



Parliamentary
Budget Office

Establishing a Parliamentary Budget Office – the Australian experience

Address to the New Zealand Treasury
September 2019

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www.pbo.gov.au

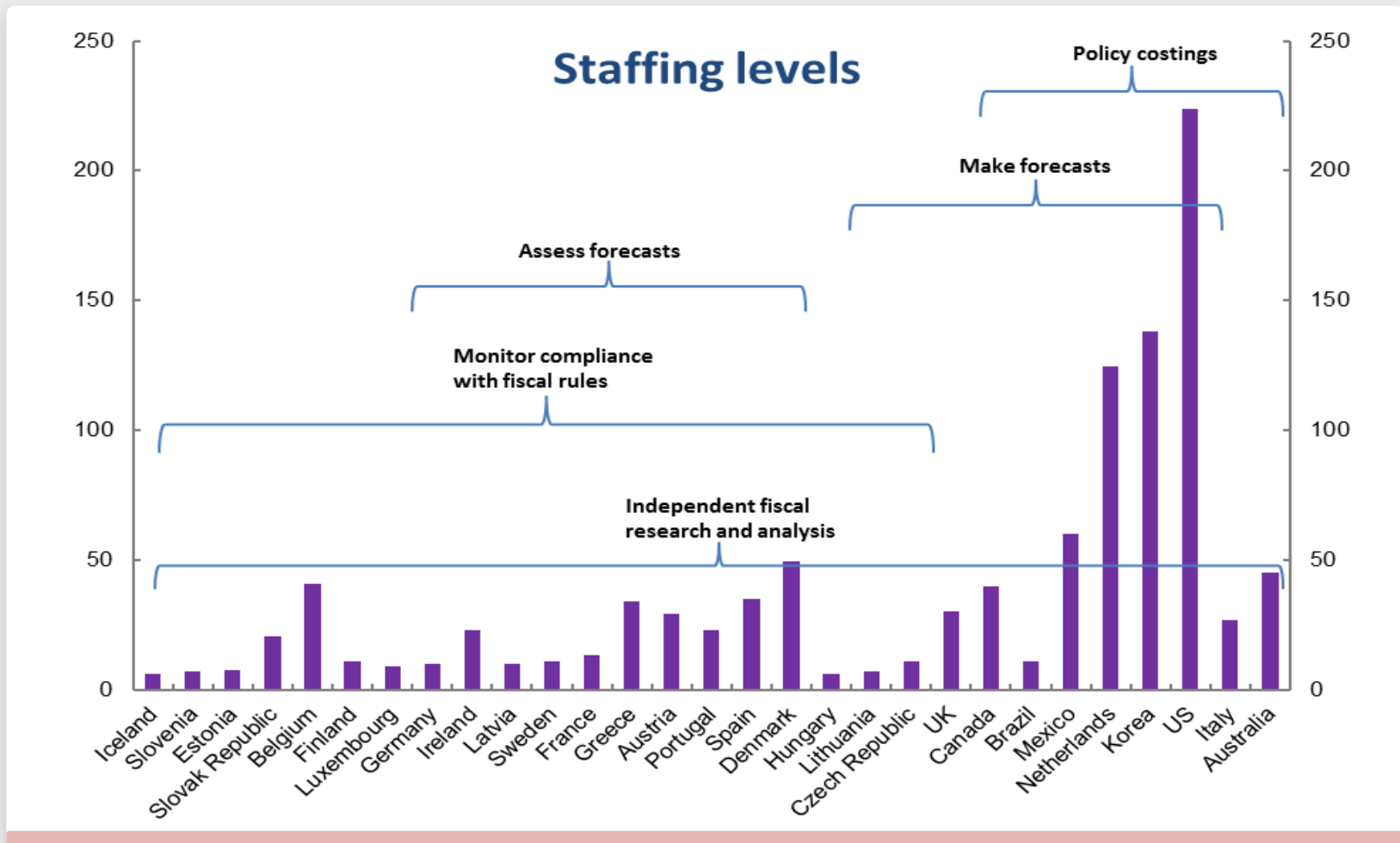
Brief outline

- Global perspective
- Australian context
- Key purpose and features of Australian PBO
- Contributors to our effective establishment
- Assessment of impact

Global trends to establish IFIs ...

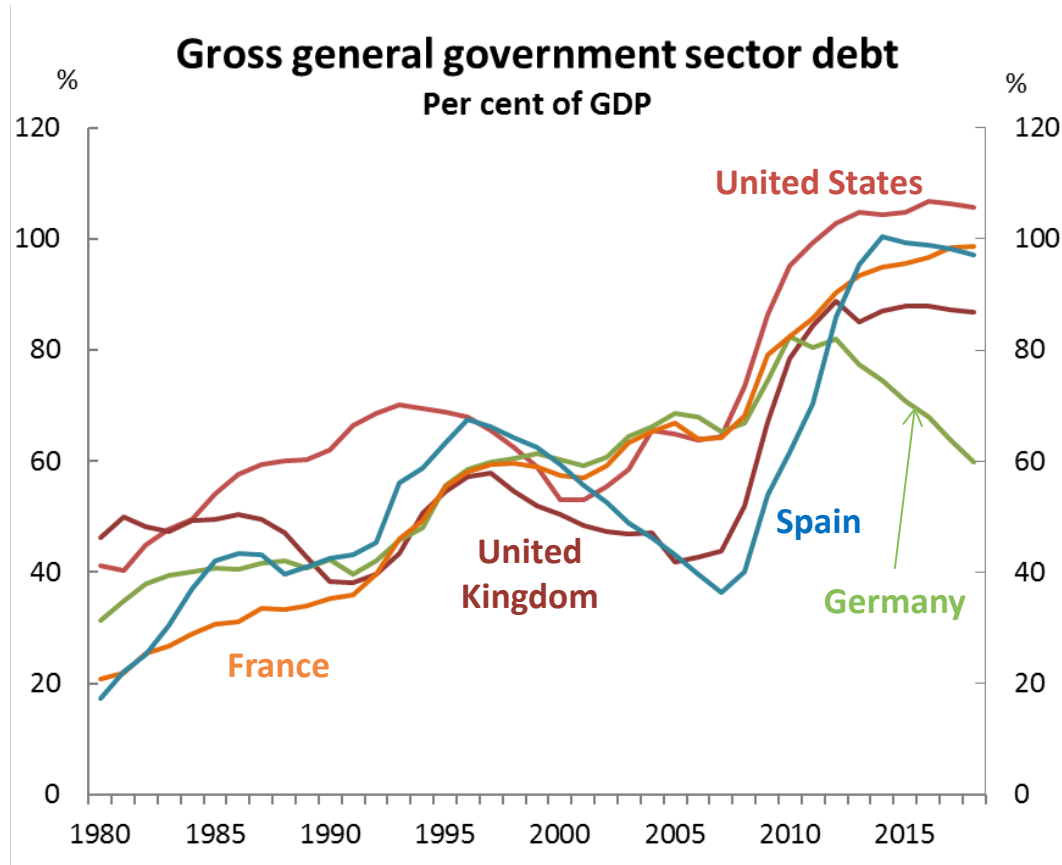
- A few countries (US, Netherlands) have had independent fiscal authorities for many decades
- From 2005 to 2019: the number expanded from 11 to 39
- EU established a requirement that member states establish such independent bodies
- UK established the Office of Budget Responsibility following concerns about biases in forecasting and adherence to fiscal targets
- OECD/IMF have increasingly advocated the establishment of independent authorities as part of good-practice fiscal frameworks

... but roles, mandates and sizes of IFIs differ significantly

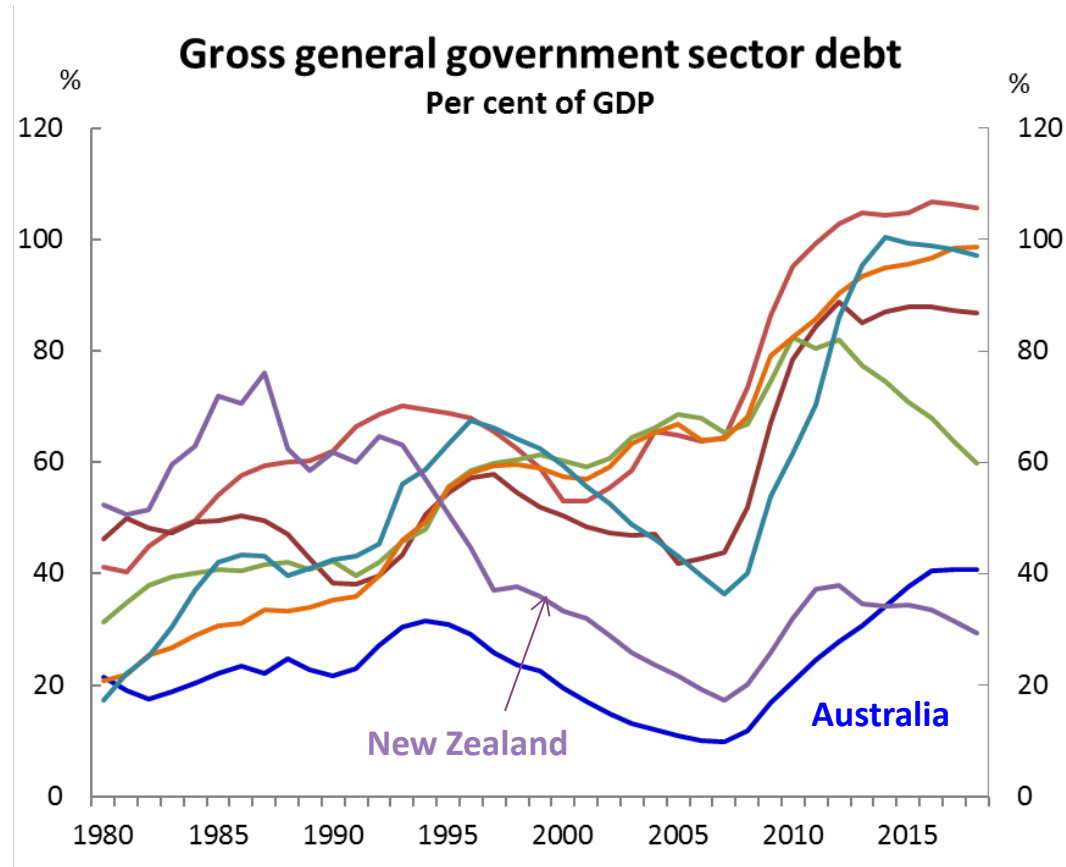


Source: OECD Independent Fiscal Institutions database, September 2019

The effect of the GFC on debt was important in some countries



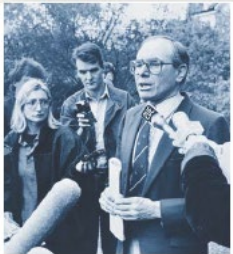
... but less so in Australia and NZ



Australian elections often featured costing debates

1987

Bob Hawke v John Howard



Coalition disaster as it double counts savings measures worth \$1.6bn to fund tax cuts.

1993

Paul Keating v John Hewson



Prime Minister Paul Keating savages Coalition leader John Hewson's Fightback proposal for GST after efforts by his predecessor, Bob Hawke, to get Treasury to find holes in policy failed.

2004

John Howard v Mark Latham



Labor plan for free health care for people aged 75 years and over, called Medicare Gold, costed by Department of Finance at \$700 million more than Labor claims.

1998

John Howard v Kim Beazley



Labor submits only 28 of its 312 election policies to Treasury and Finance for costing under new Charter of Budget Honesty. Finance concludes Labor's health policy will actually cost \$1bn less than it claims.

2007

John Howard v Kevin Rudd



Treasury assesses Labor's tax plan for funds management industry as costing \$500m, not \$100m as claimed. Major Labor policies, including mandatory renewable energy and a \$4.7bn broadband network not submitted for costings.

1990

Bob Hawke v Andrew Peacock



Coalition forced to dump its health policy after its health spokesman admits an internal costing showed abolishing Medicare would cost \$2.6bn.

1996

Paul Keating v John Howard



Department of Finance issues warning Coalition plan to sell Telstra would be too big for sharemarket to absorb and raise less than claimed. Labor claims \$5.9bn hole in Coalition costings. Treasury and Finance identify \$1.2bn discrepancy. Following election, Treasurer Peter Costello claims Labor hid a \$10bn hole in budget.

2010

Julia Gillard v Tony Abbott



Post-election Treasury assessment forced by crossbenchers finds Coalition policies result in net saving of \$4.5bn, not the claimed \$11.5bn.

2010 election delivered a minority government

NEWS

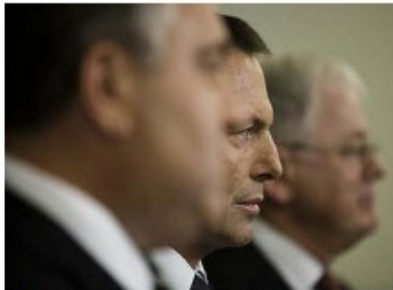
Treasury finds 'black hole' in Coalition costings

Sarah Collerton

Updated Thu 2 Sep 2010, 10:17am

The \$10b question: why Abbott and Treasury are so far apart on his costings

Mark Davis September 02, 2010



Opposition Leader Tony Abbott, flanked by his Treasury spokesman, Joe Hockey, and finance spokesman, Andrew Robb. Photo: Nicolas Walker

Herald Sun

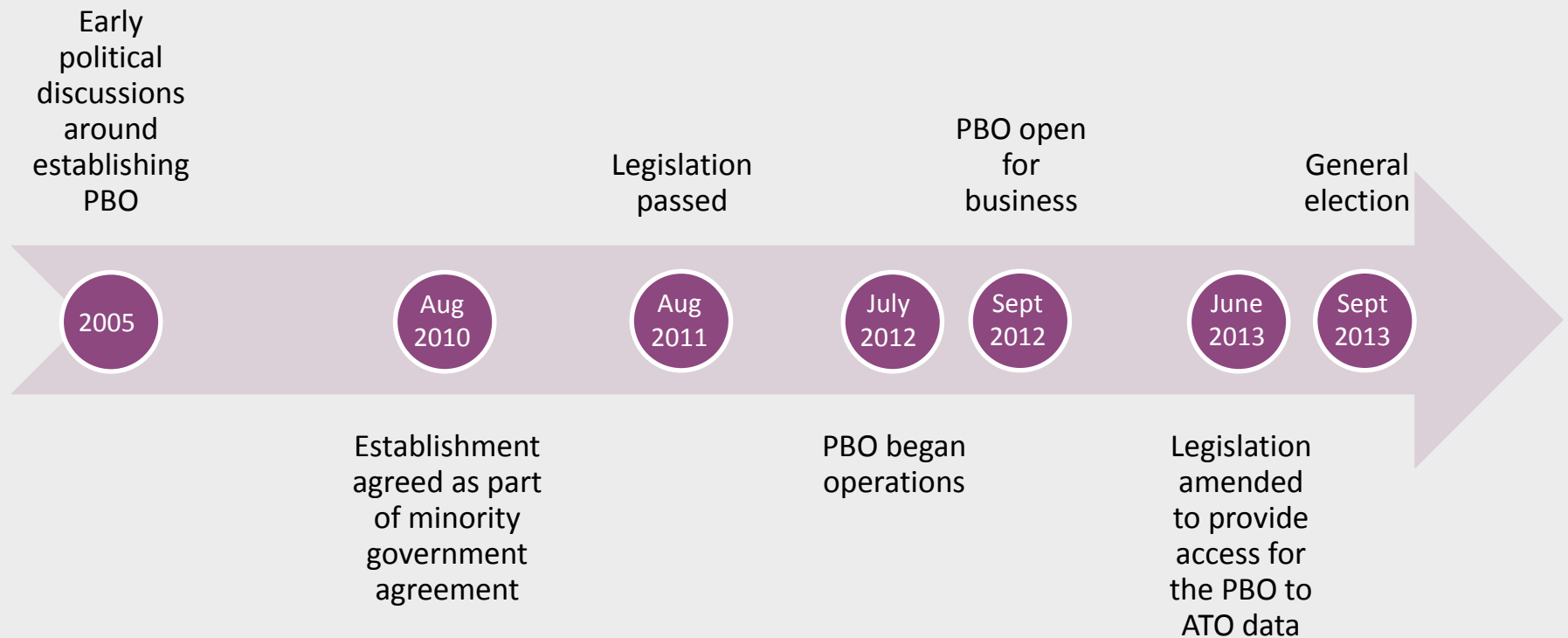
Tony Abbott says Coalition would deliver surplus despite 'black hole'

- by: Phillip Hudson with AAP
- From: AAP, Herald Sun
- September 01, 2010 11:34PM



Independent MP for New England Tony Windsor has labelled the Coalition's alleged costing error as a \$10b 'black hole'. Picture: Alan Pryke
Source: The Australian

Implementation of the PBO



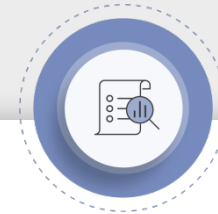
What are the features of the Australian PBO?



The PBO is an **independent and non-partisan** department of the Parliament



We aim to **assist all parliamentarians** to better understand budget issues and the budget implications of policies they may be considering



We undertake **objective analysis**; we do not provide policy advice or recommendations

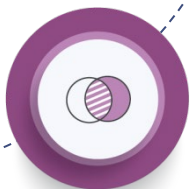
What is the PBO's purpose?



To provide a **more level playing field for all parliamentarians**; particularly non-government parties and independent parliamentarians



To improve the **accuracy of election commitment costings**



To **improve transparency**, particularly around budget information and budget-related issues

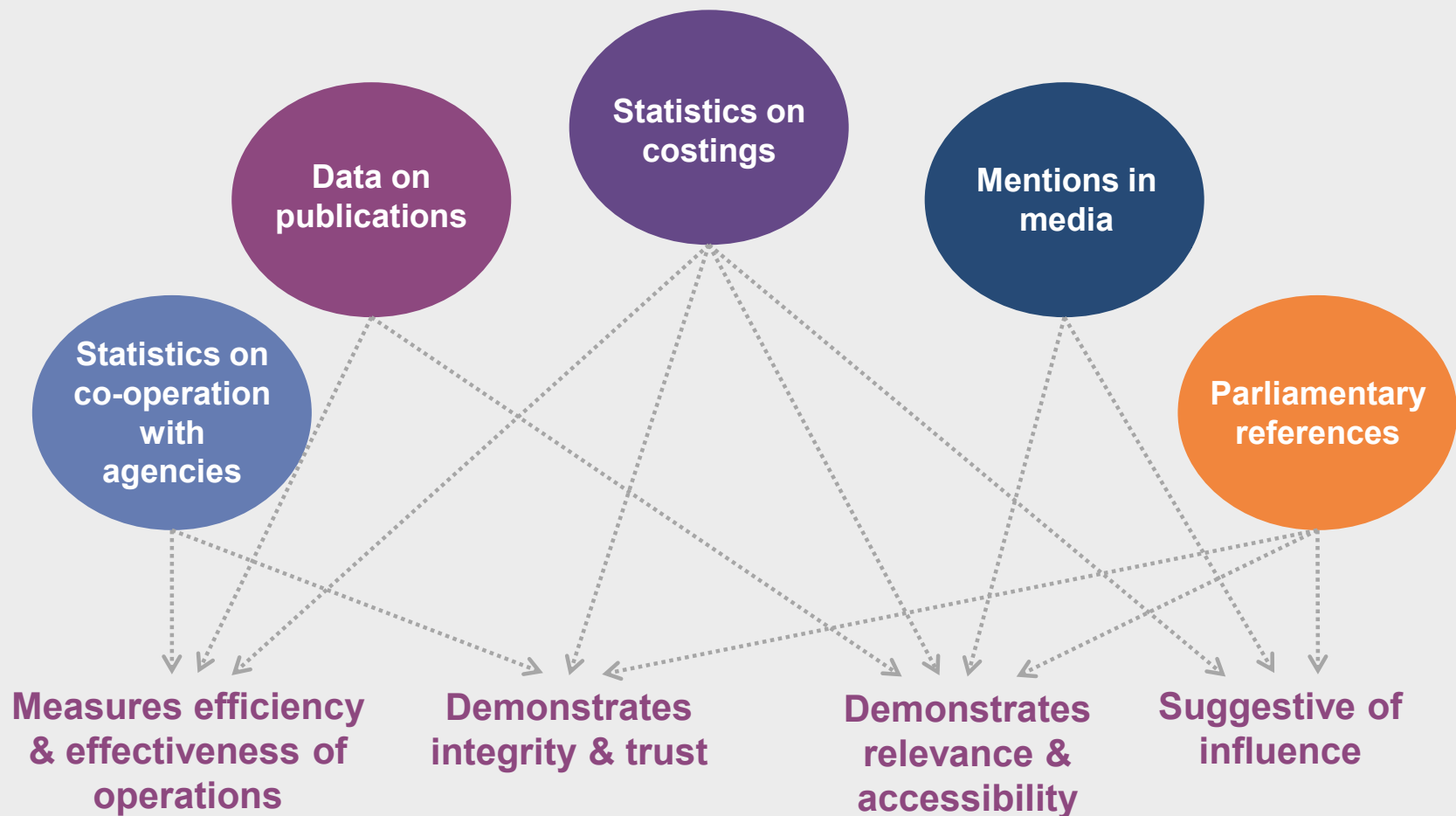
What do we do?

1. Confidential costings of policy proposals for parliamentarians
 - What would be the impact on the budget of a policy being implemented and what would be the number or distribution of people affected
2. Confidential budget analysis for parliamentarians
 - How much of a particular grant program has been spent, or how does a particular budget measure affect different groups of people
3. Assistance with parliamentary committee work
 - Particularly relevant when legislative committees are considering bills before Parliament
4. After each general election, publicly report on cost of parties' election commitments
5. Publish independent research on fiscal and budgetary issues

Key drivers of PBO's reputation and performance

- **Legislation:** establishes independence and confidentiality
- **Access to information and models:** effective MoU and cooperation with government agencies
- **Adequate resourcing:** around 45 staff with specialist skills
- **Research program:** builds reputation and commitment to transparency
- **Relationships:** with requestors, government agencies and external experts

Transparently report on our performance and impact



Our experience: demand for costings is strong

- Demand continues to increase over time, with a peak in election years

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--|---------|---------|---------|---------|---------|
| Number of requests completed (options) | 869 | 3,251 | 1,888 | 1,560 | 2,970 |
| Number of information requests sent to government agencies | 203 | 743 | 523 | 424 | 548 |

Our experience: broad interest in research program

Regular publications:

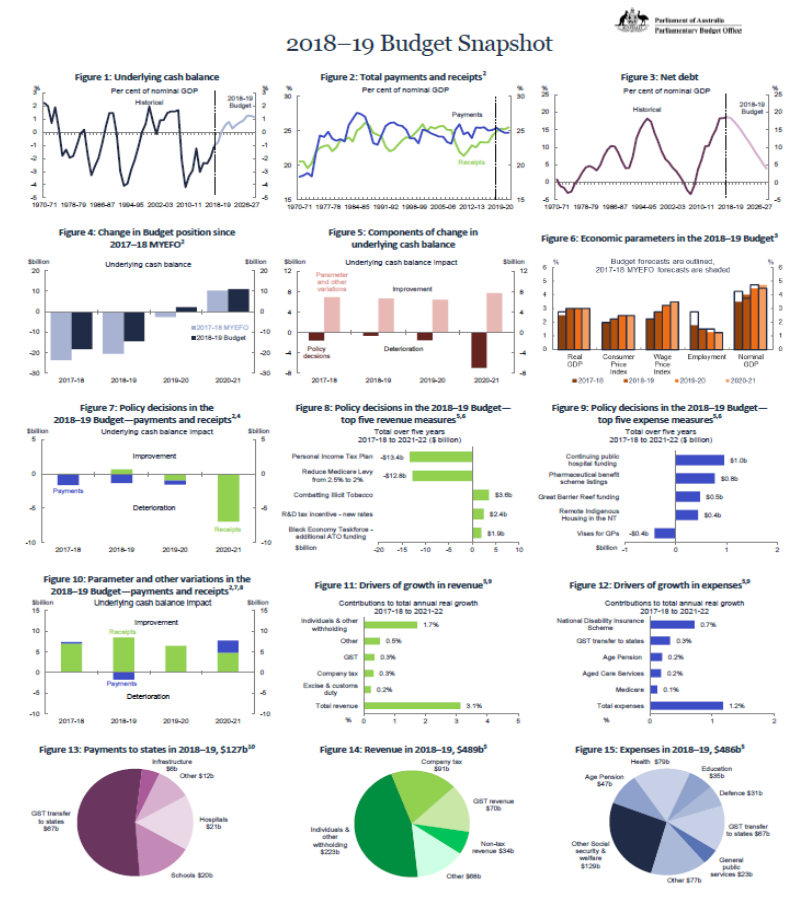
- Medium-term budget projections
- National fiscal outlook
- Budget snapshot and chart pack

Other research papers:

- Sensitivity of the budget to economic developments
- Reports on specific topics important to the budget
 - Medicare Benefits Schedule; Goods and Services Tax distributional analysis; Higher Education Loan Programme; National Broadband Network; Future Fund; Disability Support Pension, Measuring Net Debt, Budget Impacts of Ageing

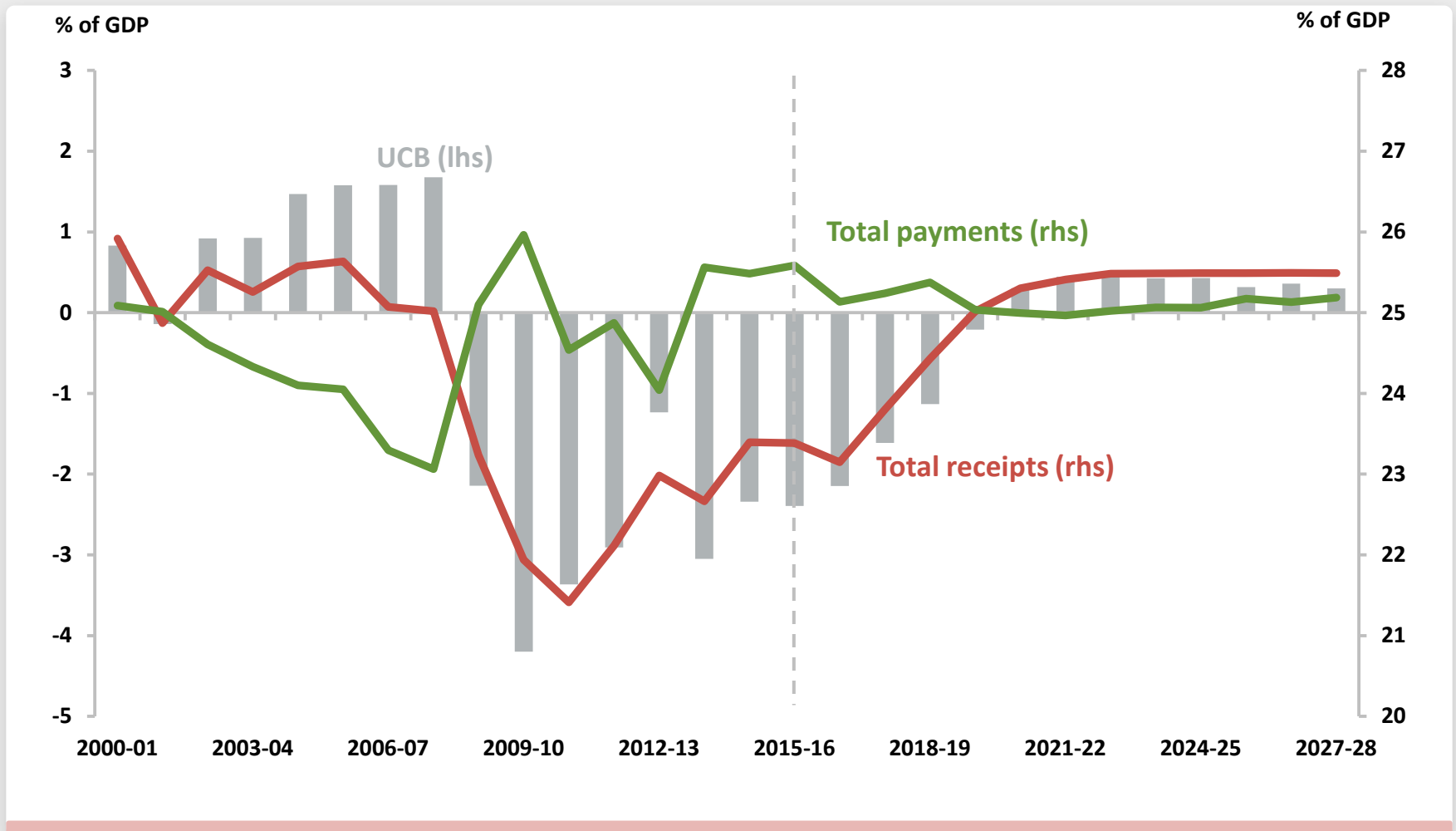
Budget snapshot improves understanding of budget

- Released the morning after the Budget
- Presents the budget as simply as possible
- Identifies the impact of key policy decisions and parameter changes



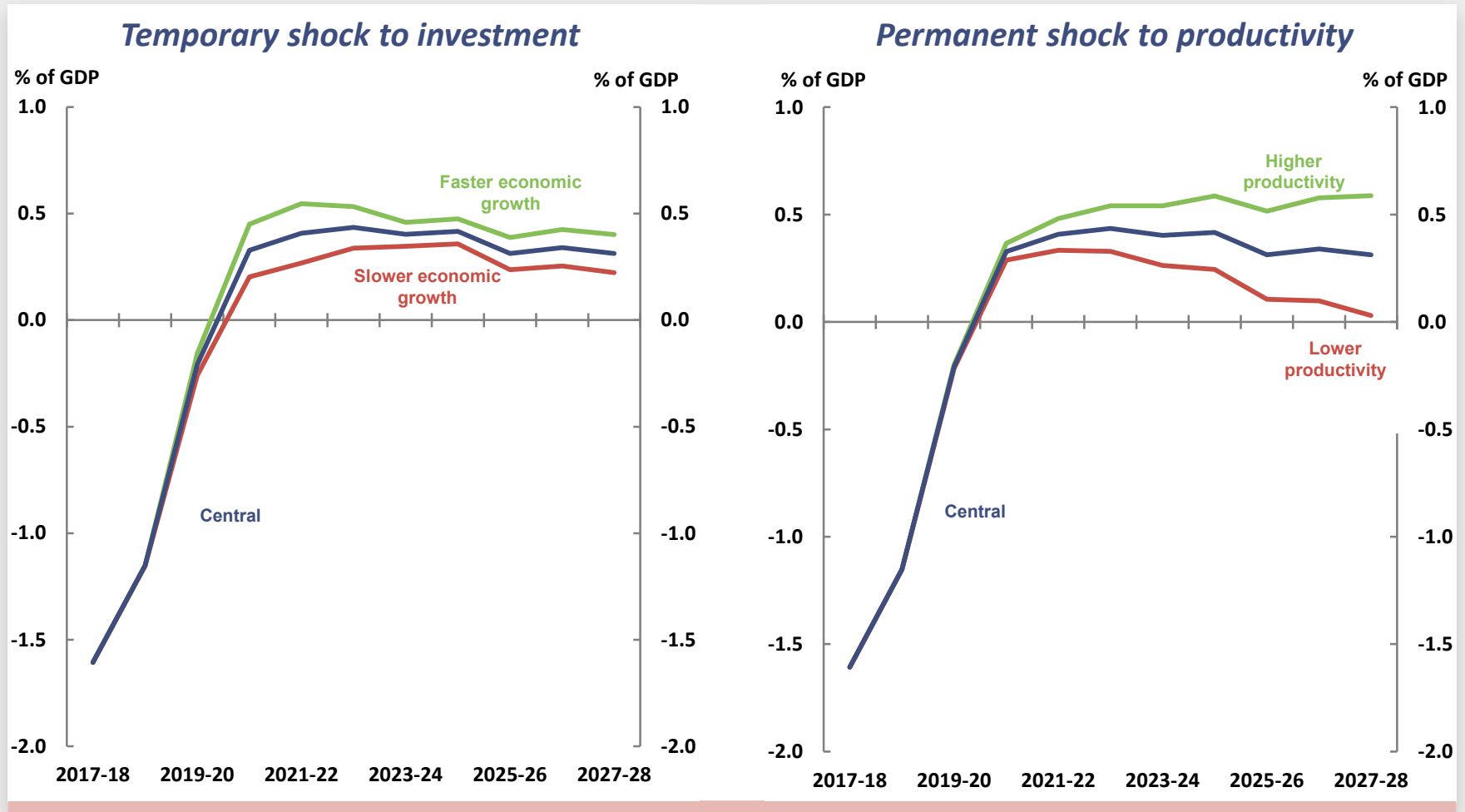
1 Figures are prepared using data contained in the 2018–19 Budget Papers and 2017–18 Mid-year Economic and Fiscal Outlook (MYEFO). Any changes shown are since 2017–18 MYEFO.
 2 Figures are based on payments and receipts which are on a cash basis.
 3 Figure 6 presents selected economic parameters underlying the 2018–19 Budget estimates.
 4 An increase in receipts results in an improvement in the underlying cash balance. An increase in payments results in a deterioration in the underlying cash balance. A decrease in payments results in an improvement in the underlying cash balance.
 5 Figures are on an accrual (fiscal) basis.
 6 This is the net fiscal impact of the measure. Where a measure affects both revenue and expenses it has been classified according to its principal impact (consistent with Budget Paper No. 2).
 7 Parameter and other variations refer to changes in parameters and assumptions used to estimate payments/expenses and receipts/revenue.
 8 This figure excludes the impact of parameter variations on the Goods and Services Tax (GST) payments and receipts.
 9 This is the percentage point contribution to total annual real growth from 2017–18 to 2021–22. Total growth is presented in the total bar in this figure.
 10 Payments to states refer to the amount of funding provided to states and territories under the Federal Financial Relations Framework. This includes the transfer of the GST collected by the Commonwealth to states and territories for use on general purposes.

Increased transparency around medium term budget outcomes



Source: PBO Report 02/2017: 2017–18 Budget: medium-term projections

Increased transparency around medium term budget outcomes



Source: PBO Report 05/2017: 2017–18 Budget medium-term projections: economic scenario analysis

Supplementary analysis of budget measures

2018 Government proposal to cut personal income taxes

- To be implemented over seven years:
 - Stage 1 (from 1 July 2018): relief for low-to-middle income earners
 - Stage 2 (from 1 July 2022): reduce impact of ‘bracket creep’
 - Stage 3 (from 1 July 2024): simpler and flatter taxes
- Budget papers published the fiscal impact for each year over the **forward estimates** (2018-19 – 2021-22) and the aggregate impact over the **medium term** (2018-19 – 2028-29)
- Some distributional analysis released

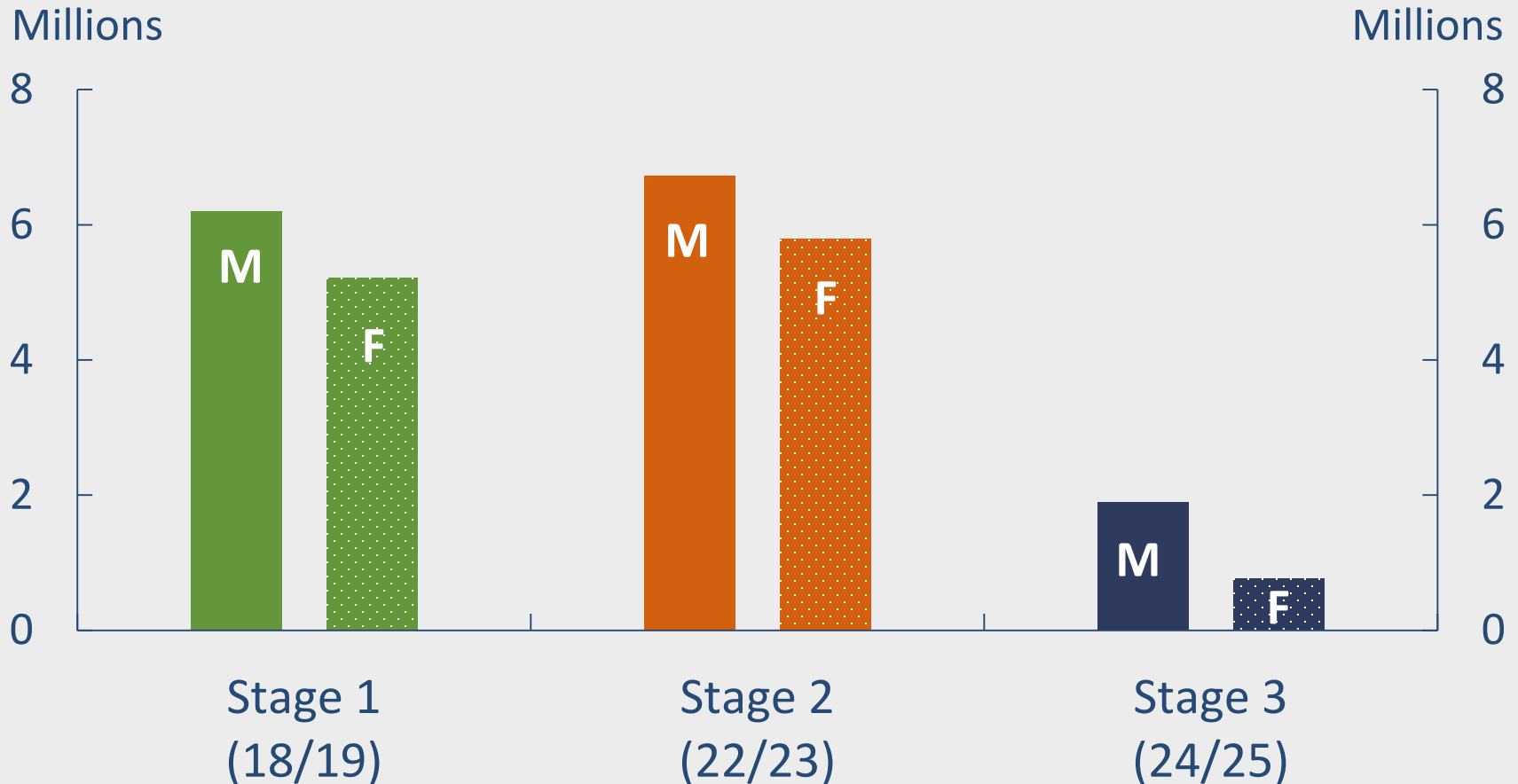
Opposition and crossbench parties requested supplementary information

Ahead of parliamentary debate, PBO received requests for:

- year-by-year budget impact of **each component** of the tax package
- year-by-year budget impact over the **medium term**
- distributional analysis of the impact of the package by:
 - income
 - gender

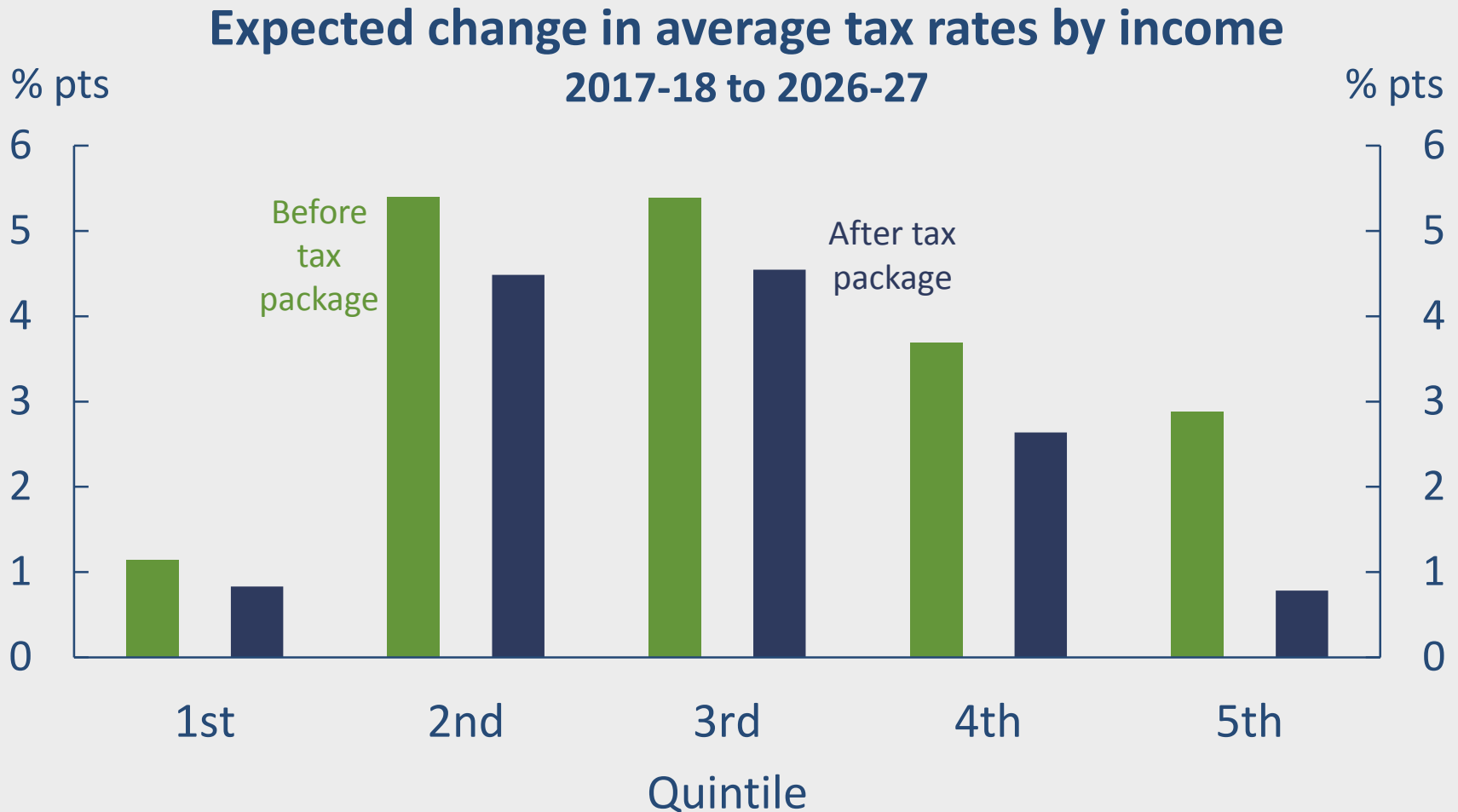
PBO analysis: gender impacts

Number of individuals receiving tax cut by gender



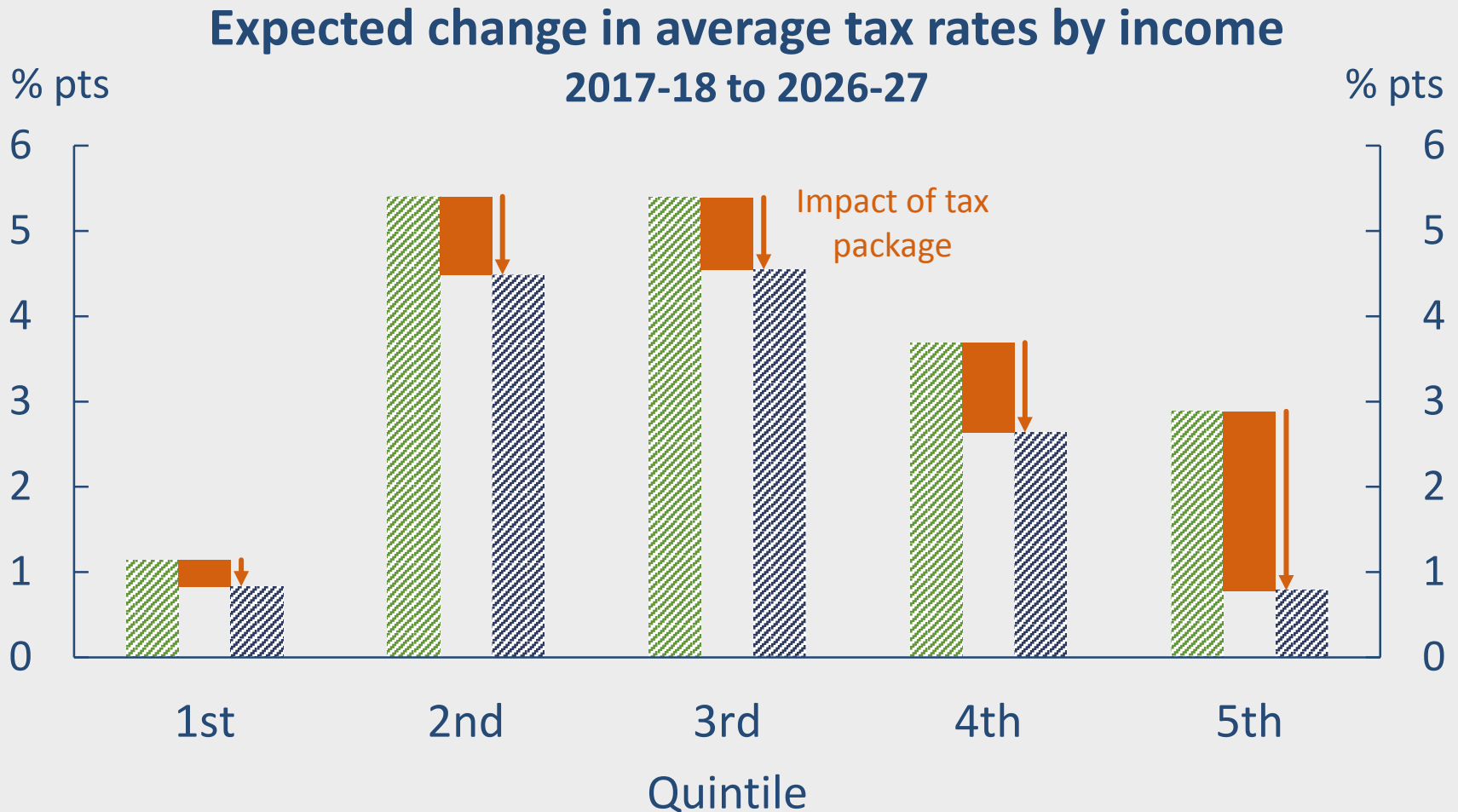
Source: PBO costing – Personal income tax plan (advice provided to Senator Ketter, 13 June 2018)

PBO analysis: distributional impacts



Source: PBO report – 2018-19 Budget: medium-term budget projections (6 September 2018), Figure 3-4

PBO analysis: distributional impacts



Impact of the PBO: costings

- Provision of confidential costing and budget analysis services:
 - assists parliamentarians develop and refine policies in confidence, **informed** by estimates of fiscal cost, before policies are publicly debated
 - supports parties to develop election platforms **ahead of time** and **earlier** in campaigns
 - increases **focus** on fiscal trade-offs by establishing a new norm that policy platforms are completely costed
 - enabled debate to focus on **policy merit**, not veracity of fiscal cost
 - increased focus on **medium-term** fiscal impacts of proposals



Source: Ron Tandberg, *Sydney Morning Herald*, 11 August 2010

Impact of the PBO: election commitment report

- Holds parties to account for announcements during election campaigns
- Increases transparency around details and budget impact of election platforms – including over the medium term
- Provides access to individual costings of a wide range of policy proposals

The screenshot displays the 'Election commitment costings' web application. At the top, there are three filter tabs: 'POLICY TOPIC' (with a location pin icon), 'PARTY' (with a microphone icon), and 'PORTFOLIO' (with a building icon). Below these is a 'Refine results' section with a 'Keywords' search box. Further down, there are controls for 'Show' (set to 25), 'Sort by' (set to Date), and 'Descending'. The results list includes three entries:

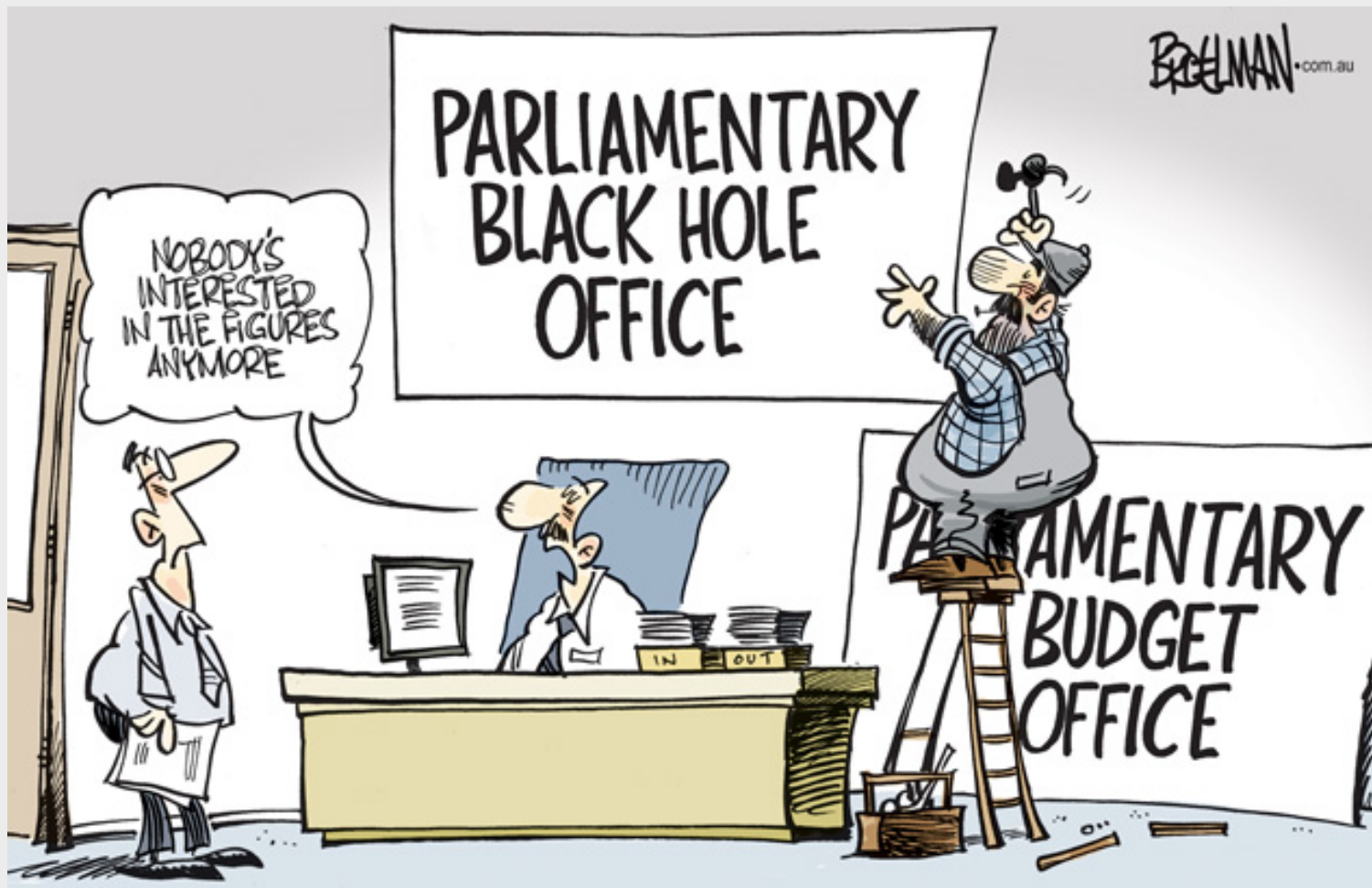
- 150,000 apprenticeship incentives (PER290)**
Party: Australian Labor Party Response: 📄 (162 KB)
- Measures to deal with anti-dumping (PER356)**
Party: Australian Labor Party Response: 📄 (153 KB)
- Increase Australia's humanitarian intake to 50,000 places a year, and related measures (PER625)**
Party: Australian Greens Response: 📄 (222 KB)

Impact on agencies

- Budget models are prepared with the expectation that they could need to be provided to the PBO
- Internal processes have been established to enable agencies to turn around information requests quickly (five or 10 days)
- Standing requests for information have been established to enable the efficient updating of a large suite of models and databases
- Access to Government data warehouses has been established to reduce the burden on agencies

Impact of the PBO: research

- **Influenced content** of budget papers
- Improved understanding of **background pressures and trends** affecting individual program and aggregate outcomes
- Supported a **better-informed** fiscal policy debate, particularly around medium-term projections
- Supports PBO **credibility** and perceptions of **independence** in conducting costing functions



Source: broelman.com.au, 2 September 2013

Questions?