



Part **1**

Introduction and overview

Parliamentary Budget Officer's review

The establishment of the Parliamentary Budget Office (PBO) represents possibly the most significant institutional initiative to enhance the Commonwealth's fiscal management framework since the introduction of the *Charter of Budget Honesty* in 1998.

The Australian Parliament now has an independent and non-partisan institution that it can call on to provide analysis of the budget, fiscal policy and the financial implications of policy proposals.

Commencing on 23 July 2012, the PBO was faced with two related but competing priorities, namely to accept requests from parliamentarians as quickly as possible, and to put in place the necessary capability to enable the PBO to respond effectively to such requests.

The PBO moved quickly to engage with key parliamentary stakeholders, recruit appropriately qualified and experienced staff, and build its financial modelling and costing capabilities. Particular thanks are due to the Treasury and the former Department of Finance and Deregulation (Finance) for their generosity in releasing a number of high-quality staff on secondment to the PBO pending the recruitment of its own permanent staff.

A conscious decision was taken to start accepting requests for work from early September 2012, less than two months after the PBO opened its doors. This decision was taken on the basis that, while the PBO was far from fully staffed at that point in time, the best way to learn a job is to do the job. The forbearance and understanding of our stakeholders, who in the early days sometimes had to wait considerable periods of time to receive their responses, are appreciated.

Over the course of its initial year of operations, the PBO developed into a fully functioning institution with 33 staff as at 30 June 2013. The PBO was well placed to respond to the heavy workload it faced in the lead-up to the 2013 general election.

Access to information in a timely fashion is vital for the PBO to be able to prepare high-quality responses to requests from parliamentarians within reasonable timeframes. To this end the PBO engaged extensively with government agencies to put in place arrangements for the provision of information to the PBO.

By and large these arrangements have worked well and the PBO is grateful for the cooperation it has received from agencies. The PBO acknowledges that its requests for information have placed a substantial additional workload on many government agencies. To 30 June 2013, the PBO had made 360 requests of agencies and received 331 responses. Most responses were received in a timely manner. In only a limited number of instances have extended delays in receiving responses from agencies affected the PBO's ability to respond to requests from parliamentarians in a timely fashion.

As flagged in the PBO's work plan for 2012–13, in its first year the PBO had to allocate most of its resources to responding to requests for policy costings and budget information. To 30 June 2013, the PBO had received 607 requests for work (net of withdrawn requests) and prepared 461 responses. This workload reflected a pent-up demand for the PBO's services, in particular from non-government parliamentary parties. The level of demand was heightened by the impending 2013 general election.

Experience to date suggests that the PBO has already had a significant impact in helping to level the playing field for non-government parties and independent parliamentarians. It has done so by helping to redress the asymmetry of access to costing and budget information services that existed prior to the establishment of the PBO. Now non-government parties and independent parliamentarians have access to similar costing and budget information services from the PBO that government parties have always had available to them from government agencies.

The PBO often engages with parliamentary parties and independent parliamentarians on an iterative basis as they refine their policy options. This process can be expected to result in more robust policy development with greater financial rigour. Over time, this involvement by the PBO will be likely to help sharpen the focus of public debate on substantive policy issues rather than on the accuracy of the policy costings.

The PBO was able to devote resources to publish one report in 2012–13 under its self-initiated program of research and analysis of the budget and fiscal policy settings. Following the May 2013 Budget, the report, *Estimates of the structural budget balance of the Australian Government: 2001–02 to 2016–17*, was released. After the work associated with the 2013 general election has been completed, the PBO expects to allocate significantly more resources to its self-initiated work program, which has a focus on budget sustainability and transparency.

On several occasions throughout the year the PBO met with the Joint Committee of Public Accounts and Audit (JCPAA). Topics for discussion included the PBO's 2012–13 work plan and 2013–14 budget estimates, and its enhanced mandate to prepare a post-election report on the budgetary implications of the election commitments of parliamentary parties. The JCPAA provided valuable support to the PBO during its establishment phase. The PBO looks forward to a productive ongoing relationship with the JCPAA.

The PBO appeared before the Senate Finance and Public Administration Legislation Committee at its hearings in October 2012 and February 2013. The PBO has commenced providing the committee with a report on performance statistics in advance of each committee hearing and intends to continue this practice.

Over the course of the year I met on a regular basis with the Presiding Officers. They provided wise counsel and strong support for the independence and non-partisan character of the Parliamentary Budget Officer's role.

Finally, it is important to acknowledge the efforts of the PBO's highly proficient, hardworking and dedicated staff. Their contribution has been vital to the success of the PBO in its inaugural year.

Phil Bowen PSM FCPA
Parliamentary Budget Officer

A new parliamentary institution

Establishment of the Parliamentary Budget Office

On 23 July 2012 a fourth parliamentary department, the Parliamentary Budget Office, began operation. On that day the PBO's employees consisted of two people—the inaugural Parliamentary Budget Officer, Mr Phil Bowen PSM FCPA, supported by an SES Band 1 interim executive officer. By 30 June 2013 the PBO had grown to 33 employees and provided 461 responses to confidential requests for policy costings and budget information.

The PBO is one of four parliamentary departments that provide support for the workings of the Parliament:

- Department of the Senate
- Department of the House of Representatives
- Department of Parliamentary Services
- Parliamentary Budget Office

The PBO was established as a result of amendments to the *Parliamentary Service Act 1999* in 2011 and followed consideration by a joint select committee.

Consistent with the *Agreement for a Better Parliament* reached at the beginning of the Forty-third Parliament, a bipartisan joint select committee was appointed to consider matters relevant to the establishment of the PBO.

The committee unanimously recommended the formation of the PBO, and also recommended that the position of Parliamentary Budget Officer be created as an independent officer of the Parliament through dedicated legislation.

These recommendations were reflected in the Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011, which gave the PBO its own statutory basis as a guarantee of its independence. This structural independence enables the PBO to provide independent, non-partisan budget and fiscal policy analysis and policy costings for members of Parliament.

During its first three months the PBO seconded a number of temporary employees with appropriate skills and experience from Australian Public Service agencies. This allowed the PBO to operate with maximum flexibility while it gained an understanding of the full nature and extent of the workload it would face in the future. Taking on temporary employees also meant that the PBO could prepare costings from September 2012 onwards, and begin to recruit a permanent workforce.

Significant dates

30 May 2012	Parliamentary Budget Officer Phil Bowen appointed
23 July 2012	PBO begins its work
28 August 2012	PBO releases its first guidance document for Senators and Members
18 September 2012	Mr Bowen provides a House Briefing about the role and functions of the Parliamentary Budget Office
24 September 2012	<i>Memorandum of understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents (MOU)</i> signed by the Parliamentary Budget Officer and the secretaries to the Department of the Treasury and the former Department of Finance and Deregulation
28 September 2012	The Australian Government issues <i>Australian Government protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer</i> to support the operation of the MOU
12 October 2012	PBO's first work plan published
4 December 2012	Assent given to the <i>Freedom of Information (Parliamentary Budget Office) Act 2012</i> , which provided a new freedom of information exemption for documents related to requests to the PBO
14 May 2013	2013–14 Budget measure to enhance the PBO's capability and function
29 June 2013	Assent given to the <i>Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013</i> , which expanded the PBO's mandate to include the requirement to report on the election commitments of designated parliamentary parties after a general election

Purpose

The purpose of the PBO, as reflected in the Parliamentary Service Act, is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. This is also the PBO's outcome statement.

Functions

The Parliamentary Service Act gives the Parliamentary Budget Officer the following functions:

- 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
- 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
- to prepare responses (other than policy costings) to requests relating to the Budget by Senators and Members, with the requests and the PBO's responses to be kept confidential if so directed by the requestor
- 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
- to produce a post-election report on the election commitments of designated parliamentary parties within 30 days of a general election
- 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.

These functions include the February 2013 announcement by the Deputy Prime Minister to expand the Parliamentary Budget Officer's mandate to produce a post-election report on election commitments. The Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2013 also enhanced the PBO's access to information from Commonwealth bodies to assist in delivering the report, and amended the *Taxation Administration Act 1953* to allow the Australian Taxation Office to provide confidential taxpayer data to the PBO so the PBO could carry out its statutory functions. The *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013* was assented to on 29 June 2013.

A budget measure to provide the PBO with additional resourcing to enhance its capability and functions was announced by the Government in the 2013–14 Budget.

Priorities for 2012–13

The key priorities for the PBO in its first year of operations were:

- to place the PBO on a fully operational footing with the capability to fulfil its mandate as a responsive and effective independent institution of the Parliament
- to gain the trust of the Parliament in the PBO as a valued source of budget and fiscal policy analyses and policy costings that strengthen the policy development process and enhance the transparency of the Budget and fiscal policy.

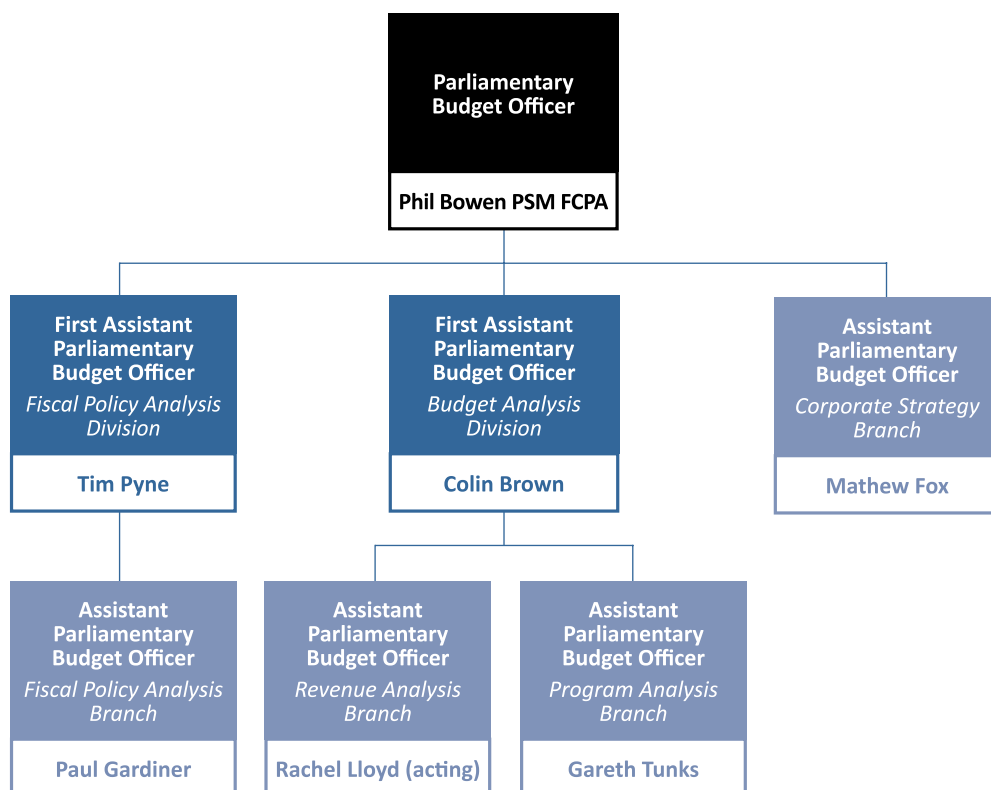
Organisational structure

Following the initial recruitment of employees in October and December 2012, the PBO’s organisational structure came into effect on 3 December 2012 (see Figure 1). The structure reflects the PBO’s key functions:

- Budget Analysis Division—responsible for budget analyses and policy costings requested by Senators and Members
- Fiscal Policy Analysis Division—responsible for fiscal policy analyses and leading the PBO’s self-initiated work program
- Corporate Strategy Branch—responsible for developing and implementing the PBO’s corporate strategies and policies, managing the delivery of its corporate services and meeting its compliance obligations.

Each area reports directly to the Parliamentary Budget Officer. As at 30 June 2013 the PBO had 33 employees, including six Senior Executive Service (SES) officers. The Budget Analysis and Fiscal Policy Analysis divisions are each headed by an SES Band 2 First Assistant Parliamentary Budget Officer. SES Band 1 Assistant Parliamentary Budget Officers head the Corporate Strategy, Program Analysis, Revenue Analysis and Fiscal Policy Analysis branches.

Figure 1: PBO organisational structure at 30 June 2013



Policy costings requested by Senators and Members

The PBO began receiving costing requests in September 2012, and from that time there was a high level of demand from Senators and Members throughout the reporting period. As at 30 June 2013, the PBO had received 607 requests for work (net of withdrawn requests), to which it had provided 461 responses. These responses were all to confidential requests for policy costings outside of the caretaker period, or confidential requests for information on the Budget.

The average time taken to respond to requests from parliamentarians improved progressively through 2012–13 as processes and procedures were implemented, models and modelling capability were developed, data was obtained and processes for obtaining data from agencies were refined, and as more employees were recruited.

Self-initiated work program

In 2012–13, the PBO contributed to improving the understanding of budget and fiscal policy settings through the release of its report *Estimates of the structural budget balance of the Australian Government: 2001–02 to 2016–17*. The report reviewed estimation methodologies from international literature and presented estimates of the structural budget balance within a range. These methodologies were peer reviewed by experts familiar with the data, methodologies and estimation techniques. Extensive testing of methodologies and assumptions was conducted to highlight the sensitivities of these estimates to these factors. The report also provided insights into the drivers of the structural budget balance position.

Preparation for the 2013 election

From early 2013, the PBO began preparing for the increased workload that would be associated with the 2013 election. Preparations included developing guidance material for parliamentarians about the costing processes during the caretaker period and providing guidance to agencies on processes that would apply during the caretaker and post-election report periods.

In particular, the PBO worked closely with the Department of the Treasury and the former Department of Finance and Deregulation:

- to settle the arrangements for handling costing requests during the caretaker period
- to establish arrangements for information requests and access to data during the caretaker period
- to obtain information for the preparation of the post-election report into the costs of the election commitments of designated political parties (including for exchanging information, models and costings undertaken during the caretaker period).

The PBO also contracted professional services firms to provide additional resources to support its analytical divisions during peak periods.

Guidance to Senators and Members

The PBO published the following guidance documents during 2012–13:

A summary guide to policy costings—procedures, information requirements and methodology (PBO Guidance 01/2012), released 28 August 2012

Clarification of the role of the Parliamentary Budget Office in undertaking costings and providing analyses of the budget during the caretaker period (PBO Guidance 02/2012), released 23 October 2012

Costing of policy proposals at the request of a parliamentarian or political party that are attributed to another parliamentarian or political party (PBO Guidance 01/2013), released 15 April 2013

Public release of confidential costings (PBO Guidance 02/2013), released 9 May 2013

All guidance documents are available on the PBO website.

Access to information

Section 64F of the Parliamentary Service Act enables the Parliamentary Budget Officer to make an arrangement in writing with the head of a Commonwealth body to obtain from that body information and documents relevant to the PBO's functions.

Consistent with this provision, on 24 September 2012 the Parliamentary Budget Officer and the secretaries to the Department of the Treasury and the former Department of Finance and Deregulation signed a *Memorandum of understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents* (MOU). Between 3 October and 15 October 2012, all portfolio secretaries, the Australian Statistician, the Commissioner of Taxation and the acting head of the Australian Customs and Border Protection Service elected to be covered under this agreement.

The MOU has a pro-disclosure bias and provides the basis for the Parliamentary Budget Officer to obtain from heads of Commonwealth bodies the information he needs to fulfil the PBO's mandate.

The MOU has assisted the PBO to develop productive and collaborative working relationships with Commonwealth bodies. As at 30 June 2013, the PBO had sent 360 requests for information to Commonwealth bodies under the MOU arrangements and had received 331 responses. Overall, 45 per cent of requests were met within the deadlines set. Of the overdue responses, 66 per cent were provided within a week of the deadline. Some responses took longer and in most cases reflected more complex requests and/or the ability of the agency to provide a response in the face of competing workloads.

To support the operation of the MOU, the Australian Government issued *Australian Government protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer* on 28 September 2012. The protocols mandate that ministers and their employees would not ask heads of Commonwealth bodies for any information that would disclose the nature of a confidential request from the Parliamentary Budget Officer.

The Government also amended the *Freedom of Information Act 1982* so that information is not able to be released contrary to the intention of the PBO legislation. The amendments commenced on 4 December 2012.

Capability development

Throughout 2012–13, the PBO focused on building its capability to conduct its analytical work including developing an operations manual, building its models and data repositories and actively engaging with relevant government agencies. The PBO's operations manual provides detailed information on working arrangements, the costing process, management of records, modelling and data resources. In 2013–14, the PBO will undertake further work to build data repositories and develop models to support its work.