



Supplementary Submission to the Joint Select Committee on the Parliamentary Budget Office

Secretary, Department of Parliamentary Services (DPS)

February 2011

1) Introduction

On 13 January 2011 I provided an initial submission to the Joint Select Committee about the proposed Australian Parliamentary Budget Office (PBO).

In the second half of January 2011, I visited a number of overseas parliaments. Amongst other matters this visit allowed me to obtain greater detail about four institutions which might inform deliberations about the function and structure of an Australian PBO. These institutions are listed below.

- 1) Netherlands Bureau for Economic Policy Analysis (often called the Central Planning Bureau, or CPB).
- 2) UK Office of Budget Responsibility, or OBR.
- 3) US Congressional Budget Office, or CBO.
- 4) Canadian Parliamentary Budget Officer.

This supplementary submission provides further information about these institutions, the key findings that are relevant to an Australian PBO, and proposals for finalising arrangements for an Australian PBO. This new submission can be read alongside the original submission.

2) Overseas institutions—detailed information

The detailed information about each of the four institutions is listed in **Attachments 1 to 4**.

3) Key findings relevant to Australia

Based upon my visits to the four Parliaments, and discussions about the four institutions detailed in Attachments 1 to 4, I offer the following insights.

- 1) None of the overseas models that I investigated are directly applicable to the Australian Parliament.
- 2) Because all of the institutions undertake predictive economic and financial analyses, their findings have frequently been contentious, and subject to robust debate in respective parliaments and in the media.

One of the observers in Washington noted that

"The reports from a CBO or PBO are often controversial. This is because the report is used to support the arguments of one side of politics, which always displeases the other side."

- 3) The major publications and predictions of the two "mature" institutions (Netherlands CPB and US CBO) have become an important component of the "debate and development" of economic policies, financial policies, and budget development for the respective countries.

These publications include advice about:

- Short-term, medium-term, and long-term economic and financial outlook
 - Revenue and expenditure measures
 - Non-budget economic policies
- 4) The Netherlands CPB and US CBO have also acquired an "educative role" by providing accessible non-technical information for parliamentarians, media outlets and other opinion leaders. The Canadian and UK institutions also aspire to this role, but they are both very new. The educative role could be an important responsibility of an Australian PBO.
 - 5) In relation to the two newer institutions, the Canadian Parliamentary Budget Office has experienced some turbulent times in its first few years, and these issues are further discussed later in these findings. It is premature to assess the performance of the UK OBR, which is really in "start-up" mode.
 - 6) Three of the four institutions do very little or no "client policy costings" for individual parliamentarians or non-government parties. The only institution which offers a modest policy costing service is the Netherlands CPB.

However, for the US and Canada, the respective Congress/Parliamentary Library research services do respond to requests for confidential policy and costing advice from political parties, and individual parliamentarians. The Australian Parliamentary Library would require a significant increase in funding to provide this type of service.

- 7) The only institution which provides a pre-election policy costing service is the Netherlands CPB. However, the CPB only provides this service for "longer run" policies of each party. The CPB does not undertake "last minute" costings in the way that the Australian Treasury and Finance Departments do (under the Chamber of Budget Honesty).

- 8) An effective PBO needs to be able to demonstrate that it is objective and impartial. This is partially achieved by ensuring methodologies are open and transparent. However, for the two long-term institutions, the officers consider that they achieved much of their credibility and legitimacy by providing a consistent service through periods of political change.
- 9) The current Canadian Parliamentary Budget Officer model was not considered satisfactory by any of the stakeholders that I met, because it:
 - is underfunded (given the scope of expectations);
 - does not have a clear mandate;
 - does not always have access to adequate and timely information;
 - does not have a clear line of Parliamentary accountability; and
 - has been criticised about the timing of some reports, and the level of “commentary and recommendations” within some reports.

4) A successful Australian PBO?

Taking into consideration the information in Attachments 1 to 4 and the above findings, the ingredients for a successful Australian Parliamentary Budget Office are considered to be:

- A clear mandate for the new body, including:
 - Scope of responsibilities (in other words, a clear description of the specific deliverables)
 - Clear delineation of what government information will be accessible to the PBO
 - Parliamentary accountability mechanisms.

These issues are further discussed in Part 5 of this submission, and will drive the institutional form of the PBO.

- Highly skilled, resilient staff, and a leader of high credibility, all remunerated at appropriate market rates.
- Adequate funding, for staff, for modelling and for specialist advice.
- Commitment of the new PBO to provide objective advice, based on clear sources, and with public transparency of inputs.
- Clear recognition that the new body may need to be refined and improved. This could be achieved via an independent post-implementation review after (say) three years.
- A constructive relationship with the Parliamentary Service and with key Public Service agencies.

5 Mandate for the new PBO

There will be three key components to the mandate for the new PBO, including:

- Scope of responsibilities
- Access to Government information
- Parliamentary accountability mechanisms

These issues are discussed below.

Scope of Responsibilities

The overseas commentators repeatedly emphasised that “form should follow function”. In this case, the key decision for the Joint Select Committee is to determine the scope of the services or deliverables to be provided by the new PBO.

At one end of the spectrum, the PBO could be a relatively low-key service providing policy costings for non-government parties and individual politicians, with a modest range of educational publications.

At the other end of the spectrum, the PBO could provide the policy costing service AND undertake major economic and financial analyses (and reports), along the lines of (say) the Netherlands CPB.

I recommend that a decision on the scope of responsibilities be taken by the Committee once it has fully considered the views of Treasury and Finance, the views of the Parliamentary parties and independents, and other commentators.

Even if the PBO's main activity is limited to policy costings, I suggest that the PBO be given an educational role.

In January 2011, DPS provided some indicative costings for a PBO (at Attachment 2). These costings provide a “lower bound” indication of cost for a service along the lines of the Netherlands CPB. For a simpler “policy costing only” PBO, the annual cost would be lower.

DPS and the Parliamentary Library would be able to further refine cost estimates once the scope of responsibilities is clear.

The recent submission to the Committee from Treasury and Finance noted the substantial resources that those Departments need to commit to Charter of Budget Honesty pre-election policy costings. Against this background I continue to be doubtful that it will be feasible or desirable to transfer the Charter of Budget Honesty function to the new PBO.

Access to Government information

As indicated in the January 2011 DPS submission, timely access to Government information is critical to the success of the new PBO.

If the new PBO is only given a mandate to provide policy costings, then the provisions for information access from Government agencies could be similar to those now applicable to the Parliamentary Library. These provisions effectively require timely provision of publicly accessible information.

If, on the other hand, the PBO is to undertake the major economic and financial analyses and projections delivered by similar overseas institutions, then the PBO must also be given timely access to detailed financial and economic information held by Government agencies.

I recommend that the issue of information access be finalised by the Joint Select Committee once it has determined the overall scope of responsibilities.

Parliamentary accountability

As indicated in the January 2011 DPS submission, I firmly consider that the new PBO should have clear lines of accountability to the Parliament.

The first component of this accountability is that the leader of the PBO should be appointed by the Presiding Officers based on recommendations from an independent officer (such as the Parliamentary Service Commissioner). These arrangements are similar to the appointment provisions for my position or the Parliamentary Librarian. Dismissal provisions could also be similar.

The second component of accountability would be via an appropriate Joint Standing Committee, and could include:

- (a) a requirement for submission to the Standing Committee of an annual or tri-annual work plan for the PBO (and possibly a requirement for the Committee to agree to the work plan);*
- (b) a requirement for the Committee to agree to the "predictive rules" used by the PBO. This could be similar to the US approach and might (for example) require a base line prediction on the basis of "no legislative change";*
- (c) provision of final reports to the Committee (say) 10 days before publication;*
- (d) involvement of the Standing Committee in setting the annual budget of the office (similar to the budget provisions for the Auditor-General); and*
- (e) an ability for the Standing Committee Chair to advise the Presiding Officers of any issues about the performance of the Office or its leader.*

6 Legislative and institutional basis for the PBO

These issues were discussed in the January 2011 DPS submission, and I consider that the range of options on page 7 of that submission is still appropriate. However, in light of the additional information now available about overseas institutions, and the submissions provided in late January to the Joint Select Committee, I now make the following recommendations.

If the final scope of the PBO is limited to policy costings and education then it is recommended that this service be provided through the Parliamentary Library, based upon augmented resources. The Library already has protocols that could be extended to the provision of an excellent and confidential costing service. The Library is also well-positioned to provide an educational role through expanded budget commentary papers. This is essentially Option 3 of the January 2011 DPS submission.

If, however, the scope of responsibilities also includes major publications along the lines of the Netherlands CPB, then it will undoubtedly have a significant public profile, and I recommend that the Joint Select Committee give serious consideration to

- *a stand-alone agency*
- *robust information access provisions*
- *robust Parliamentary accountability mechanisms*
- *decisions about the budget for the PBO to involve the relevant Standing Committee and be similar to budget processes for the Auditor-General.*

This is essentially Option 1 of the January DPS submission.

My reasons for recommending the Joint Select Committee consider a stand-alone agency are threefold:

Firstly, the new PBO would need clear lines of Parliamentary accountability; at the margin this accountability could be less clear if the PBO is nested within another body.

Secondly, it is likely to be easier to attract and retain an appropriate leader and senior staff.

Thirdly, budget setting should be clear for the Parliament and the new body.

Please be assured that DPS would seek to work cooperatively with the new entity.

As noted in the January 2011 submission, it is inevitable that a stand-alone agency will have a somewhat higher annual cost than a body which is “nested” within an existing agency. We estimate these costs to be around \$1 million pa, but that needs to be considered against the totality of the overall Australian federal budget of some \$300 billion pa. It would also be possible to reduce the cost if some corporate services were provided by an existing agency.

In relation to other institutional and housekeeping issues, I refer Committee members to the January 2011 DPS submission.

7 Conclusion

I would be happy to discuss my findings with the Committee, and to answer any questions.

Attachment 1

Netherlands Central Planning Bureau (CPB)

1 Commencement: 1945.

2 Current Director: Professor Coen Teulings (previously Director of a major Dutch university economic research institute),

3 Annual Budget: Around €11 million.

4 Current staff numbers: Around 140, mostly economists and econometricians.

5 Accountability

The Director is appointed by the Minister, and “financial accountability” is to the Secretary General of the Economic Affairs Department. However, the CPB is strongly non-partisan, and the Government has no role in determining the work program or the findings of the CPB.

6 Role

The CPB provides regular reports, which include:

- short term, medium term and long-term economic and financial forecasts.
- research into the national economy, international economy, labour market, welfare state, competition issues, and emerging issues (such as the GFC).

CPB forecasts are now built into the Netherlands Government budget planning process.

CPB also provides limited advice on party policy proposals (detailed below).

The CPB prides itself on providing accessible, readily understood documents, to demystify economic and financial issues. Some of the publications are only in Dutch, but the English summaries I have seen are very clear.

7 Access to confidential information

CPB appears to have a constructive relationship with Netherlands Government agencies, and good access to confidential data.

8 Party policy proposals

CPB periodically provides confidential informal advice to political parties (with no advice to the Economics Minister), BUT CPB is selective about the amount of “policy proposal” work that it undertakes.

Apparently, the “party policy” component of the CPB work program is not allowed to “crowd out” the regular reports listed above.

9 Pre-election role

- CPB will progressively cost policy proposals from political parties and publish them in the pre-election period.
- This service is voluntary, and not all parties participate.
- CPB does not undertake “last minute” policy costings in the weeks before an election.

10 Overall comments

The CPB is an important and valued part of the democratic process in the Netherlands. It is occasionally involved in controversies, but over 60 years, it appears to have acquired significant respect.

UK Office of Budget Responsibility (OBR)

1 Commencement: 2010.

2 Current Chair: Mr Robert Chote (previously a Director of the Institute for Fiscal Studies, and Economics Editor of the Financial Times).

Mr Chote is effectively the CEO of the new OBR, and also chairs the Budget Responsibility Committee, which is a committee of three members, including an eminent academic economist, and a very experienced retired civil service financial expert.

3 Annual Budget: Still being finalised, but likely to be several million pounds.

4 Current staff numbers: Still being finalised, but likely to be around 15.

5 Accountability

On an interim basis, Mr Chote was appointed by the Chancellor after interviews by the Commons Treasury Select Committee. At this stage the OBR is accountable to Executive Government. Enabling legislation is expected to be enacted in 2011, which is expected to strengthen accountability to the Parliament through a Parliamentary Committee.

6 Role

"The Office for Budget Responsibility (OBR) will make independent assessments of the public finances and the economy. It will have direct control over the forecast and make all the key judgments that drive the official projections. It will have full access to the necessary data and analysis produced by the Treasury. The OBR will confirm whether the Government's policy is consistent with a better than 50% chance of achieving the forward looking fiscal mandate set by the Chancellor." (excerpted from the OBR website).

At this stage, OBR believes that this role will require publication of four key reports each year, as well as a number of other ad hoc reports.

In the long-run, OBR wish to produce easy to read, accessible documents to demystify finance and economics. However, the OBR is still in start-up mode, and some of the initial publications are reasonably technical.

7 Access to confidential information

OBR currently has excellent access to information from central government agencies.

8 Party policy proposals

The OBR is not equipped to undertake costings of policy proposals by parties, or individual MPs.

The respective Parliamentary Libraries in Westminster (especially the Commons Library) have some capability to undertake some party policy costing work.

9 Pre-election role

In an election period the OBR would have no role beyond verifying the credibility of the budget of the Government of the day.

10 Overall comments

The OBR has only just been launched, so it is premature to speculate about its future.

US Congressional Budget Office (CBO)

1 Commencement: 1974.

2 Current Director: Dr Douglas Elmendorf (who has previously worked at the Brookings Institute, CBO, Treasury Department and Federal Reserve Board).

3 Annual Budget: Around \$45 million.

4 Current staff numbers: Around 250.

5 Accountability

The Director is appointed by the Speaker of the House and the President of the Senate. Formal accountability of the CBO is effectively via the Budget Committees of the House of Representatives and the Senate. Over the years these Committees have effectively agreed an annual work plan for the CBO. The Committees have also agreed some “predictive” rules for the CBO.

6 Role

The role of the CBO can only be understood by recognising the separation between Executive government (including the President) and the Legislative arm (Congress).

Under the US system, the President “proposes” budget and other initiatives, but the final budget decisions are taken by the Congress.

Against this background, the CBO assists the House and Senate Budget Committees, and the Congress more generally, by preparing financial and economic analyses and reports. In accordance with the CBO’s mandate to provide objective and impartial analysis, CBO reports contain no policy recommendations.

The key documents/outputs include:

- Budget and economic outlook—typically published in January each year, with a 10-year outlook.
- Analysis of the President’s Budget proposals
- Budget options (including arguments for and against)
- Long-term budget outlook
- Special analytic studies (including recent studies about the cost of Defense forces)
- Other reports associated with recent developments, such as the GFC.

The Director of the CBO gives evidence to various congressional committees. This evidence and some of CBO reports generate front page headlines each year (see next page).

Although CBO reports are sometimes voluminous, they are generally very clearly written, and normally include a useful summary.

The CBO has a significant focus on the expenditure side of Government, with a lesser emphasis on the revenue side, which tends to be the focus of another institution—the Congressional Joint Committee on Taxation; this committee has been in existence since the 1920s.

7 Access to confidential information

CBO has excellent access to all legislated appropriations and appears to have a constructive relationship with the key financial agencies within the Administration.

8 Party policy proposals

These will only be costed if they are programmed to become legislation. *For other party policy proposals, the Congressional Research Service (CRS) can offer assistance to Congressmen and Senators. The CRS is a division of the Library of Congress, and is a very large version of our Parliamentary Library Research Branch.*

...refer over

US Congressional Budget Office (CBO) cont'd

9 Pre-election role

The CBO has no set pre-election role, but its publications are used as a factual benchmark in any election debate.

10 Overall comments

The CBO is now an important and valued part of the US political landscape. Notwithstanding periodic controversies, the CBO is now well respected.

Nevertheless, in the early years of the CBO, it experienced considerable "turbulence"; this required management and the relevant Congressional committees to progressively "fine tune" the model.

CBO says deficit will approach \$1.5 trillion

Forecast shows tax cuts pushing budget gap to record level this year

BY LORI MONTGOMERY

The still-fragile economy and fresh tax cuts approved by Congress last month will drive the federal deficit to nearly \$1.5 trillion this year, the biggest budget gap in U.S. history, congressional budget analysts said Wednesday.

The grim forecast from the nonpartisan Congressional Budget Office came hours after President Obama called in his State of the Union address for Republicans and Democrats to work together to rein in record deficits that are pushing the national debt into uncharted territory. At \$1.5 trillion, the deficit would equal 9.8 percent of the economy, the CBO said, making it one of the largest by that measure since the end of World War II.

Lawmakers scrambled on Wednesday to respond to the darkening budget picture, with Republicans pressing their call for sharp and immediate cuts in domestic spending. Twenty-one Senate Republicans, meanwhile, unveiled a plan to amend the Constitution to require balanced budgets, a top priority of the tea party movement.

Democrats resisted both initiatives, arguing that amending the Constitution, a lengthy process that requires a vote in all 50 state legislatures, would do little to address the current problem. They dismissed as "drastic" a proposal by House Republicans to slash \$100 billion from the current budget, arguing that cuts of that magnitude would endanger a million jobs on public- and private-sector payrolls at a time when the unemployment rate

DEFICIT CONTINUED ON A4

The Washington Post

Partly sunny 38/26 • Tomorrow: Snow shower 35/26 • DETAILS, B10

THURSDAY, JANUARY 27, 2011

WashingtonPost.com • 25¢

Page 1

Attachment 4

Canadian Parliamentary Budget Officer (PBO)

1 Commencement: 2008

2 Current Parliamentary Budget Officer: Mr Kevin Page (previously a senior officer of Finance Canada, the Treasury Board Secretariat and the Privy Council Office).

3 Annual Budget: Around CAD\$ 2.98 million.

4 Current staff numbers: Around 15, mainly economists.

5 Accountability

Mr Page was appointed by the current Prime Minister, Mr Stephen Harper. The PBO was established within the Canadian Library of Parliament, under the Parliament of Canada Act.

6 Role

The PBO is progressively publishing papers covering a wide range of topics, including:

- Budget outlook
- Canadian economy
- Labour
- Defence spending
- First Nations education

The publications include large reports as well as briefing notes, and include economic and fiscal assessments. Mr Page and his officers appear before Parliamentary Committees.

The PBO prides itself on preparing clear and easy to understand reports. While the reports that I have sighted are undoubtedly clear, they appear to offer stronger opinions than (say) the US CBO, or Netherlands CPB reports.

7 Access to confidential information

Although the legislation provides for good access to confidential information, in practice, access is very slow.

8 Party policy proposals

In theory, this work could be undertaken by the PBO, but they have inadequate resources to do this work.

However, a service is provided by the research officers within the main Library of Parliament. For example, the Economic branch of the Library has some 15 officers.

9 Pre-election role

Due to limited resources, it would not be possible for the PBO to be actively involved in pre-election policy costing.

10 Overall comments

The history of the Canadian PBO has not been happy. The Budget Officer and his staff are very concerned about lack of resources, slow access to confidential data, and ambiguous legislation.

Other Canadian stakeholders have expressed concern about the scope of the work of the PBO, the relatively aggressive push for more resources, the timing of publication of some of the reports, and the language of some reports.