



A SUMMARY GUIDE TO POLICY COSTINGS PROCEDURES, INFORMATION REQUIREMENTS AND METHODOLOGY

The Parliamentary Budget Office's Policy Costing Role

Policy costings to be undertaken by the Parliamentary Budget Office (PBO) fall into two categories:

1. outside the caretaker period for a general election, 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; and
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.

In both cases the PBO is required to prepare policy costings using approaches and costing conventions recommended in the most recent *Charter of Budget Honesty Policy Costing Guidelines*, unless the PBO, with the agreement of the Secretaries of Treasury and Finance issues its own written principles. The PBO has not issued its own costing principles. Hence the requirements of the *Charter of Budget Honesty Policy Costing Guidelines* apply to the PBO's costings.

This guide summarises the key aspects of the policy costing process. It should be read in conjunction with the 2012 *Charter of Budget Honesty Policy Costing Guidelines* issued jointly by the Secretaries of Treasury and Finance. That document includes a pro-forma for requesting policy costings during the caretaker period.

Procedures for Requesting Policy Costings

The procedures for submitting requests for policy costings are set out below. Each request must:

1. be in writing (addressed to the Parliamentary Budget Officer);
2. outline fully the policy to be costed giving relevant details; and
3. state the purpose or intention of the policy.

Outside of the caretaker period the request may include a direction to treat the request, the policy costing or any other information relating to the request as confidential. It is important that this direction be clearly stated in the written policy costing request from the outset of the process.

A pro-forma policy costing request for use outside of the caretaker period is attached. It provides a guide as to the more detailed information that should be provided to help ensure that the PBO is able to process the request as quickly as possible.

The PBO may need to seek additional information to complete a costing. In these circumstances the PBO must request the information in writing.

These procedures reflect the PBO's formal requirements. In addition, the PBO is available to meet with requestors, both to clarify any issues before a request is made and to discuss any additional information requirements after a request has been submitted.

Timelines for the Provision of Costings

Consistent with the *Charter of Budget Honesty Policy Costing Guidelines*, the PBO will endeavour to provide routine costings within five business days of receiving a request. However, in the case of complex costing requests requiring more time to obtain and analyse data, the PBO will make its best estimate of the time frame at the outset and provide timely updates to the requestor if this time frame is likely to be extended.

If the PBO does not have sufficient information, or has not had sufficient time to prepare a policy costing before a general election, the request for the policy costing is taken to have been withdrawn immediately before the start of the caretaker period for the election.

Costing Methodology

The costing methodology adopted by the PBO will be consistent with the *Charter of Budget Honesty Policy Costing Guidelines*. Consistent with these Guidelines costings will be provided for the current financial year plus the following three years. The Guidelines also provide that where a revenue or expense is likely to be significantly different beyond the forward estimates period, it may be necessary to include a statement about the financial impact of the policy in the relevant years beyond the forward estimates. A listing of conventions for the preparation of fiscal costings is attached.

Confidentiality

When outside the caretaker period a direction is given to the PBO to keep a policy costing request confidential, the PBO will take all reasonable measures to keep confidential the request, any related written or other interactions with the requestor, and the PBO's response. These measures will include appropriate levels of physical and IT security, the requirement for staff to hold appropriate security clearances, a strong culture of discretion within the Office, and the strict application of the need-to-know principle.

The PBO is currently in the process of negotiating a MOU with the Heads of Commonwealth bodies in relation to the provision of information and documents to the PBO. The MOU will place strict obligations on the Parliamentary Budget Officer and the Heads of Commonwealth bodies to protect the confidentiality of requests that are made in confidence by the PBO, and the information that is provided in confidence in response to such requests. When finalised, the MOU will be publicly released.

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Parliamentary Budget Officer



**PRO-FORMA POLICY COSTING REQUEST
OUTSIDE THE CARETAKER PERIOD**

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| Name of policy: | |
| Person requesting costing: | |
| Date of request to cost the policy: | |
| Is this policy costing or any other information relating to the request to be treated as confidential? | |
| Description of policy: | |
| Summary of policy (as applicable, please attach copies of relevant policy documents): | |
| What is the purpose or intention of the policy? | |
| What are the key assumptions that have been made in the policy including: | |
| Is the policy part of a package? If yes, list and outline components and interactions with proposed or existing policies. | |
| Where relevant, is funding for the policy to be demand driven or a capped amount? | |
| Will third parties (for instance the States/Territories) have a role in funding or delivering the policy? If yes, is the Australian Government contribution capped, with additional costs to be met by third parties, or is another funding formula envisaged? | |
| Are there associated savings, offsets or expenses? If yes, please provide details. | |
| Does the policy relate to a previous budget measure? If yes, which measure? | |
| If the proposal would change an | |

PRO-FORMA POLICY COSTING REQUEST – OUTSIDE THE CARETAKER PERIOD

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| <p>existing measure, are savings expected from the departmental costs of implementing the program? Will funding/cost require indexation? If yes, list factors used.</p> | |
| <p>If applicable, what are the estimated costs each year? Are these provided on a cash or fiscal basis?</p> | |
| <p>What assumptions have been made in deriving the expected financial impact in the party costing (please provide information on the data sources used to develop the policy)?</p> | |
| <p>Has the policy been costed by a third party? If yes, can you provide a copy of this costing and its assumptions?</p> | |
| <p>What is the expected community impact of the policy? How many people will be affected by the policy? What is the likely take up? What is the basis for these impact assessments/assumptions?</p> | |
| <p>Administration of policy:</p> | |
| <p>Who will administer the policy (for example, Australian Government entity, the States, non-government organisation, etc.)?</p> | |
| <p>Should departmental expenses associated with this policy be included in this costing? If no, will the Department be expected to absorb expenses associated with this policy? If yes, please specify the key assumptions, including whether departmental costs are expected with respect to program management (by policy agencies) and additional transactions/processing (by service delivery agencies).</p> | |
| <p>Intended date of implementation.</p> | |
| <p>Intended duration of policy.</p> | |

PRO-FORMA POLICY COSTING REQUEST – OUTSIDE THE CARETAKER PERIOD

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| Are there transitional arrangements associated with policy implementation? | |
| List major data sources utilised to develop policy (for example, ABS cat. no. 3201.0). | |
| Are there any other assumptions that need to be considered? | |
| NOTE: <i>Please note that:</i> <ul style="list-style-type: none">• <i>The costing will be on the basis of information provided in this costing request.</i>• <i>The PBO is not bound to accept the assumptions provided by the requestor. If there is a material difference in the assumptions used by the PBO, the PBO will consult with the requestor in advance of the costing being completed.</i> | |



COSTING CONVENTIONS

The following are standard conventions for the preparation of fiscal costings:

- Costings will focus on the effect of a policy on the Australian Government's key Budget aggregates (both cash and accruals). They will be produced in a manner consistent with normal Budget costing methodologies.
- Economic data and forecasts used in the preparation of costings will be consistent with the most recent relevant reports released under Parts 5, 6 and 7 of Schedule 1 to the *Charter of Budget Honesty Act 1998*.
- Costings will be on a current price basis.
- Costs will be on a June financial year basis and costings will be provided for the current financial year and the following three financial years.
- Full year, part year and one off effects (the steady state full year cost will be made clear) will be distinguished.
- Costings will generally be best point estimates. However, in some cases the Parliamentary Budget Officer may consider it appropriate to report ranges rather than point estimates.
- Costings will be prepared in accrual and cash terms. For each policy, the impact on the fiscal balance and underlying cash balance (and headline cash basis as appropriate) will be reported.
- Where relevant, the revenue and expense components of a policy costing will be identified separately (it is expected that most costings will typically involve revenue elements or expense elements only).
- In undertaking costings, departmental expenses will be included where analysis of the policy shows that these are material. Existing programs/policies of a similar nature will be used as a guide. Costings will not generally account for the impact on Public Debt Interest payments, except in those circumstances outlined in Part 4 of the *Charter of Budget Honesty Policy Costing Guidelines*.
- Assumptions used in costings will be based on the best professional judgment of the Parliamentary Budget Officer.