

# Australia

## Parliamentary Budget Office (PBO)

**Established:** By legislation in December 2011; appointment of first Parliamentary Budget Officer in July 2012.

**Enabling legislation:** Parliamentary Service Act 1999 as amended by the Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011.

**Mandate:** To inform the parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.

**Budget:** AUD 29.7 million over four years (2014); this includes short-term funding to address demands during election periods.

**Staff:** 38, the budget allows for the employment of approximately 40 staff.

## 1. Context

The establishment of a parliamentary budget office (PBO) in Australia has been debated at various times since the 1980s. The primary impetus for establishing a PBO was a perceived need for greater fiscal transparency and accountability regarding the cost of election promises. In particular, while the government and opposition enjoyed access to the Ministry of Finance and Treasury to cost their election commitments, similar access was not afforded to smaller political parties or independents. As well, there was a view among some stakeholders that parliament would benefit from specialised research and analysis pertaining to fiscal and economic policy.

The idea became a reality in 2010 when, following the federal election, the minority government agreements signed by the Australian Labor Party with the Coalition, Australian Greens and independent members of parliament included a commitment to establish a PBO. That commitment formed part of the “Agreement for a Better Parliament: Parliamentary Reform”, which also called for a special committee of the parliament to decide on the “structure, resourcing and protocols for such an office”.

Subsequently, the parliament convened the Joint Select Committee on the Parliamentary Budget Office (PBO) to examine the possible structures for a PBO and the range of services a PBO could provide. The Joint Committee membership included senators and MPs of the Australian Labor Party, the Liberal Party of Australia, the Nationals, the Australian Greens and an Independent Member of Parliament. The Joint Committee issued a media release and sought submissions from the public, as well as leaders of major and minor political parties, independent members of parliament, the Treasurer, the Minister for Finance and Deregulation, the Department of Parliamentary Services, the Department of the House of Representatives, the Department of the Senate, the Clerks of the New South Wales Parliament and a number of international parliamentary budget offices. As part of the inquiry, the Joint Committee also held three public hearings during February 2011. Its report was submitted on 23 March 2011. The 28 recommendations reflected a consensus among all committee members.

In May 2011 the government also announced in a press release that it would provide AUD 24.9 million over four years to establish the PBO and that the PBO would be established as a separate entity headed by an independent statutory officer – the Parliamentary Budget Officer. This funding was subsequently included in the Portfolio Budget Statements for 2012-13, along with an outline of the corresponding planned performance related outcomes. The government tabled its initial response to the Joint Committee on 1 August 2011, which agreed with 23 of the Joint Committee’s recommendations, and “agreed-in-principle” with the remaining five recommendations.

On 22 August, Shadow Treasurer Joe Hockey introduced the Parliamentary Budget Office Bill, 2011, as a private members bill, along with the Charter of Budget Honesty Amendment Bill, 2011 (the latter to remove the provisions for costing federal opposition election commitments). This was immediately followed by the introduction of a government

bill on 24 August, the Parliamentary Service Amendment (Parliamentary Budget Officer) Bill, to establish the Parliamentary Budget Office.

The opposition raised concerns that the government's proposed legislation lacked several key features, which included:

- stronger powers to access government information, consistent with those held by the National Audit Office, rather than authority to establish non-statutory arrangements with the head of a Commonwealth of Australia body to obtain information required to support the mandate;
- the ability to undertake confidential work during the caretaker period, rather than the requirement that policy costings requested and prepared during this time be published; and
- the inclusion of independent economic and fiscal forecasting in the PBO's mandate.

The government's bill passed the House of Representatives without amendment in September 2011 and was introduced in the Senate where it again passed without amendment in November 2011. The Act received Royal Assent in December 2011 and was proclaimed in February 2012.

In March 2013, the *Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2013* was passed to require the PBO to produce a post-election report on the cost of parties' election commitments within 30 days of the end of the caretaker period for a general election. The PBO was provided with additional funding to implement this requirement and to enhance the PBO's fiscal policy analysis and costings capabilities.

## 2. Relationship with the executive and the legislature

The PBO is one of four parliamentary departments. The Parliamentary Budget Officer must report to the President of the Senate and Speaker of the House (i.e. the "Presiding Officers") on matters pertaining to operations and management. At the same time, the enabling legislation stipulates that the Parliamentary Budget Officer has full independence regarding the performance of their functions (i.e. the precise manner in which the mandate is carried out, 64N).

Beyond explicit authorities granted within its enabling legislation, the PBO's independence is further reinforced by the procedures for appointment and termination. In the case of the former, the Presiding Officers can only appoint a Parliamentary Budget Officer following approval by the Joint Committee of Public Accounts and Audit (JCPAA, 64X). Regarding the latter, the Parliamentary Budget Officer can only be removed from office prior to the end of their four-year term with a majority vote by both the House of Representatives and the Senate, or in the case of insolvency (64XE).

Parliamentary oversight of the PBO is exercised through two principle measures: annual scrutiny and approval of the annual budget; and, the corresponding work plan. In the case of the latter, the enabling legislation requires that the Parliamentary Budget Officer must consult with the JCPAA to establish priorities for the coming fiscal year. In addition, the legislation also provides that the JCPAA may request an independent review of the operations of the PBO following each general election (64T, see also Section 11). The National Audit Office completed an independent performance audit of the administration of the PBO in June 2014. This audit fulfilled the JCPAA's requirement for an independent review.

Given that the primary clients of the PBO are parliamentarians, it is anticipated that ongoing oversight will also be exercised through consideration of testimony by PBO staff at Senate committee hearings and related confidential and public reports.

The PBO is designed to complement existing specialised financial and economic expertise available to parliamentarians. While some of the PBO's functions are similar to those within the Ministry of Treasury and/or Finance, particularly those pertaining to policy costing, the statute provides the PBO with the exclusive mandate to provide these services to all parliamentarians. Furthermore, the PBO's *ex ante* analysis regarding the cost of contemplated and proposed expenditure and revenue measures is distinct from the *ex post* analysis of the National Audit Office.

### Box 1. Role of the legislature in the budget process

Australia has a Westminster parliamentary system of government. This includes a bicameral parliament comprised of a House of Representatives (lower house) and a Senate (upper house). The 150 members of the House of Representatives are elected by preferential ballot. The 76 members of the Senate are elected through proportional representation. Legislation that seeks to authorise expenditure or impose taxation must originate in the House of Representatives by the government. At the same time, the Senate retains the right to request amendments to financial legislation that does not pertain to "ordinary annual services" and it can also refuse to pass any bill.

The Australian government's fiscal year runs from July to June. The budget is generally introduced by the Treasurer in the House of Representatives in early May, providing the parliament with approximately eight weeks to scrutinise and approve the proposal. The budget itself is comprised of several parts, including an overall economic and fiscal outlook, proposed new measures, and the proposed resourcing for individual agencies and departments that will be sought through annual appropriation acts. There are generally three main appropriation bills introduced annually, which provide for the "ordinary annual services of government", "new policy measures", and "funding for parliamentary departments", respectively. In addition, a second cohort of supplementary appropriation bills ("additional estimates") are typically introduced in February for items subsequently announced post-Budget or other required adjustments to the expenditure plan.

The requirement that the government must initiate expenditure and taxation proposals curtails parliamentary power to amend the budget or appropriation acts. Legislators can only vote to reject or reduce proposed expenditures. However, in the Westminster system, financially-related votes are typically seen as confidence issues. As such, the limited powers to amend proposed legislation are seldom exercised by members of the House. Consequently, the House of Representatives tends to focus on the broader macroeconomic and fiscal policy outlined in the budget, rather than scrutinising individual expenditure items.

In contrast, the Senate has a well-articulated committee structure designed to examine the budget and proposed appropriations. This is, in part, attributable to the structure of the electoral system that often provides the government with a majority in the House of Representatives, but a minority in the Senate. Each Senate committee will scrutinise one or more departmental portfolios and hold hearings on the proposed spending. During these hearings, committee members question ministers and public servants regarding policy and operational considerations, especially the effectiveness and efficiency of various programmes. Meetings are generally held in public, but can occasionally be held in camera. Following these meetings, each committee will draft a report that is made public enumerating any concerns and/or recommendations.

**Box 1. Role of the legislature in the budget process (cont.)**

Prior to 2012, the primary source of technical support on finance and economic issues for members of the House and Senate was the Library of Parliament. More broadly, legislators also benefitted from specialised staff working with the Department of the Senate and House of Representatives, as well as political party secretariats or individual members. It is anticipated that the PBO will complement this existing capacity.

### 3. Legal basis for establishment

The Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011 amended five pieces of legislation, including:

- The Parliamentary Service Act 1999: To establish the legal entity of the PBO as a department of the parliament, as well as set forth the legal mandate and administrative powers of the PBO.
- The Charter of Budget Honesty Act 1998: To, among other things, extend the provision of policy costings during a caretaker period to the leader of a minority party.<sup>1</sup>
- The Freedom of Information Act, Long Service Leave (Commonwealth Employees) Act 1976, and Remuneration Tribunal Act 1973: To implement other consequential amendments.

### 4. Mandate

Section 64B of the Parliamentary Service Act 1999 (the act) provides the PBO a broad mandate “to inform the parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals”. Minor language changes aside, the mandate is in accordance with recommendation two of the Joint Committee.

Specific functions of the Parliamentary Budget Officer are also laid out in section 64E of the act as well as three limitations: the PBO’s functions do not include preparing economic forecasts or budget estimates, and the PBO must rely on the fiscal and economic forecasts contained in the most recent reports released by the government (Section 64E [2 and 3]).

Under the Parliamentary Service Act, the PBO is able to cost policy proposals at the request of parliamentarians or parliamentary parties, on a confidential basis outside the caretaker period for a general election, and on a public basis for requests made by parliamentary parties and independent parliamentarians during the caretaker period for a general election. The PBO can respond to requests for information on or analyses of the budget on a confidential basis at any time, including during the caretaker period. In addition, the PBO may undertake at its own initiative research and analysis on issues related to the budget and fiscal policy.

The ability of the PBO to prepare costings on a confidential basis outside of the caretaker period for a general election may, at first glance, seem at odds with the PBO’s objective of achieving greater fiscal transparency and accountability regarding the cost of election promises. However, the ability to work with the PBO on a confidential basis provides parliamentarians and parliamentary parties with the opportunity to develop and cost their policies in a more measured fashion in the lead up to an election. They are then able to publicly release fully costed policies before an election in the knowledge that the costings have been professionally prepared by the PBO. This can be expected to result in greater disclosure of election commitments prior to an election and place greater

accountability on the parliamentarians and parliamentary parties concerned. The ability to access costing services on a confidential basis is particularly valuable to non-government parliamentarians and parliamentary parties who did not have access to these services prior to the establishment of the PBO.

As noted earlier, the PBO's mandate was enhanced with the Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2013 which requires the production of a post-election report on the cost of parties' election commitments within 30 days of the end of the caretaker period of a general election.

Apart from the post-election report, the current mandate does not refer to specific reports, or timings for reports, that must be presented during the year. However, the reference to the budget cycle clearly provides some expectations in terms of timing of analysis. In addition, the PBO can expect increased workloads during election periods.

There may be scope for the PBO's mandate to be further enlarged. The National Commission of Audit established by the Abbott coalition government in late 2013 recommended that the government adopt a high-level fiscal strategy with fiscal rules, and that the PBO report the government's progress against the fiscal rules following the release of the final budget outcome each year.<sup>2</sup> The government has responded that *the issue of reporting against fiscal rules will be considered following the 2014-15 budget.*<sup>3</sup>

## 5. Functions

The Parliamentary Service Act 1999 provides the PBO with the following functions:

1. outside the caretaker period for a general election, to prepare policy costings on request by senators and members, with the requests and the PBO's responses to be kept confidential if so directed by the requestor;
2. during the caretaker period for a general election, to prepare costings of publicly announced policies on request by authorised members of parliamentary parties or independent members;
3. to prepare responses (other than policy costings) to requests relating to the budget from senators and members, with the requests and the PBO's responses to be kept confidential if so directed by the requestor;
4. to prepare submissions to inquiries of parliamentary committees, on request by such committees, with the requests and the PBO's responses to be made publicly available;
5. after a general election, to report on the budget impact of election commitments of designated parliamentary parties; and
6. to conduct, on his or her own initiative, research on the budget and fiscal policy settings, with the results of this work to be made publicly available.

As noted in the "PBO's Summary Guide to Policy Costings", there are two categories of "costing" work:

1. outside the caretaker period for a general election, policy costings on request by senators and members, with requests and the PBO's responses to be kept confidential if so directed by the requestor;
2. during the caretaker period for a general election, policy costings of publicly announced policies on request by authorised members of parliamentary parties or independent members.

With respect to its costing methodology, the PBO uses the “Charter of Budget Honesty Costing Guidelines” (the guidelines). The guidelines specify the various methodologies that could be used to address a costing request, including: assumptions, sensitivity analysis, accounting treatments and relevant scope of analysis. Examples and case studies are also provided regarding certain types of costing requests. Consistent with the guidelines, the PBO prepares a fiscal impact analysis for the current financial year and three subsequent years. Overall, this ensures that cost estimates generated by the Australian public service or PBO will be prepared on a comparable basis. All policy costings prepared by the PBO have a “best-before” date, indicating that the estimates are only valid within a certain period of time, typically the subsequent budget update.<sup>4</sup>

PBO costings also include a reliability rating, to reflect the degree of uncertainty surrounding the estimated budget impact. Reliability ratings serve as an indicator of the uncertainty inherent in preparing costings and aim to reflect how much the actual future outcome may be expected to differ from the point estimate. This uncertainty arises due to the quality, detail and availability of data and the need to make assumptions. The PBO is refining the reliability ratings with a view to making the indicators more objective, and intends to publish material explaining how its reliability ratings are determined and what they mean for the validity of costings.

The published self-initiated research undertaken by the PBO focuses on the sustainability of the budget over the medium term and also aims to improve budget transparency and promote a better understanding of the budget and fiscal policy settings. As of early 2014, the PBO had released three reports as part of its self-initiated work programme: *Estimates of the structural budget balance of the Australian Government 2001-02 to 2016-17*, published 22 May 2013; *Australian Government spending, Part 1: Historical trends from 2002-03 to 2012-13*, published 10 December 2013; and *Trends in Australian Government receipts 1982-83 to 2012-13*, published 15 April 2014. It also published a chart pack on 10 June presenting a graphical summary of the 2014-15 budget and forward estimates relative to the 2013-14 Mid-year Economic and Fiscal Outlook report, showing the impacts of policy decisions and other factors. Over the next few years, the self-initiated work programme will focus on the following broad areas: trends in Australian government expenditure and revenue, sensitivity of expenditure and revenue estimates to economic shocks, Commonwealth/state fiscal issues, distributional impacts of policies, approaches to the costing of policy proposals, budget reporting, fiscal responsibility frameworks and capital budgeting.

The Charter of Budget Honesty requires each government to release a “fiscal strategy statement” with, or prior to, the tabling of its first budget and each subsequent budget (Section 6). This statement must be based on principles of sound fiscal management set out in the Charter. A key purpose of these statements is to “establish a benchmark for evaluating the government’s conduct of fiscal policy”, identify short-term and longer-term fiscal objectives, as well as explain the broad strategic priorities on which the budget will be based. Analysis of fiscal policy settings falls within the PBO’s mandate and is being undertaken as part of the PBO’s self-initiated work programme. As noted in Section 4, the National Commission of Audit recommended that the Charter be amended to require the PBO to report the government’s progress against its medium-term fiscal strategy following the release of the final budget outcome each year.

In enumerating the functions of the Parliamentary Budget Officer, the act (64E) explicitly identifies items outside the purview of the Officer’s legislative mandate, including the

preparation of economic forecasts or budget estimates. The act also mandates that the Officer must use the “economic forecasts ..., fiscal parameters ... and fiscal estimates” contained in the budget, Intergenerational Report and Pre-election Economic Fiscal and Outlook Report. As explained in a statement made by the Parliamentary Budget Officer to parliamentarians in 2012, this ensures that duplication is avoided amongst the Ministry of Finance, Treasury and PBO. Finally, the Parliamentary Budget Officer has also stated that the PBO does not “have a policy advisory role and it will not make policy recommendations”.

## 6. Work programme

The act stipulates that the Parliamentary Budget Officer must develop an annual work plan in consultation with the JCPAA that delineates its priorities and planned resource allocations (64Q). The act also requires that the work plan must be made publicly available; the Work Plans for 2012-13 and 2013-14 are published on the PBO’s website.<sup>5</sup>

Beyond the global priority-setting mechanism for work, the Parliamentary Budget Officer announced in the 2012-13 work plan that emphasis in the PBO’s inaugural year would be placed on:

- setting the PBO on a fully operational footing; fully-staffed, with appropriate policy and administrative frameworks; and,
- gaining the parliament’s trust as a valued source of budgetary and fiscal analyses, as well as policy costings.

The PBO work plan for 2013-14 identified three key priorities for the PBO: continue to fulfil the PBO’s mandate as a responsive and effective independent institution of the Parliament; prepare policy costings and budget analyses in response to requests from individual parliamentarians; and publish self-initiated research focusing on budget sustainability and transparency and fiscal issues of interest to broader parliamentary and public audiences.

The legislative mandate provides for a balance of directed work, such as policy costings, as well as self-initiated projects that include research and analysis of budget or fiscal policy. The PBO has announced that outside of the caretaker period, priority is given to responding to requests from members, senators and parliamentary committees. During the caretaker period (i.e. following dissolution of the parliament, during an election) priority is granted to responding to requests for publicly announced policies to be costed by the PBO.

Given the priority assigned to policy costing work, the majority of resources are allocated toward this task. The PBO aims to provide responses to policy costings in a timely manner. The timeliness of the PBO’s responses is impacted by the complexity of the costings and the extent to which information needs to be sought from other agencies, or if further information is required from parliamentarians about the request. The recent report of the National Audit Office noted that the PBO’s average response times have improved over time, taking an average of 54.6 business days in September 2012 and an average of 15 business days in the last quarter of 2013 (ANAO, 2014).

In the year leading up to the September 2013 general election, the PBO completed around 1 000 costings for parliamentary parties and individual parliamentarians, with the non-government parties making most of the requests. The demand for PBO costings and budget analyses has continued since the election period.

In October 2013, the PBO released its post-election report of election commitments for the 2013 general election. This report provided costings of all election commitments made by the major political parties, and indicated that there had been a high level of accuracy in the statements by the political parties on the costs of their election commitments.

Notwithstanding the priority placed on responding to costing requests, the PBO has also allocated significant dedicated resources for its self-initiated work programme.

## 7. Budget

In the 2011-12 budget, the Gillard government committed to provide AUD 24.9 million over four years to establish the PBO. This was in line with recommendation 26 of the joint committee which called for “ongoing funding of no less than AUD 6 million per annum with consideration being given to additional resourcing for election years”.<sup>6</sup> Subsequently, Section 64D of the Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011 provided for a first appropriation from the consolidated revenue fund for “the purposes of the Parliamentary Budget Officer and the Parliamentary Budget Office in the financial year starting on 1 July 2011, to the extent of AUD 6 000 000” and the 2012-13 budget provided for an appropriation of AUD 6.1 million in the first full year of operations.

The PBO’s annual appropriation for 2014-15 is AUD 7.0 million and is expected to remain at around this level for the next four years except for 2015-16 when the PBO will receive an additional AUD 0.5 million to assist it to meet expected increased demand associated with the next general election. This is in line with recommendation 26 of the Joint Committee on the Parliamentary Budget Office, which called for “ongoing funding of no less than AUD 6 million per annum with consideration being given to additional resourcing for election years”. In addition to its annual appropriation, the PBO has access to a special appropriation of AUD 6 million (the prior year’s unspent funding, as provision for costs related to the PBO’s permanent accommodation and secure IT network project). An additional budget measure in 2013-14 provided the PBO with AUD 4.5 million over five years to enhance capability and functions and to produce the Post-Election Report (this includes the aforementioned AUD 0.5 million for additional costing capability for the 2015-16 election period) (ANAO, 2014).

Sections 64R and 64S of the act also follow recommendation 27 of the Joint Committee on the Parliamentary Budget Office. Section 64R stipulates that “the Joint Committee on Public Accounts and Audit may request the Parliamentary Budget Officer to submit to the committee draft estimates for the Parliamentary Budget Office for a financial year before the budget for that financial year” and “the Parliamentary Budget Officer must comply with the request in time to allow the committee to consider the draft estimates and make recommendations on them before the budget”. Section 64S lays out the duties of the JCPAA including considering and making recommendations to both houses of the parliament and the Presiding Officers on the PBO’s draft estimates, as well as the PBO’s overall resources.

## 8. Staffing

### 8.1. Leadership

Section 64XE of the act outlines the process for appointing the Parliamentary Budget Officer as an independent statutory officer of the parliament. As noted earlier, the appointment is made for a four-year term by the Presiding Officers, following approval by the JCPAA. The four-year term is longer than the three-year electoral cycle. A Parliamentary

Budget Officer holds the paid position on a full-time basis and is eligible for reappointment, but cannot hold the position for more than eight years.

The legislation is silent regarding the requisite qualifications of the Parliamentary Budget Officer or how the recruitment process should proceed. That said, the position was publicly advertised through the Australian public service jobs website in March 2012 and listed the following qualifications:

- extensive senior experience in public policy, policy costings or similar work;
- exceptional strategic leadership capacities and the ability to inspire a small workforce to fulfil a very specific range of functions;
- excellent stakeholder relationship management abilities;
- high integrity and credibility;
- well-developed strategic and analytical skills;
- an understanding of the Commonwealth budget and the role and operations of Parliament in Australia's federal system;
- Australian citizenship and ability to satisfy required security clearances.

The inaugural Parliamentary Budget Officer, Mr. Phil Bowen, was appointed in May 2012 and began work in July. He brought over several decades of professional experience, including senior positions in the Finance Department directly relevant to the role of Parliamentary Budget Officer, including five years as head of the Budget Group. Prior to his appointment, he was the Australian Director on the board of the Asian Development Bank.

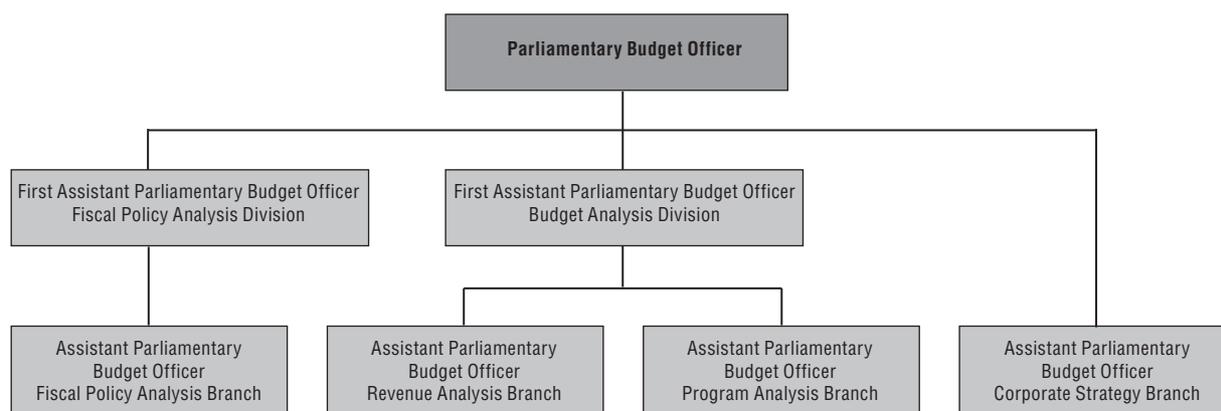
Section 64XE of the act provides for removal of the Parliamentary Budget Officer from office by the Presiding Officers if “each House of the Parliament, in the same session of the Parliament, presents an address to the Presiding Officers praying for the removal of the Parliamentary Budget Officer on the ground of misbehaviour or physical or mental incapacity” or if the “Parliamentary Budget Officer becomes an insolvent under administration”. Should he or she wish to resign, the Parliamentary Budget Officer must give written notice to the Presiding Officers (section 64XD).

## 8.2. Staff

The PBO's organisation structure is directly aligned with its core functions. A six-person senior management team reports to the Parliamentary Budget Officer. The top structure (see Figure 1) comprises a Fiscal Policy Analysis Division (two senior executives), a Budget Analysis Division (three senior executives) and a Corporate Strategy Branch (one senior executive).

The Fiscal Policy Analysis Division is responsible for developing and managing the PBO's self-initiated programme of published research on the budget and fiscal policy. The Budget Analysis Division is responsible for preparing analyses of the budget, and undertaking costings of revenue and expenditure proposals. The Corporate Strategy Branch is responsible for formulating corporate strategies and policies; delivering corporate services, including accommodation, personnel, finance, procurement and IT services; and ensuring that the PBO meets its reporting and other compliance obligations.

As noted in the Parliamentary Budget Office work plan for 2012-13, the ability of the PBO to fulfil its mandate depends on the “skills base, experience and commitment of its staff”. The PBO is funded for approximately 40 full-time staff; as of the end of July 2014 it had a complement of 38 staff. Further recruitment action is underway.<sup>7</sup> The PBO's staff

Figure 1. **PBO organisation chart**

principally comprises technical specialists in economics, accounting, commerce and public administration. Almost two-thirds of PBO staff hold post-graduate qualifications and virtually all staff have direct experience in costing, fiscal analysis and budgeting gained in the Australian public service (APS). Their mean age is 36, which is lower than the comparable figure in the APS (43).

As the PBO is a parliamentary department, all staff are employed under the terms of the Parliamentary Service Act 1999, which stipulates that their loyalty rests with the parliament rather than the government. In general, this legislative framework provides for wages, benefits and employment conditions that are similar to the APS. There are also provisions that ensure mobility between the APS and the parliamentary departments (Section 26 of the Parliamentary Service Act). Administratively, management of staff and human resources rests with the Parliamentary Budget Officer, who holds the authority to hire or terminate staff.

The PBO will use outside consultants where there is a requirement for specialised expertise that is not available in-house, or where it would not be cost effective to maintain such expertise on a permanent capacity. It is anticipated that this type of support will be short-term in nature and linked to specific projects undertaken by the PBO.

## 9. Access to information

The Parliamentary Service Act does not give the PBO statutory information-gathering powers. However, consistent with recommendation 13 in the Joint Select Committee on the Parliamentary Budget Office, the act provides that the Parliamentary Budget Officer may make an arrangement with the head of any Commonwealth body to obtain relevant information and documents (64F). Further, the arrangement may make provision for confidentiality of documents, as required. Any such arrangement must be in writing and be publicly available.

Shortly after the first Parliamentary Budget Officer was appointed, he negotiated a memorandum of understanding (MoU)<sup>8</sup> with the heads of Commonwealth bodies regarding information access. While initially concluded with the Secretaries from the Department of Finance and Department of Treasury, there are now 28 Secretaries and heads of agencies that are party to the agreement. Other Commonwealth bodies may opt to negotiate independent arrangements with the Parliamentary Budget Officer, in

consultation with the Treasury and Finance Secretaries. The PBO also benefits from strong informal collaboration with other agencies on technical issues.

The Parliamentary Budget Officer has publicly noted that the MoU is intended to have a clear “pro-disclosure” bias. While the MoU is not legally binding, it clearly enumerates the obligation of parties to maintain a co-operative working relationship that encourages the timely flow of information and data relevant to the Parliamentary Budget Officer’s mandate. This specifically identifies the:

- process to request information and documents from a department;
- appropriate procedures to respond to these requests (including an indicative timeframe for response: urgent within five days, routine within 10 days, and during the caretaker period within 3 days);
- requirement to explain in writing why a Commonwealth body is unable to comply with a request;
- provisions regarding the confidentiality of requests and the treatment of confidential data; and
- monitoring and evaluation mechanism.

Finally, the MoU includes a dispute-resolution mechanism that commits the parties to attempt to resolve any disputes at the “lowest, most informal, level practicable”. If this cannot be achieved, the MoU provides that either party may request the appointment of a mediator to resolve the dispute, with the mediator to be agreed to by both parties. Regardless of any disagreement on a specific information request, all signatories agree to continue to perform their obligations under the MoU pending resolution of the dispute.

In addition to the MoU, the government issued the “Australian Government Protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer” (the protocols). The protocols highlight the Australian government’s intent to support the Parliamentary Budget Officer in the performance of his or her functions. As described in the introduction to the protocols, they are “government policy and promote the government’s basis for heads of Commonwealth bodies and their staff to manage their interactions with the PBO. They also seek to facilitate and promote the ready and open exchange of views and information between Commonwealth bodies and the PBO, and to ensure a high-level of consistency and transparency across government.”

The Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2013 mentioned earlier, in addition to requiring the PBO to prepare a post-election report, also amended the Taxation Administration Act 1953 to allow the PBO to have access to confidential taxpayer data from the Australian Taxation Office for use in performing its statutory functions.

To help assure parliamentarians that they can deal with the PBO on a confidential basis, the PBO was exempted from the provisions of the Freedom of Information (FOI) Act. Subsequently, the Freedom of Information Amendment (Parliamentary Budget Office) Act 2012 amended the FOI Act and the Privacy Act 1988 to extend the FOI exemption to information held by government departments and agencies that relates to a confidential request to the PBO. One important related aspect of the protocols is that they mandate that ministers and their staff will not ask heads of Commonwealth bodies for any information which would disclose the nature of a confidential request from the Parliamentary Budget Officer.

The PBO monitors and reports on information requests sent and responses received, both in its annual report and in reports to the Senate Finance and Public Administration Legislation Committee. Overall, Commonwealth bodies have generally responded to formal information requests in a reasonably timely and thorough manner, although in a few instances there have been long delays in the provision of information to the PBO. For the period of September 2012 to April 2014 the PBO made 679 requests for information, with the peak number of requests during the election period. The median response time was nine business days, although 18 responses took more than 51 business days (ANAO, 2014, p. 66). The length of time taken by an agency to respond to a PBO request depends on a number of factors, including the ease of extracting information, the magnitude of the request and competing work priorities (this can be an issue leading up to the government's budget and mid-year update).

The recent report of the National Audit Office indicates that, for the 20 agencies surveyed, all found the MoU effective and that the PBO's stakeholder management was effective. None had any concerns about the PBO's use of confidential information and none reported any dispute with the PBO. However, while only a few reported being unable to meet PBO requests, 17 indicated that they had difficulties meeting the timeframes and all reported that information requests had an effect on their agencies resources, with several claiming to have spent hundreds of hours on PBO information requests (ANAO, 2014).

The ANAO report concluded that the PBO has so far been able to access the information that it needs to conduct its work and that at present there is no need to change the arrangements made under the MoU and the protocols. It cautions however that:

... the PBO's lack of statutory information access powers are not aligned with the OECD's recommendation that an IFI's access to information should be guaranteed in legislation, and any restrictions to access should also be clearly defined in legislation. Due to the importance of the PBO's information access, this will be a matter for close monitoring. This will be particularly important in the future if there are unreasonable delays in obtaining information, or there are a large number of costings the PBO cannot undertake due to lack of access to information, including information about the Contingency Reserve<sup>9</sup> (ANAO, 2014).

Finally the ANAO report made one recommendation linked to confidentiality of information, to which the PBO agreed:

Recommendation No. 1

In the interests of greater transparency, the ANAO recommends that the Parliamentary Budget Office includes in all costings, estimates of administrative expenses, where significant. (ANAO, 2014)

The Public Accounts Committee subsequently endorsed this recommendation calling for the PBO's information gathering powers to be strengthened.

## 10. Transparency

The report of the Joint Select Committee on the Parliamentary Budget Office made four recommendations to encourage PBO transparency (16 to 19). The first provided overarching guidance that "wherever possible ... the work of the PBO (should) be made publicly available". Recommendations 17 and 18 provide that work should be kept confidential upon request of a client, but where possible the work that has gone into the preparation of a client request should be included in other public reports. Finally, recommendation

19 empowered the Parliamentary Budget Officer to make public statements, especially where they consider the work of the PBO to be misrepresented in the public domain.

The Act generally reflects these recommendations, stipulating that requests during the caretaker period must be released publicly (64L (2)), and that requests outside of the caretaker period may be treated confidentially if stipulated by the parliamentarian (64M). In the case of confidential requests, the Act further delineates the specific responsibilities of the Parliamentary Budget Officer and PBO employees regarding the management of confidential requests.

In practice, the PBO has adopted a model that reflects the spirit of the Committee's recommendations and the Act. At the request of the PBO's primary parliamentary stakeholders, much of the PBO's work is undertaken confidentially with parliamentarians able to disclose the analysis at their discretion. At the same time, the Parliamentary Budget Officer publishes all self-initiated work on the PBO's website, including the methodology, assumptions and data that underpin any analyses and research. Publication in this case is simultaneous for parliamentarians and the public.

Although the PBO is expected to inform the public debate on budgetary and fiscal policy issues, the Act is silent with respect to external communications between the PBO and media and general public. The PBO does not have a documented communications strategy; however, the Parliamentary Budget Officer has adopted an approach that aligns with the intent of the Joint Committee recommendation. While the Parliamentary Budget Officer is available to provide factual briefings to the media on request, emphasis is placed on letting the work "speak for itself". In practice, this means that the Parliamentary Budget Officer will generally only make formal public statements in the form of guidance material placed on the PBO website, public speeches, on-the-record comments before parliamentary committees and rebuttals to correct the record when the work of the PBO is being misrepresented. The PBO announces new publications posted on the PBO website via e-mail and Twitter. The PBO monitors media coverage of its work but does not have a formal process to analyse such coverage.

## **11. Governance, advisory support, monitoring and evaluation**

Consistent with the recommendations of the Joint Committee report (1 and 10), the act created both a PBO and a Parliamentary Budget Officer (64A and 64C). As a department of the parliament, the PBO is subject to oversight by the Presiding Officers with respect to administrative and financial matters. The Parliamentary Budget Officer is also required to develop the PBO's annual work plan in consultation with the JCPAA (64Q). However, the act stipulates the processes by which the Parliamentary Budget Officer fulfils their functions, and consequently exercise of the mandate of the Parliamentary Budget Officer is not subject to direction by the Presiding Officers (64P) or the JCPAA (64S).

Since June 2013, the PBO maintains an audit committee to provide independent assurance and advice to the Parliamentary Budget Officer on the risk management arrangements of the PBO and on external accountability responsibilities. This committee is comprised of two external appointees and the Assistant Parliamentary Budget Officer for the Corporate Strategy Branch. PBO staff form the secretariat to the committee. The Chief Finance Officer, representatives of the internal audit provider and the ANAO attend as observers.

As noted in the PBO work plan for 2012-13, peer-review processes will be used as required, depending on the complexity and nature of the project. The three major reports

released to date under the self-initiated work programme have all been peer-reviewed by external experts familiar with the data, methodologies and estimation techniques. Peer reviewers have been sourced from independent think tanks, academia, international organisations, private sector economists and other IFIs. In each case, the identity of the peer reviewers has been made public. The PBO anticipates maintaining this peer-review process on an ongoing basis.

Joint Committee recommendations 24 and 25 outlined a triennial evaluation process that was subsequently incorporated in the act (64T). Statute provides that within nine months following a general election, the JCPAA may request the Parliamentary Budget Officer to cause an independent review of the PBO to be undertaken. The request must specify who should perform the review, its scope, methodology and the requirement that the results be provided to the Joint Committee. The act also indicates that the request for a review must be conscious of the resources of the PBO. Following receipt of the report, the JCPAA is required to submit it to the Senate and the House of Representatives.

As described earlier, a performance audit of the administration of the PBO was completed by the Australian National Audit Office in June 2014. The ANAO audit objective was to “assess the effectiveness of the Parliamentary Budget Office in conducting its role since being established in July 2012”. The audit focussed on the governance of the PBO, access to information issues and the functions of the PBO, particularly its costing role, as well as the post-election report and self-initiated research.

This audit fulfilled the JCPAA’s requirement for an independent review. The ANAO’s report, entitled “The Administration of the Parliamentary Budget Office”, was highly positive, with one formal recommendation to improve the transparency of agency administrative expenses, where applicable, in policy costings. Among other things, it concluded that the PBO “is already well regarded as an authoritative, trusted and independent source of budgetary and fiscal policy analysis”, with stakeholders reporting that “for the first time, all parliamentarians have access to independent policy costing and information request services during all periods of the parliamentary cycle”, that the costings prepared by the PBO were of “high quality”, that the “PBO was professional to deal with” and that the “PBO’s work has improved the transparency around election commitments and facilitated a more informed public debate about budgetary matters”. The ANAO identified a limited number of administrative improvements for the PBO to consider going forward and highlighted potential issues around access to information and potential expansion of the PBO’s current mandate to include a role in monitoring progress against fiscal targets (ANAO, 2014).

It should be noted that the PBO has taken special initiatives to improve performance, for example, an “After Action Review” of its operations related to the 2013 election which made 21 recommendations all agreed by the PBO executive. The ANAO expects that implementation of these recommendations will enable the PBO to address several issues raised in the ANAO report (ANAO, 2014).

Since the review, the Public Accounts Committee has made a number of recommendations to:

- strengthen the PBO’s information gathering powers;
- require the PBO to prepare annual medium term (10 year) budget projections;
- include 10 year medium term projections in the post-election report of election commitments.

In addition, opposition policy is for PBO to also prepare: Independent economic forecasts, annual structural budget balance analysis and an intergenerational report every five years.

## 12. Concluding remarks

Stakeholders recognise that the work of the Australian PBO has helped to level the playing field for non-government parties and independent parliamentarians by giving them access to costing and budget information services that previously were not available to them. The PBO's first full year of operation saw a very strong demand for its services, in particular during the months leading up to the 2013 general election.

The accuracy of publicly announced election commitment costings has also improved markedly with no “black holes” having been identified in the 2013 election commitments. This is the first time that this has been the case for many years.

Budget transparency has increased as a result of the public release of the PBO's post-election report and the research papers that the PBO has published. For instance, the PBO's paper on the structural budget balance was the first paper to be released on this topic since a Treasury paper in 2010. Since the release of the PBO's paper in May 2012, each budget update has included a Treasury analysis of the structural budget balance.

The PBO has not only survived the test of a first change of government, its mandate was enhanced to include a new function – the production of a post-election report on the cost of parties' election commitments – and discussions are underway as to whether it should take on an additional roles in monitoring progress against fiscal targets and other areas.

The Australian PBO, although having commenced operations less than two years ago, has a track record of success demonstrated by its ability to recruit highly skilled personnel and attract substantial demand by a plurality of parliamentarians for its primary product: policy costings. This is due, in part, to adoption of many of the OECD's Principles for Independent Fiscal Institutions in the legislation and operating model, including:

- a non-partisan and independent PBO, Parliamentary Budget Officer and staff;
- a clearly articulated mandate that is set within legislation, including clear links to the budget process;
- adequate resources that are commensurate with its mandate; and
- a process for external evaluation of the PBO.

As the Parliamentary Budget Officer has stated publicly, “the establishment of the PBO as an independent and non-partisan institution of the Parliament represents a significant strengthening of Australia's public sector governance framework. It has the potential to provide all parliamentarians with a more level playing field from which to access analyses of the budget and fiscal policy, and costings of policy proposals. If used effectively, the PBO can work with the Parliament to help improve the integrity of the policy development process, better inform public policy debates and strengthen budget transparency.” The medium-term challenges will be to maintain and enhance the perception of the PBO as a trusted independent and non-partisan source of relevant, high quality and timely information, for all political constituencies; to ensure ongoing good access to information; and to continue to facilitate a more informed public debate.

## Notes

1. The Charter for Budget Honesty Act legislates a high level of budget transparency and specific disclosures. The Charter provides a comprehensive legal framework for the formulation and conduct of fiscal policy in general. Its provisions can be divided into two groups: a regime for setting fiscal objectives, and an extensive system of fiscal reporting to monitor the consistency of the government's fiscal actions with its stated fiscal objectives (OECD, 2008).
2. The commission's report was released publicly on 1 May 2014. See recommendations 1 and 2 at [www.ncoa.gov.au/report/phase-one/recommendations.html](http://www.ncoa.gov.au/report/phase-one/recommendations.html).
3. See [www.financeminister.gov.au/media-release/2014/05/13/our-response-national-commission-audit-report](http://www.financeminister.gov.au/media-release/2014/05/13/our-response-national-commission-audit-report).
4. To assist parliamentarians with their engagement with the PBO, the PBO has provided senators and members with guidance documents that are accessible on the PBO's website. See: [www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/guidance](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/guidance).
5. See for example, the PBO's Work Plan for 2013-14: [www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/corporate\\_publications/workplan13-14](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/corporate_publications/workplan13-14).
6. During the Joint Committee's inquiry, the Department of Parliamentary Services provided three estimates for the PBO's budget. The third (and the lowest) was for AUD 6 million per annum, providing for "employment of up to 20 staff and employment of external experts on demand" and allowing for the PBO to "undertake client requests and publications, but with limited research capacity".
7. Initially a number of temporary staff were seconded from the Australian public service. Permanent recruitment commenced in late 2012.
8. "Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents".
9. Currently the PBO does not have access to the details of provisions for individual items included in the contingency reserve and PBO guidance for costings indicates that PBO costings are prepared without this information.

## Bibliography

- Australian Government (2015), Parliamentary Budget Officer Job Announcement, [www.apsjobs.gov.au/SearchedNoticesView.aspx?Notices=10565893%3A1&mn=SESSearch](http://www.apsjobs.gov.au/SearchedNoticesView.aspx?Notices=10565893%3A1&mn=SESSearch).
- Australian National Audit Office (2014), *The Administration of the Parliamentary Budget Office*, Commonwealth of Australia, Canberra.
- Australian Parliamentary Budget Office (2015), [www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office).
- Blöndal, J.R. et al. (2008), "Budgeting in Australia", *OECD Journal on Budgeting*, Vol. 8, No. 2, OECD, Paris.
- Bowen, P. (2012), "The Parliamentary Budget Office: An Independent and Non-partisan Institution of the Australian Parliament", keynote address to the Certified Practising Accountants Congress, Commonwealth of Australia, Canberra.
- Department of the Parliamentary Budget Office (2013), "Portfolio Budget Statements 2012-13", *Budget Related Paper No. 1.20D*, Commonwealth of Australia, Canberra.
- Joint Select Committee on the Parliamentary Budget Office (2011), "Inquiry into the proposed Parliamentary Budget Office", Commonwealth of Australia, Canberra.
- Ministry of Finance and Deregulation (2012), "Charter of Budget Honesty Costing Guidelines", Commonwealth of Australia, Canberra.
- PBO (Parliamentary Budget Office) (2012), "Parliamentary Budget Office Work Plan for 2012-13", Commonwealth of Australia, Canberra.
- PBO (2012), "Memorandum of Understanding between the Parliamentary Budget Officer and the Heads of Commonwealth Bodies in relation to the Provision of Information and Documents", Commonwealth of Australia, Canberra.
- PBO (2012), "Summary Guide to Policy Costings: Procedures, Information Requirements and Methodology", Commonwealth of Australia, Canberra.

PBO (2012), "Parliamentary Budget Office: Australia", presentation to the Fourth Annual Meeting of OECD Parliamentary Budget Officials and Independent Fiscal Institutions, Commonwealth of Australia, Canberra.

PBO (2013), "Parliamentary Budget Office Work Plan for 2013-14", Commonwealth of Australia, Canberra.

**Legislation**

Charter of Budget Honesty Act 1998, No. 22, 1998, Commonwealth of Australia, Canberra.

Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011, No. 170, 2011, Commonwealth of Australia, Canberra.