

**Joint Committee of
Public Accounts and Audit**
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Review of the Operations of the Parliamentary Budget Office
2019 - 2020

Division/Agency: Budget Policy Division

Topic: Review of the Operations of the Parliamentary Budget Office 2019-20

Reference: Spoken

Question:

QUESTION 1 - CHAIR: Would you be able to ascertain the average staffing levels that are associated with the production of a report like the IGR report?

Mr Rollings: I probably could come back to you with a number of people in the Department of the Treasury who are involved, but it's across the department, because there are a range of different inputs into an intergenerational report, including the population issues that I talked to you about before, the macroeconomic underpinnings of the modelling, then also the taxation side of modelling and retirement incomes. There are a range of inputs across the Treasury department that all have to be brought together. I could come back to you with some feel for the numbers of people who are involved.

CHAIR: So it's not just one particular group or subgroup that could be identified? You're saying it's probably broadly across Treasury and Treasury skill sets?

Mr Rollings: That's right. There is a team within my division that is responsible for coordinating that. That is about 10 people. In terms of broader involvement it's a much larger number than that.

CHAIR: I would appreciate having that response on notice.

QUESTION 2 - Ms BELL: Thank you for being here today. Going back to modelling, my question is about how sophisticated, robust and rigorous the Treasury models are. What is your view on that? How does that impact the demand from the private sector for Treasury talent because of the modelling expertise that you might need? Could I have a bit more clarity around the modelling? Also, what qualifications and skill sets do those modellers that you use have?

Mr Rollings: That's probably a question that's relates more broadly across the Treasury. There is a lot of modelling done across Treasury, both economic modelling and also in the tax and retirement income areas. In terms of the medium-term fiscal modelling which is done within my division, I would say that our models reflect our best professional judgement, informed by expertise in relevant agencies that are closer to the actual programs that we're modelling. Obviously on the taxation side we draw on the expertise of our revenue group, whose core business is around the revenue side of things.

The question about talent is a bigger one for Treasury. I wouldn't say particularly within our modelling experience that that is an issue, but to the extent that Treasury does a lot of modelling and has a call for expertise in a whole range of areas, our call upon that kind of talent, including through graduate recruitment, is something we think about. From time to time we have specific recruitment rounds targeting people with those kinds of expertise. I'm not aware of any particular problems in that area.

Mr Maloney: One sort of modelling that we undertake that I'm somewhat familiar with is modelling we do around retirement income, which we use for predicting the age pension—that sort of work. This is a lifecycle model. They're quite sophisticated models that predict

quite a long period into the future. For the skills we're looking for—economics, econometrics; those sorts of skills—we sometimes run specific modelling recruitment exercises to try to attract those sorts of people. As Mr Rollings said, I don't think there's any particular issue, but I think sometimes there is a call for particular people to do particular tasks.

Mr Rollings: I'm not sure if that answered the question or not.

Ms BELL: I guess it was just around the qualifications of those modellers and where their experiences come from.

Mr Rollings: It would be a broad range of people with a broad range of backgrounds and skills, ranging from people who've come through our graduate recruitment where we would, as a general approach within our graduate intakes, take a proportion of the people who were skilled in econometrics or other kinds of modelling or data analysis, through to recruitment we do outside of the graduate program where we might look for similar skills or even more specific skills in particular contexts.

Ms BELL: So very specific, highly qualified individuals?

Mr Rollings: That's right.

CHAIR: Can I ask if you're able to provide more detail on that on notice?

Mr Rollings: Yes, I'm happy to see what we can provide.

QUESTION 3 - Mr HILL: The published budget papers forecast population growth—sorry, I got that wrong. The population growth rate in 2018 was 1.6 per cent—I can't read my own writing. My father was a doctor; I always blame that fact! The population growth rate forecast in the 2018 budget was 1.6 per cent, and then the government's most recent budget increased the population growth rates to 1.75 per cent this year, 1.75 per cent next year and 1.75 per cent the year after and suggested it would magically remain above 1.7 per cent for every year thereafter, which would make our population growth the fastest in the developed world. Is that anything you can comment on?

Mr Rollings: Not really, Mr Hill. Again, if there's a question, I'm happy to take it on notice.

Mr WATTS: Sounds fun!

Mr HILL: Sounds fun, says Mr Watts! The key components of that assumption, as I understand it, are fertility and the net overseas migration rates—they're the two key assumptions that I understand are plugged into those kinds of assumptions. Again, for the context of this hearing, the Parliamentary Budget Office is currently obliged to accept those assumptions. Because you prepare the Intergenerational report, you can use whatever assumptions you like. Now, my understanding is that Australia's fertility rate actually fell to its lowest level in history last year, which is 1.74 per woman, and yet the government's budget magically assumes an extraordinary jump in fertility amongst Australian women to 1.9 babies per woman by 2021. Does the Treasury have a view about what kind of behavioural changes we're going to see amongst Australians to get the fertility rate up from 1.74 babies per woman to 1.9 babies per woman in one year?

Mr Rollings: I'm happy to take that on notice for our relevant people to—

CHAIR: I think we might rephrase that question before it is taken on notice.

Mr HILL: You can take that on notice. I note that the OECD average is 1.6 babies per woman in developed countries. So magically, according to the Treasury, which are assumptions the PBO has to use, Australian women are suddenly going to be pushing out 0.3 babies per woman more than the developed world average. Does that sound credible to you?

Mr Rollings: On the technical aspects of these assumptions, Treasury will stand by its approach. I would make the simple point that, when you're talking about projections into the future and you can't predict the future, you are required to make some assumptions about what happens in the future. I'm not commenting specifically on population here but just more generally. What we do, though, reflecting that uncertainty about those assumptions, is do various sensitivity analyses around those assumptions to demonstrate that there is uncertainty

about these projections, and outcomes will change depending on what actually happens.

QUESTION 4 - Mr HILL: Interesting. Take that assumption—just keeping with the fertility rate for a moment. The government's population plan didn't talk about fertility, yet the only place this fertility rate assumption appeared was in appendix A of Budget Paper No. 3. Is there any reason that you can give us for why the fertility rate assumption wasn't talked about in the population plan, which seemed to be all about busting congestion and therefore cutting population growth, yet the only way you get big surpluses and economic growth is by jacking up fertility, as the government's budget papers said? Is there any particular reason you can give us for that?

Mr Rollings: Give you a reason for what?

Mr HILL: For why the fertility rate assumption was not talked about in the government's population plan, yet it's a key assumption in the government's budget.

Mr Rollings: I can take the question on notice.

QUESTION 5 - CHAIR: I am happy to do so, with reference to the terms of reference of this inquiry.

Mr HILL: The link to the terms of reference, of course, is around the PBO's role and performance and the submissions which suggest that a more independent approach, for example, to the IGR, which is heavily dependent on assumptions, may be warranted. I'm using these to illustrate two key assumptions. The other impact, of course, is migration. We've heard a lot in the last year or two from the government, which has been echoed in many government documents, about cuts to migration—apparently migration has been cut to 160,000 a year—yet the budget papers and the economic forecasts on which the PBO then have to rely indicate a significant increase in migration. Does the Treasury have any explanation as to how I'm supposed to reconcile those two alternative realities?

Mr Rollings: Again, I'm sorry I can't help. I've come today prepared to talk about the Parliamentary Budget Office.

CHAIR: I think we might return.

Mr Rollings: Yes, we weren't aware there was going to be this line of questioning, so we can take it on notice.

Answer:

1) A range of areas of Treasury provide input into the IGR. These include modelling and forecasting areas, a range of policy areas and our corporate areas. We do not have an estimate of the total number of people. A team of 9 people is dedicated full-time to coordinating the production of the report, located in Budget Policy Division.

2) Treasury has a significant amount of modelling capability on par with recognised fiscal agencies such as the US Congressional Budget Office. In addition to significant modelling assets there is also significant human capital concentrated in our Macroeconomic Conditions, Macroeconomic Modelling and Policy, and Tax Analysis Divisions, but also in other areas of the Department. Treasury modellers have a range of qualifications, including Masters and PhD level training in economic theory, applied economics, econometrics, statistics and information technology. Treasury officers gain expertise in-house but also through work experience in and secondments to academia, international organisations, the private sector and other parts of government. We also collaborate with external experts, including recognised experts in academia on a range of projects.

3) Please see the response to the 2019-20 Supplementary budget estimates question on notice number 10 available at:

www.aph.gov.au/api/qon/downloadattachment?attachmentId=facd61e8-bd3a-4fd6-8cee-d120acf9aaea

4) The Government publishes estimates of future population, and the assumptions used to derive them, in *Budget Paper 3 Appendix A: Parameters and Further Information*.

5) The 2019-20 Budget assumptions identified the permanent contribution to NOM would fall in the near term. But continued growth from temporary migrants, such as students, would lead to an overall increase in NOM in calendar year 2019. The Budget assumptions anticipated NOM to be lower in 2020, and lower again in 2021 and 2022, mostly due to changes in student numbers.