

## Part 2: Performance

### Annual performance statement

#### Introduction

This part of the annual report addresses the performance of the Parliamentary Budget Office (PBO) in 2017–18 against the purpose and performance criteria published in the PBO work plan 2017–18 and PBO Portfolio Budget Statements 2017–18. This includes reporting on our priorities, key activities and achievements during 2017–18.

During the year, we enhanced our performance criteria and reflected these in our 2018–19 corporate plan. To enable comparison over time, we have integrated elements of these enhanced criteria into the discussion below.

As the accountable authority of the PBO, I present the 2017–18 annual performance statement, as required under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the department, and complies with subsection 39(2) of the PGPA Act.

Jenny Wilkinson  
Parliamentary Budget Officer

8 October 2018

#### Purpose

The purpose of the PBO is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policy proposals.

As outlined in Part 1, our purpose comprises three main functions, which are to:

- enable fiscal impacts to be considered during policy development by providing policy costing and budget analysis services to all parliamentarians
- improve public understanding of budget and fiscal policy issues by conducting and publishing research in these areas
- enhance the transparency around the financial implications of election commitments by preparing a post-election report of the budget impacts of the election commitments of parliamentary parties.

## **Priorities to support our purpose**

In order to achieve our purpose, we focussed on a number of priorities in accordance with our 2017–18 work plan. These were to:

- prepare high quality costings and budget analyses at the request of parliamentarians in a timely manner
- publish research that promotes a better understanding of the budget and fiscal policy settings, with a particular focus on the sustainability of the budget over the medium term
- engage effectively with parliamentary committees
- develop and maintain our costing and projection models and databases, and
- ensure we are appropriately prepared for the expected increase in demand for policy costing services in the lead up to the next general election, and are able to prepare the post-election report within the legislated timeframe.

We also committed to implementing our responses to the *Parliamentary Budget Office Review 2016–17* (PBO review) to further improve our operations and effectiveness.

## Achievement of our purpose

The framework the PBO has used to assess and measure its performance is as follows:

<b>Purpose</b>	Inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policy proposals ( <i>Outcome 1</i> )
<b>Performance criteria</b>	Relevance, quality and timeliness of PBO outputs as assessed by feedback from key parliamentary and external stakeholders Independence, transparency and integrity of PBO processes
<b>Source</b>	Work plan 2017–18 page 7 Portfolio Budget Statements 2017–18 page 11
<b>Measurement</b>	These criteria are measured by the extent of the demand for the PBO’s services, citations of the PBO in the media and feedback from stakeholders, once in each term of Parliament, via a survey.
<b>Result</b>	<b>Achieved</b>

Our overall assessment is that the PBO achieved its purpose during 2017–18.

The PBO continued to experience strong demand for policy costing and budget analysis advice in 2017–18, receiving requests for over 2,000 costing options. We responded to these requests in a timely manner, with a median response time of 15 business days. We were able to provide broadly similar levels of policy costings services as in previous years, in part because we continued to draw down the special appropriation provided to the PBO on establishment. This supplemented our ongoing departmental appropriation.

Demand for policy costings and budget analysis increased significantly in the fourth quarter of 2017–18. To efficiently manage this, we reallocated work across our teams and shifted resources to focus on areas of highest demand. We also enhanced our engagement with parliamentarians to ensure we focussed on the highest priority requests. More broadly we continued to improve the efficiency with which we receive access to data held by agencies and we progressed substantial improvements to our systems.

During 2017–18 we published research consistent with our work plan, aimed at promoting a better understanding of budget and fiscal policy settings. We also undertook significant preparatory work in order to be well-positioned for the next general election.

We engaged more broadly, particularly with our newly established panel of expert advisors, to improve the quality of our costing and research work. Our costing and research work was widely cited in the media and was referred to in discussions across a broad range of policy issues. Our 2018 stakeholder survey provided useful feedback about our operations and indicated a high degree of satisfaction with our services and the publications we produce.

The discussion below provides details of our performance across each of the three functions and broader department-wide activities we have undertaken to improve our organisational efficiency and effectiveness.

## Policy costings and budget analysis

Priorities	<ul style="list-style-type: none"> <li>prepare high quality costings and budget analyses at the request of parliamentarians in a timely manner</li> <li>engage effectively with parliamentary committees</li> <li>develop and maintain our costing models and databases</li> </ul>
Performance criteria	<p>Relevance, quality and timeliness of PBO outputs, indicated by:</p> <ul style="list-style-type: none"> <li>demand for our services by parliamentarians</li> <li>efficiency of our policy costings and budget analyses</li> <li>feedback from stakeholders</li> <li>mentions of our policy costings and budget analyses in media and in the Parliament.</li> </ul> <p>Independence, transparency and integrity of PBO processes, indicated by:</p> <ul style="list-style-type: none"> <li>compliance with publishing and confidentiality legislative obligations</li> <li>feedback from stakeholders</li> <li>broader perceptions as presented in the media and other mentions</li> <li>publication of information that clearly describes PBO processes and approaches.</li> </ul>

The PBO experienced strong demand for policy costings and budget analysis throughout 2017–18, with 2,218 requests for costing policy options and budget analyses received during the year (refer to Table 1). This is a similar level of demand for services as experienced during 2016–17. Requests for our services have been received from a wide range of parliamentarians, primarily from the major non-government parties. It is now the norm for significant policy announcements by the major non-government parties to include PBO estimates of the financial impact of the proposal.

We completed 1,560 responses to requests for costings of policy options and budget analyses, with a median response time of 15 business days. Further detail on the distribution of response times is shown in Figure 2. The median response time was up slightly from 2016–17. In part, this reflected the fact that in 2016–17 we re-costed a significant number of proposals during and immediately after the 2016 general election. Re-costings can generally be completed more quickly than new requests. During 2017–18, in contrast, we costed a significant number of new policy proposals. We provided 95 per cent of responses to requests within 60 business days.

We enhanced our prioritisation processes by establishing more regular consultation with parliamentarians about the progress of their requests and their priorities. This ensured that we focussed our efforts on the requests most urgent to each parliamentarian, particularly during the period when demand for policy costings increased.

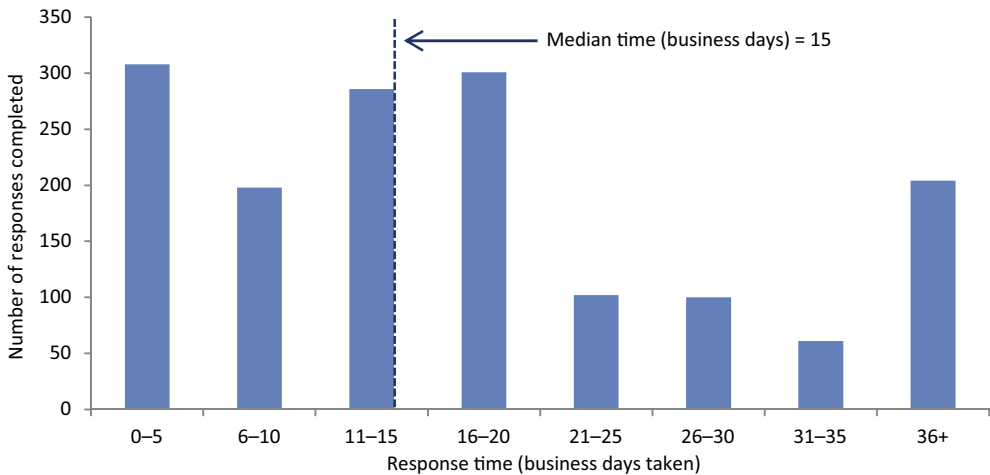
Table 1 summarises the demand for our policy costing and budget analysis services, along with our responses to these. Appendix B provides further detail of the PBO’s output of policy costings and budget analyses over the past five financial years.

**Table 1: Costing and budget analysis requests from parliamentarians and parliamentary parties**

	2016–17	2017–18				
	Total	Q1	Q2	Q3	Q4	Total
Requests outstanding at start of period	<b>20</b>	180	108	134	325	<b>180</b>
Requests received in period	<b>2,572</b>	448	264	627	879	<b>2,218</b>
Requests withdrawn in period	<b>524</b>	41	25	39	147	<b>252</b>
Requests completed in period	<b>1,888</b>	479	213	397	471	<b>1,560</b>
Average time to completion (business days)	<b>20</b>	22	25	15	20	<b>20</b>
Median time to completion (business days)	<b>12</b>	12	15	13	14	<b>15</b>
Requests outstanding at end of period	<b>180</b>	108	134	325	586	<b>586</b>

Note: The table identifies the number of options received by the PBO, noting that a single request can contain multiple options.

**Figure 2: Response times to parliamentarians and parliamentary parties requests**



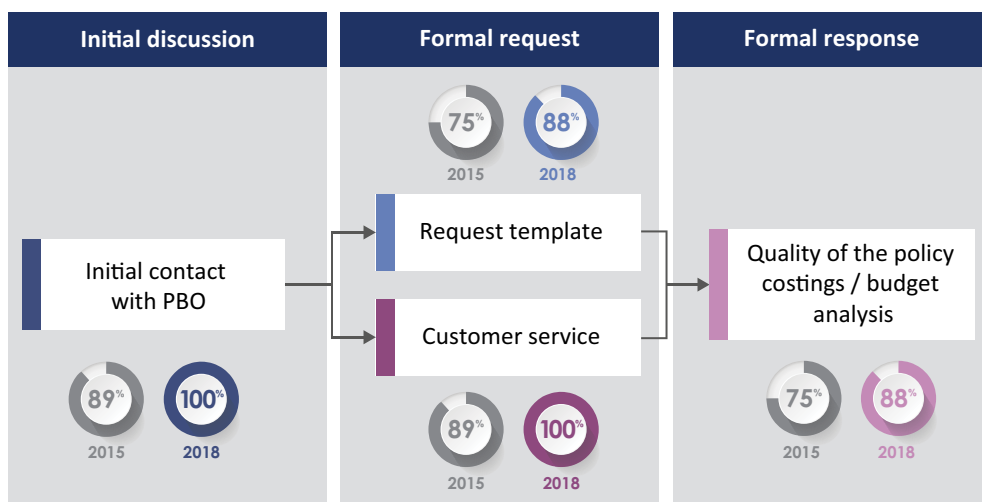
Almost all requests for costings of policy options and budget analysis were received on a confidential basis. Outside of the caretaker period for a general election, the PBO cannot disclose any information about a confidential request unless the parliamentarian who made the request specifies that it is not to be treated as confidential and/or releases the PBO costing response in full. We publish all PBO costing responses that are not subject to confidentiality provisions on our website. During 2017–18, we published 24 responses to costing requests.

In 2017–18, 30 policy announcements that were made by parliamentarians or parliamentary parties included references to PBO policy costings. These announcements were widely reported in the media and some of the policies concerned were the subject of considerable debate. These costings received broad coverage and were cited more than 500 times in the media, in relation to policy proposals or to support positions being put by parliamentarians, including by government members. Analysis of the nature of these citations shows that publicly, we are strongly perceived as independent and non-partisan. Our work was frequently mentioned in Parliament during debates about specific policy issues.

In addition to responding to requests from parliamentarians, we are also available to provide information to parliamentary committees. In 2017–18, we provided information in response to a request from the Senate Economics Legislation and References Committees in relation to the financial and distributional impacts of the various components of the Government’s proposed personal income tax cuts. This information was cited in the parliamentary debate regarding this legislation and in the Economics Legislation Committee’s report *Treasury Laws Amendment (Personal Income Tax Plan) Bill 2018 [Provisions]*, June 2018.

Our stakeholders indicated a high level of satisfaction with the PBO costing processes in their responses to our 2018 stakeholder survey. Respondents were given the opportunity to rate their experiences across each of the three stages of contact with the PBO: initial discussion; formal request; and formal response. Their ratings across a range of service attributes within each stage showed a solid to very high level of overall satisfaction across each of the three stages: 100 per cent of respondents were satisfied with the initial discussion and with customer service during the formal request; 88 per cent were satisfied with the request template itself; and 88 per cent were satisfied with the formal response.

**Figure 3: Experiences in dealing with the PBO**



Alongside these strong positive ratings, the findings also identified a number of opportunities for improvements in certain aspects of the PBO's service delivery arrangements. Positive sentiments tended to be more subdued for measures that related to responsiveness and timeliness of interactions with clients and accessibility of the request template and the response. Specifically, these related to the following within each interaction stage:

- **initial discussion:** ensuring that all questions are answered (71 per cent satisfied; 2015: 67 per cent) and clearly informing stakeholders of how long it would take to finalise their request(s) (71 per cent; 2015: 63 per cent);
- **formal request:** the request template is easy to complete (75 per cent; 2015: 100 per cent), information requested was reasonable (88 per cent ; 2015: 100 per cent) and the PBO kept me advised of the progress of my request (75 per cent; 2015: 78 per cent), and
- **formal response:** the response was easy to understand (75 per cent; 2015: 86 per cent).

One respondent provided the following comment:

*'Sometimes completed costings that we receive are very complicated and confusing. It would help if they could be simplified as much as possible'*

2018 PBO Stakeholder Survey

While the sentiments and ratings expressed in the survey responses suggested overall satisfaction with the PBO has improved, we acknowledge that a relatively small number of survey responses was received. We are investigating a range of mechanisms to gather feedback through other channels.

During the year, we reviewed the style and presentation of our policy costing and budget analysis work to ensure that the content is accessible to a broad audience and limited technical knowledge is required. These changes directly address feedback we received from our stakeholder survey regarding the complexity of the responses we provide to parliamentarians.

Another avenue for improving the quality of our costing work introduced during 2017–18 was the establishment of our panel of expert advisers, which consists of seven people with significant experience in economic analysis, fiscal policy matters and public finance. We have sought input from panel members to provide advice on the technical aspects of a number of policy costings as well as input into our model development and costing evaluations. We consulted with members of the panel in relation to matters such as the technical operation of aspects of the tax system and particular programs, the workings of various investment vehicles and the potential behavioural responses to incorporate into models. This initiative is consistent with a recommendation of the PBO review.

During 2017–18 we further enhanced the quality of our policy costings and budget analyses by commencing a program of evaluations of selected past costings and key models to assess the performance of our costing models and identify enhancements and key lessons to apply in future work. This review work targets representative costings and models with a view to providing insights that can be applied across a wide range of costing work. We have a number of evaluations underway, as part of a continuing program.

To promote understanding and improve the transparency of our work, we published four information papers on our website explaining different issues associated with costings.

### ***Enhancing the understanding of costing processes***

During 2017–18 we published a number of information papers aimed at improving the transparency of our processes and costing methodologies. These papers are:

- Factors influencing the reliability of policy proposal costings (13 September 2017)
- Including broader economic effects in policy costings (30 November 2017)
- What is a Parliamentary Budget Office costing? (30 November 2017)
- PBO costing processes, timeframes and prioritisation framework (15 February 2018)

During the year we also undertook a significant review of our website to improve access to, and understanding of, our work. We made our publicly-released costing work much easier to locate. We improved the information explaining our functions and how we undertake our work through publishing a significant array of *frequently asked questions*.

## **Research program**

<b>Priorities</b>	<ul style="list-style-type: none"> <li>• publish research that promotes a better understanding of the budget and fiscal policy settings, with a particular focus on the sustainability of the budget over the medium term</li> <li>• develop and maintain our projection models and databases</li> </ul>
<b>Performance criteria</b>	<p>Relevance, quality and timeliness of PBO outputs, indicated by:</p> <ul style="list-style-type: none"> <li>• feedback from stakeholders, including parliamentarians and our panel of expert advisors</li> <li>• mentions of our published research in media and in the Parliament</li> <li>• report downloads.</li> </ul> <p>Independence, transparency and integrity of PBO processes, indicated by:</p> <ul style="list-style-type: none"> <li>• feedback from stakeholders</li> <li>• broader perceptions as presented in media and other mentions</li> <li>• timely publication of datasets that underpin the charts in our published research.</li> </ul>



The research program is made up of regular publications which provide information and analysis of the fiscal position based on the annual budget. The program also includes other research reports which are selected on the basis of their contribution to improving the understanding of the budget and broader fiscal sustainability issues over the medium term.

In 2017–18, we released four regular publications. Three were set out in our 2017–18 work plan: *2017–18 Budget: medium-term projections*; *National Fiscal Outlook: As at 2017–18 Budgets*; and *2018–19 Budget Chart Pack*. The fourth publication—*2018–19 Budget Snapshot*—was a newly-launched publication. The Budget Snapshot provided a timely and accessible graphical summary of information contained in the 2018–19 Budget with the aim of improving public understanding of budget issues. The Budget Snapshot is now part of our regular suite of budget publications. These four publications are our flagship research products and are the key avenue with which we aim to promote public understanding of budget and fiscal policy issues.

Three other research reports were released in 2017–18 which focussed on analysis that improves our assessment of medium-term trends. The analysis took into account the recommendations of the PBO review to expand the focus of medium-term sustainability issues and to build an understanding of the underlying drivers of the budget, including historic factors and future demographic changes.

In addition to these reports, research commenced on the two remaining areas identified in the 2017–18 work plan: trends affecting the sustainability of Commonwealth taxes; and the impact of ageing on the budget over the medium term.

We also reviewed the structure and style of our publications, expanding our use of graphics, to make the publications accessible to a broader audience and illustrate key messages clearly.

## ***Enhancing the understanding of the budget and fiscal policy settings***

During 2017–18 we published the following research aimed at improving the public’s understanding of the budget and fiscal policy settings:

### **Regular publications**

- 2017–18 Budget: medium-term projections  
Report no. 02/2017 (5 July 2017)
- National Fiscal Outlook: As at 2017–18 Budgets  
Report no. 04/2017 (19 October 2017)
- 2018–19 Budget Snapshot  
(9 May 2018)
- 2018–19 Budget Chart Pack  
(1 June 2018)

### **Other research reports**

- Changes in average personal income tax rates: distributional impacts  
Report no. 03/2017 (11 October 2017)
- 2017–18 Budget medium-term projections: economic scenario analysis  
Report no 05/2017 (7 December 2017)
- Disability Support Pension – Historical and projected trends  
Report no. 01/2018 (20 February 2018)

In our 2018 stakeholder survey, respondents provided positive feedback on the research program. Eighty-four per cent of respondents considered that the publications were a valuable resource that assisted decision making. Respondents also agreed that the reports helped them gain a better understanding of budget issues and were easy to understand.

Respondents provided additional comments in relation to the publications provided by the PBO:

*‘Excellent’*

*‘PBO’s research output is incredibly important and I appreciate the focus on the medium-term outlook’*

*‘I find them very useful in my work’*

**2018 PBO Stakeholder Survey**

Media mentions of PBO research are indicative of the relevance and quality of our research. In 2017–18, there were around 350 mentions of PBO research publications in the media and in Parliament with the largest number of mentions relating to two reports: *2017–18 Budget: medium-term projections*; and *Changes in average personal income tax*

*rates: distributional impacts.* These reports were two of the most downloaded reports from our website during the year. Media coverage focussed on the results of our research and commentary highlighted the independence of the PBO.

The datasets that underlie our published research are made publicly available on our website, to enhance transparency of our work and to provide a basis for others to undertake their own analysis.

In developing our research publications, we engage with external reviewers to seek feedback on draft reports. We engaged with our expert panel on our research program at the first annual gathering of panel members on 5 June 2018. Individual panel members reviewed some of our publications prior to release, or were able to link us to relevant academic or industry experts who provided pre-release feedback on our research.

The enhancements to our website were also designed to make our research more accessible and easier to locate. New publications are clearly highlighted on our home page. To inform these changes, we considered specific feedback provided in our stakeholder survey.

## Enhancing the transparency around election commitments

<b>Priorities</b>	<ul style="list-style-type: none"> <li>• ensure we are appropriately prepared for the expected increase in demand for policy costing services in the lead up to the next general election and are able to prepare the post-election report within the legislated timeframe</li> </ul>
<b>Performance criteria</b>	<p>Relevance, quality and timeliness of PBO outputs, indicated by:</p> <ul style="list-style-type: none"> <li>• preparation to ensure legislative obligations can be met</li> <li>• improvements to efficiency of internal processes.</li> </ul> <p>Independence, transparency and integrity of PBO processes, indicated by:</p> <ul style="list-style-type: none"> <li>• improved ease of access to election commitment costings through enhancements to the PBO’s website</li> <li>• clear and accessible guidance material and other relevant information is provided to parliamentarians in a timely manner.</li> </ul>

In early 2018, the PBO began to prepare for the expected increased workload associated with the next general election. This involved:

- improving our capacity to meet the surge in demand for costings
- improving our workflow management system to more efficiently manage key tasks
- preparing revised guidance for parliamentarians on processes associated with costings and the report on the financial impacts of election commitments.

The PBO review recommended that the PBO should provide parliamentary political parties with fewer than five Members or Senators the option to have the financial impact of their election commitments included in the PBO's post-election report of election commitments. We accepted this recommendation and released a consultation paper on 5 March 2018 setting out some of the considerations in allowing small parties to opt in to the report. These considerations balance the benefits of providing transparency around the financial impact of parties' election commitments with the practicality and resource implications of the task.

On 27 April 2018, we published a guidance note, *Allowing minor parties to opt in to the PBO's post-election report of election commitments*, to outline how these new arrangements will be implemented.

We have also been planning how to extend the post-election report to include the financial impact of election commitments over the medium term. This will increase transparency given that a range of policy commitments and election commitments are likely to have a significant effect beyond the next four years. Implementation of this change will require all election commitments to be costed over the medium term—a practice that has been in place for all PBO costings since April 2017.

We have consulted widely on the approach we intend to adopt to include medium-term impacts in our post-election report, including how we would treat broad policy commitments such as announced caps on taxation or revenue. Guidance material on these matters will be published early in 2018–19.

More broadly, our preparations for the next general election have involved liaison with the major political parties with a view to encouraging them to submit policy proposals for costing well in advance of the election to ensure that we have the models and data available to cost those proposals. This engagement contributed to the surge in costing requests we received in the last quarter of 2017–18.

## Capabilities

We have identified four capabilities that enable us to effectively perform our functions and achieve our outcome—our employees, our data and models, our systems and our relationships. Continual improvement in these areas builds our organisational capability.

We continued to invest in our employees during the year through a range of learning and development activities. This is discussed in Part 3.

Model development and maintenance is a major ongoing focus of the PBO, and supports both our costings and research functions. The focus of our model development is to ensure that we have models available to us that cover a broad range of Commonwealth Government revenue and expenditure programs. Model development is further supported by securing access to the data needed to run our models.

During 2017–18, the key new model and data development activities we undertook were:

- the development of a company tax microsimulation model which allows for more detailed modelling of company tax policy proposals and related distributional analysis
- the development of a microsimulation model of housing ownership, prices and holding periods using private sector housing data
- collaborating with the Department of Education, the Department of Human Services and the Department of Health to obtain direct access to agency data warehouses, subject to appropriate data protection protocols, which allows more efficient access to relevant data and reduces burdens on agencies in responding to information requests
- developing medium-term projection models for higher education and for disability support payments.

We commenced work to make substantial improvements to our systems through two key activities:

- Following a 2016–17 review of our workflow management system, we engaged the system vendor to develop a range of enhancements. These will increase our efficiency by improving ease of use, expanding our performance reporting capabilities and improving the information available to monitor the status of stakeholder requests. A number of the enhancements are aimed at improving our efficiency during the peak workload period associated with a general election. These enhancements will be deployed in the first half of 2018–19.
- We reviewed our requirements for processing large datasets and our use of modelling software. This resulted in the development of new ICT hardware requirements which will significantly reduce the time taken to run complex data models. Updated hardware will be deployed early in 2018–19.

Good relationships with Commonwealth agencies are critical to ensure we are able to obtain data to support both our policy costing and budget analysis function, and our research function. We have continued to work closely with agencies to obtain data and models, as discussed above, and in return we share improvements and developments that we make to models. We monitor the performance of Commonwealth agencies providing data to us, as summarised in Table 2 below. This illustrates that we have continued to have excellent responsiveness from Commonwealth agencies, enabling us to operate effectively and efficiently.

Appendix B contains details of information request responsiveness by Commonwealth agencies during 2017–18. Appendix B also details responses from Commonwealth agencies to requests for information from the PBO over the past five financial years.

**Table 2: Information requests to Commonwealth agencies**

	2016–17	2017–18				
	Total	Q1	Q2	Q3	Q4	Total
Requests outstanding at start of period	<b>1</b>	16	13	74	7	<b>16</b>
Requests sent in period	<b>523</b>	57	143	56	168	<b>424</b>
Requests received in period	<b>508</b>	60	82	123	164	<b>429</b>
Requests received by due date	<b>499</b>	57	81	123	164	<b>425</b>
Requests received after due date	<b>9</b>	3	1	0	0	<b>4</b>
Percentage late	<b>2</b>	5	1	0	0	<b>1</b>
Average time taken to respond (business days)	<b>8</b>	16	6	9	9	<b>9</b>
Average punctuality (business days late)	<b>-2</b>	-1	-3	-1	-2	<b>-1</b>
Average lateness of late requests (business days)	<b>3</b>	2	7	0	0	<b>3</b>
Requests outstanding at end of period	<b>16</b>	13	74	7	11	<b>11</b>

We have continued to expand our external engagement to enhance our capabilities. As discussed earlier, we established a panel of expert advisors in 2017–18 to provide advice on technical aspects of policy costings, input into our model development and feedback on our research program. We have also expanded our engagement with university academics, private sector economists and researchers from think tanks to seek professional input into our work and feedback on our draft research reports.

We continue to engage with the Tax and Transfer Policy Institute at the Australian National University. The Parliamentary Budget Officer, Ms Jenny Wilkinson, is a member of the Institute’s Advisory Board. This engagement enables the PBO to provide input in relation to the Institute’s research priorities and identify areas for cooperation between the PBO and the Institute.

The Parliamentary Budget Officer is a member of the Organisation for Economic Co-operation and Development (OECD) Network of Parliamentary Budget Officials and Independent Fiscal Institutions (OECD network). The OECD network meets annually to share experiences and discuss issues relating to the mandates and operations of independent fiscal institutions around the world. Through this network we have continued our cooperative working relationships with the United States Congressional Budget Office, the Canadian Parliamentary Budget Office and the United Kingdom Office of Budget Responsibility.