to provide objective, nonpartisan analyses to aid in economic and budgetary decisions on programs covered by the federal budget, and the information and estimates required for the Congressional budget process.

Although the CBO does not provide estimates of legislators' campaign promises, it has a large impact on legislative development. CBO's cost estimates have become an integral part of the legislative process, and committees increasingly refer to them at every stage of drafting bills.

## Canada

Canada established a Parliamentary Budget Officer in 2008. It is one of the Independent Oversight Offices created under Canada's *Federal Accountability Act*. The PBO is tasked with providing independent analysis to the Senate and to the House of Commons about the state of Canada's finances, the estimates of the government and trends in the Canada's national economy.

As with Australia, the PBO strives to be policy neutral, in that their assessments generally do not seek to comment on the merits of a policy under discussion and make no normative judgments or policy recommendations.

## South Korea

The mission of the Korean National Assembly Budget Office is 'to support legislative activities through analysis and evaluation of national finances and policies'. However, its mandate is restricted to 'the final accounts of the national budget or the administration of national funds and finance'. As such, it does not play a role in providing estimates of the campaign promises of politicians.

### **Labor's plans for the PBO**

At an address to the National Press Club in September 2014 Shadow Treasurer Bowen announced three proposed changes to the role of the PBO.

The PBO is presently prohibited from preparing economic forecasts. Mr Bowen announced that a future Labor government would legislate to enable the PBO to prepare economic forecasts and projections to underpin budgets and economic statements. This will include forecasts for all key economic parameters, including unemployment, inflation, terms of trade and nominal and real GDP.

Labor also plans to legislate for the PBO to publish an annual report on whether the budget is in structural deficit or surplus—this will look through annual fluctuations and cyclical events to provide real time analysis of the structural budget balance.

Finally, Labor plans to mandate that the PBO prepares the five-yearly Intergenerational Report independently of government. As such, the report would not be the property of the Government of the day, but a completely independent process. This is in line with the many fiscal councils and independent budget offices globally that independently undertake long-term projection of budget finances.

Mr Bowen's speech is available [here](#).

## Further information

The PBO website is available [here](#).

The Charter of Budget Honesty is available [here](#).

The Joint Select Committee on the Parliamentary Budget Office Report is available [here](#).

List of PBOs worldwide

Canada – [Parliamentary Budget Officer](#)

United Kingdom – [Office for Budget Responsibility](#)

United States of America – [Congressional Budget Office](#)

Netherlands – [CPB Netherlands Bureau for Economic Policy Analysis](#)

South Korea – [National Assembly Budget Office](#)

Slovenia – [Fiscal Council](#)

Austria – [Government Debt Committee](#)

Belgium – [Federal Planning Bureau](#)

Sweden – [Fiscal Policy Council](#)

Denmark – [Economic Council](#)