

Rationale for a Parliamentary Budget Office

Introduction

- 2.1 Over recent decades in Australia and internationally there has been a growing trend in examining and questioning the adequacy of fiscal management, the accuracy of government forecasting, cost overruns of major programs, the transparency of public expenditure, and independence in the process of costing election commitments.¹
- 2.2 In attempting to deal with these issues, many countries have found that existing parliamentary institutions have limited resources to undertake a high level of analysis on fiscal matters. To satisfy a need for greater support, many parliaments have established specialist research and analytical units such as Parliamentary Budget Offices (PBOs) which are independent from government to varying degrees and which assist parliamentarians in their consideration of government finances and expenditure.²
- 2.3 The Organisation for Economic Co-operation and Development (OECD) has observed that in recent years, there is an international trend in establishing specialist budget research units. The OECD stated:

The growth of bodies to assist the legislature in budgetary matters is a strong trend in OECD countries. They take a variety of forms

1 These matters have been raised across a range of submissions. See for example, Departments of the Treasury and of Finance and Deregulation, *Submission 16*, pp 1-2; S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*; pp 2-5; Parliamentary Budget Officer, Canada, *Exhibit 1*, pp. 2-4.

2 B Anderson, 'The changing role of Parliament in the budget process', *OECD Journal on Budgeting*, Vol. 1, 2009, p. 38.

but their *raison d'être* is the same: Parliaments need specialised resources in order to carry out their constitutional responsibilities *vis-à-vis* the budget. The functions of such bodies include economic forecasts, baseline estimates, cost estimation, analysis of the Executive's budget proposals and medium-term analysis. As such, they have the potential to improve transparency and enhance the credibility of the Government's Budget and public finances in general.³

- 2.4 It is recognised that PBOs in other jurisdictions are products of the historical and institutional frameworks of the parliaments they serve. As Mr Stephen Bartos advised, there is 'no "best practice" model or template that can be applied from one jurisdiction to another'.⁴
- 2.5 The case for establishing a PBO to serve the Australian Parliament must be based on the potential contribution of the Office in relation to the role of the Parliament in public expenditure, the adequacy of existing mechanisms to support that role, and the need for expanding that support.

The role of the Parliament in the Budget process

- 2.6 One of the primary functions of the Parliament is to scrutinise and approve proposals for the raising and spending of public money by the Executive Government. While the Government may initiate an increase in taxation and expenditure, authorisation of such proposed appropriations can only be granted by the passage of legislation through the Parliament.⁵
- 2.7 The Australian Constitution enshrines the principle of parliamentary control over the expenditure of the Executive. This principle has long been recognised as the fundamental means by which the Parliament can hold the Executive Government to account.⁶
- 2.8 The basic parameters for the role of the parliament in the budget process are entrenched in a number of constitutional provisions.⁷ The role of the Parliament in relation to the receipt and spending of public money by the

3 OECD, *Submission 8*, p. 1.

4 Mr Stephen Bartos, *Submission 18*, p. 2. A number of other contributors to the inquiry made this point. See for example, Mr Stein Helgeby, Department of Finance and Deregulation, *Transcript of Evidence*, 1 February 2011, p. 63; Mr Peter Hicks, *Submission 12*, p. 8; Department of Parliamentary Services, *Submission 4.1*, p. 1.

5 Section 83, Australian Constitution.

6 I Harris (ed.) *House of Representatives Practice, Fifth Edition*, Department of the House of Representatives, Canberra, 2005, p. 407.

7 Including sections 81, 83, 51, 53, 54 and 56.

Executive Government is primarily derived from sections 81 and 83 of the Constitution:

Section 81. All revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one Consolidated Revenue Fund, to be appropriated for the purposes of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution.

Section 83. No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.⁸

- 2.9 The 'appropriation made by law' is enacted through the passing of the Appropriation Act which appropriates 'money out of the Consolidated Revenue Fund for the ordinary annual services of the Government, and for related purposes'.⁹ Appropriations cannot be made by a parliamentary vote or resolution, nor can an appropriation bill originate in or be amended by the Senate.
- 2.10 Over time, the proportion of public expenditure authorised outside the budget process as a special or standing appropriation has grown to over 80 per cent. This means that only about 20 per cent of Government expenditure is regularly scrutinised by the Parliament through the annual budget process.¹⁰
- 2.11 Parliamentary scrutiny of special appropriations is discussed later in this chapter. The following sections focus on the annual budget process.

How the Parliament undertakes its role

- 2.12 The Budget bills comprise the Appropriation Bills No. 1 and No. 2 and the Appropriation (Parliamentary Departments) Bill. Appropriation Bill No. 1 is for the ordinary annual services of Government which is unable to be amended by the Senate. This Bill provides for continuing expenditure on existing programs.¹¹
- 2.13 Appropriation Bill No. 2 provides for expenditure for 'other services' apart from 'ordinary annual services', which may include the funding of

8 Sections 81 and 83, Constitution of the Commonwealth of Australia.

9 *Appropriation Act (No. 1) 2010-2011 (Cwlth)*, Long title.

10 R Webb, 'The Commonwealth Budget: process and presentation', *Research Paper no. 16*, Parliamentary Library, Canberra, 27 April 2010.

11 Explanatory Memorandum, Appropriation Bill (No. 1) 2010-11.

new policies, capital expenditure and grants to the states. The Senate is able to amend Appropriation Bill No. 2.¹²

- 2.14 Items which should not be included in 'ordinary annual services of the Government' were, to some extent, agreed in a Compact between the Government and the Senate in 1965. Several modifications to the Compact have been made since then, most recently in June 2010.¹³
- 2.15 The Budget speech, delivered by the Treasurer each May, is the second reading speech introducing the Budget bills into the House of Representatives. The related Budget Papers are also presented to the Parliament at this time.¹⁴
- 2.16 The passage of the bills through the House of Representatives follows the same schedule as for other bills, which includes the second reading debate, (budget debate) consideration in detail, and third reading stages.¹⁵ The Budget debate usually continues over several weeks.¹⁶
- 2.17 On Budget night, the Minister representing the Treasurer in the Senate also presents the Budget Papers (but not the bills) to the Senate and the Senate then refers the estimates of the proposed expenditure to its legislation committees for examination and report.¹⁷
- 2.18 The Senate Estimates process enables Senators to directly question Ministers and senior public servants in relation to public expenditure proposals. The eight Senate legislation committees undertake estimates hearings over a period of two weeks in May. A further round of hearings

12 Explanatory Memorandum, Appropriation Bill (No. 2) 2010-11.

13 Department of the Senate, *Submission 6*, p. 5. Although the Clerk has also noted that 'a misunderstanding between the Senate and the Government following the introduction of accrual budgeting has never been satisfactorily resolved.'

14 In 2010 the Budget Papers comprised Budget Paper no. 1: Budget Strategy and Outlook, which contains 10 statements (including the Budget Overview, Economic Outlook, Fiscal Strategy and Outlook), Budget Paper no. 2: Budget Measures, Budget Paper no. 3: Australia's Federal Relations, Budget Paper no. 4 Agency Resourcing, Portfolio Budget Statements, Ministerial statements and media kits.

15 There are however, some variations to procedure for the main appropriation bill and appropriation or supply bills for the ordinary annual services of government. For example, unlike for other bills, the budget debate in the House of Representatives need not be strictly relevant to the bill. See Standing Order 76(c), House of Representatives, *Standing and Sessional Orders*, as at 20 October 2010.

16 Department of the House of Representatives, 'The Budget and Financial Legislation', *Infosheet No. 10*, October 2010, p. 2.

17 Department of the Senate, 'Consideration of Estimates by the Senate's Legislation Committees', *Senate Brief No. 5*, May 2010, p. 2.

is then held later in the financial year to examine any additional estimates if the Government requires further funding.¹⁸

- 2.19 The Clerk of the Senate stated that the examination of estimates of expenditure by Senate committees is the most extensive of the parliamentary mechanisms available to scrutinise the Budget. Committee secretariats do not have an active role in support of estimates hearings due to the 'political' nature of these hearings.¹⁹
- 2.20 Other mechanisms of parliamentary scrutiny of Government expenditure and service delivery include inquiries by general purpose standing committees and parliamentary questions asked of the Executive.
- 2.21 The Joint Standing Committee of Public Accounts and Audit and the Senate Finance and Public Administration Committee have also been involved with the detailed scrutiny of expenditure, service delivery and financial transparency outside of the annual budget process.

Financial scrutiny assistance to the Parliament

- 2.22 Assistance to the Parliament in relation to the scrutiny of the Budget and public expenditure are provided by Government agencies through the publication of information, the parliamentary departments by interpreting that information, and specialist statutory bodies such as the Australian National Audit Office (ANAO) which supplement that information, with for example, post implementation audits.
- 2.23 The Departments of the Treasury and of Finance and Deregulation (Treasury and Finance) are jointly responsible for advising the Government on the economy and government finances as well as preparing the annual Budget and other reports and statements.²⁰ The Departments also have oversight of the transparency and Budget reform agenda of the Government.
- 2.24 Significant initiatives in relation to Budget reform over the past 20 years include the establishment of the National Commission of Audit, the move to a full accrual budget and reporting system and the outcomes and output framework, the enactment of the *Charter of Budget Honesty Act 1998* (Cwlth) (the Charter) and measures introduced as part of *Operation Sunlight: Enhancing Budget Transparency*.

18 Department of the Senate, 'Consideration of Estimates by the Senate's Legislation Committees', *Senate Brief No. 5*, May 2010.

19 Department of the Senate, *Submission 6*, p. 3

20 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 4.

- 2.25 Operation Sunlight is the Government's reform agenda to 'improve the openness and transparency of public sector budgetary and financial management and to promote good governance practices'.²¹ Under Operation Sunlight, a number of changes to Budget transparency have been implemented including:
- Providing further Budget information, such as a register of Special Accounts and Standing Appropriations;
 - Redesigning Portfolio Budget Statements (PBS) to improve readability and to include greater performance information and a new Resource Statement on the funds available to an agency;
 - Consolidating financial statements in Budget Paper no.1 under Australian Accounting Standard 1049; and
 - Introducing program reporting from the 2009-10 Budget in Portfolio Budget Statements.²²
- 2.26 The Charter was designed to improve economic policy and transparency. The Charter requires government budgets to be based on 'the principles of sound fiscal management'. The principles are described, *inter alia*, as:
- ... manage financial risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth general government debt at prudent levels; and ensure that its fiscal policy contributes to achieving adequate national saving; and to moderating cyclical fluctuations in economic activity, as appropriate, taking account of the economic risks facing the nation and the impact of those risks on the Government's fiscal position...²³
- 2.27 The Charter also requires the Government to produce the following reports and statements:
- Fiscal Strategy Statement
 - Budget Fiscal Outlook Statement
 - Mid-Year Outlook Statement
 - Final Budget Outcome Statement
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21 Department of Finance and Deregulation, 'Operation Sunlight', <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/operation-sunlight/index.html>, viewed 2 March 2011.

22 Australian Government, *Operation Sunlight: Enhancing Budget Transparency*, Canberra 2008.

23 Section 5 (1), *Charter of Budget Honesty Act 1998* (Cwlth).

- Intergenerational Report (published every five years)
 - Pre-Election Economic and Fiscal Outlook Report (published within ten days of the issue of the writ for a general election)
 - Costings of publicly announced election policies, on request of the Government or Opposition.
- 2.28 Treasury and Finance suggested that the Charter has become an important feature of Australia's fiscal policy framework:
- ... especially since the legislation of the Charter, Australia's fiscal frameworks are already well regarded internationally, particularly in respect of the detail and transparency provided through the publicly released documentation.²⁴
- 2.29 In addition to the reports and statements required by the Charter, ongoing formal reporting requirements are included in the *Public Service Act 1999* (Cwlth), the *Financial Management and Accountability Act 1997* (Cwlth), and the *Commonwealth Authorities and Companies Act 1997* (Cwlth).²⁵
- 2.30 The Departments of the House of Representatives and the Senate (the chamber departments) provide organisational, research and analytical support to various parliamentary committees, as well as ensuring the effective operation of the Houses.
- 2.31 In addition, officers of the Senate monitor the Government's compliance with the Compact and draw to the attention of the President of the Senate any instances where new policy proposals appear to have been included within the bill for the ordinary annual services of the Government.²⁶
- 2.32 The Parliamentary Library, located within the Department of Parliamentary Services (DPS), provides research, information, analysis and advice to Members of Parliament in support of their parliamentary and representation roles. The Parliamentary Librarian is a statutory office holder required to provide timely, impartial and confidential service on the basis of equality of access for all Senators and Members.²⁷

24 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 7.

25 A summary of statutory reporting requirements is outlined in Associate Professor Charles Lawson, *Submission 21*.

26 The President then draws the matter to the attention of the Senate Appropriations and Staffing Committee and the Minister for Finance and Deregulation. While cases of the suspected inclusion of new policies in the ordinary annual services bills have been brought to the attention of the government, there has yet to be any substantive response from the Government. See, Department of the Senate, *Submission 6*, p. 5.

27 Section 38B(2), *Parliamentary Service Act 1999* (Cwlth).

- 2.33 The Library's Economics Section consists of about twelve research specialists, including trained accountants and economists, who produce publications and confidential responses to individual requests on the budget and related matters. The Economics Section also runs annual seminars and coordinates briefing material on aspects of the budget for parliamentarians. In addition, the Statistics and Mapping section produces monthly statistical publications on key economic indicators.²⁸
- 2.34 Other agencies that produce financial, budgetary and economic information used by the Parliament include the Productivity Commission, and the Australian Bureau of Statistics. These agencies were established to serve the Government of the day and have no statutory role to provide a higher level of independent advice on public expenditure for the Parliament.²⁹
- 2.35 The Auditor-General, supported by the ANAO, is tasked with providing auditing services to the Parliament and public sector entities. While the ANAO has made important contributions to public administration, service delivery and the transparency of expenditure, it does not provide forward looking analysis on proposed Government expenditure or comment on the direction of fiscal policy to the Parliament.³⁰ The Joint Committee of Public Accounts and Audit has parliamentary oversight of the ANAO in addition to its role in the scrutiny of public expenditure.

Adequacy of existing financial scrutiny assistance to the Parliament

- 2.36 Despite the reforms to Budget reporting and the detail of information published in the Budget Papers and other statements and reports, submissions have raised concerns about the ability of Parliament to effectively discharge its responsibilities in relation to the Budget and other financial matters.
- 2.37 The Public Policy Institute of the Australian Catholic University advised that ... 'parliamentary scrutiny of public expenditure is weak and inadequate; scrutiny of revenue is largely non-existent outside a campaigning period.'³¹
- 2.38 According to Mr John Nethercote some existing scrutiny mechanisms have at times become less focused on examining major issues in public

28 Ms Roxanne Missingham, Parliamentary Librarian, *Transcript of Evidence*, 1 February 2011, p. 9.

29 Noted by the Department of Parliamentary Services, Submission 4, p. 3.

30 Mr Ian McFee, Auditor-General, *Transcript of Evidence*, 28 February 2011, p. 8.

31 Public Policy Institute, *Submission 13*, p. 1.

expenditure and administration, and more focused on the pursuit of what could otherwise be considered trivial extravagances of Government.³²

- 2.39 Some major aspects of public expenditure are not scrutinised by Parliament on an annual basis:
- There is no ongoing process for the Parliament to review special appropriations which constitute about 80 per cent of total Government expenditure. Special appropriations are authorised by particular Acts, such as the *Veterans' Entitlements Act 1986 (Cwlth)*, to enable continued expenditure to be limited by entitlement. Special appropriations are scrutinised by Parliament during the initial passage of the legislation, but do not form part of the annual Budget scrutiny process.
 - Nor is there an on-going review process outside, or within the Parliament of tax expenditures or tax concessions for specified activities of taxpayers.³³ Tax expenditures are estimated to be \$113 billion in 2009-10, or around 8.8 per cent of gross domestic product.³⁴ According to Mr Stephen Bartos, 'tax expenditures are the unloved orphan of fiscal scrutiny, paid little attention and not well understood and analysed.'³⁵
 - Expenditure of estimates of the Department of the House of Representatives.³⁶
- 2.40 From the perspective of parliamentary scrutiny, there are still some weaknesses in Government financial reporting. The Budget papers are lengthy and complex documents, and in addition to the array of other reporting requirements, the task of sifting through Budget data to identify significant issues for further examination may be difficult.
- 2.41 The Department of the House of Representatives commented that:

32 JR Nethercote, in N Aroney, S Prasser, and JR Nethercote (eds.) *Restraining the Elective Dictatorship: The Upper House Solution?*, University of Western Australia Press, Perth, 2009, p. 113, extract attached to Public Policy Institute, *Submission 13*.

33 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 27.

34 The Treasury, *Tax Expenditures Statement 2010*, Canberra, 2011.

35 S Bartos, *Enhancing Budget Integrity in Australia: An options paper for the Business Council of Australia*, Attachment to *Submission 17*, p. 27.

36 However, the recently established House of Representatives Standing Committee on Appropriations and Administration has been tasked, among other things, to 'consider estimates of the funding required for the operation of the Department of the House of Representatives each year' and report to the Speaker, for presentation to the House and transmission to the Minister for Finance and Deregulation. See: House of Representatives, *Standing and Sessional Orders as at 20 October 2010*, Department of the House of Representatives, Canberra, 2010, Standing Order 222A.

... while successive governments have made efforts to improve the Budget Papers, we understand that concerns have still been expressed by Members that the documents are difficult to read and that they do not have the sort of information that Members want, especially in relation to individual programs.³⁷

- 2.42 The annual economic and fiscal reports produced by Treasury under Part 5 of the Charter have no required presentation deadline and are not independently verified. The Intergenerational Report does not include long term forecasts of revenues and expenditure. It has also been suggested that the Intergenerational Report has become more political in its promotion of contentious aspects of public policy.³⁸
- 2.43 The costing of election commitments under the Charter only applies during the election period and excludes minor parties and independents. In its 2010 post election briefing for the incoming Government, Treasury noted that the process for costing election commitments, in particular, has 'not stood the test of time' and that a review of these provisions is required.³⁹
- 2.44 Executive Government is in a dominant position within the Parliament due to its access to the resources, analysis and advice of the public service, which under the *Public Service Act 1999 (Cwlth)*, serves the Government of the day.
- 2.45 The ability of the Parliament to draw on the support of its own departments in relation to financial scrutiny is limited by the resources of those departments and their other responsibilities. The DPS advised of its current challenges in regard to its operational budget.⁴⁰
- 2.46 The Parliamentary Library has limited capacity and resources to undertake detailed economic modelling and financial analysis. The work of the Library is based on open source information published by universities, Government, and the like. Certain requests made of the

37 Department of the House of Representatives, *Submission 2*, p. 1.

38 S Bartos, *Enhancing Budget Integrity in Australia: An options paper for the Business Council of Australia*, Attachment to *Submission 17*, p. 20.

39 The Treasury, *Incoming Government Brief - Red Book - Redacted - Part 1 - Revised*, 24 September 2010, Canberra, p. 3. The current costings process is discussed further in Chapter 3.

40 Department of Parliamentary Services, *Submission 4*, p. 14. Similarly, the budget of the Department of the House of Representatives has also come under pressure in recent years. See: House of Representatives Standing Committee on Procedure, *Building a modern committee system - An inquiry into the effectiveness of the House Committee system*, Canberra, 2010, p. 23.

Library cannot be answered or can only be partially answered due to a lack of available information.⁴¹

- 2.47 The Joint Standing Committee on the Parliamentary Library was of the view that funding pressures will inevitably lead to staff cuts:

The continuing pressure of increasing salary costs and the need to meet senators' and members' expectations for information resources to move with the times and to take up and offer improved online resources, combined with the efficiency dividend will lead to a further reduction in the number of staff delivering research services, simply because of the predominance of salaries in the Research Branch budget (over 96%).⁴²

The need for further financial scrutiny assistance to the Parliament

- 2.48 The committee was advised of the need for an external check on the statements and reports of the Government. The Business Council of Australia (BCA) stated that 'there is no institutionalised independent external assurance or interpretation of the "official" view of the Budget and government financials'.⁴³
- 2.49 The Parliamentary Librarian advised that 'the Library has regularly received feedback that senators and members do not receive sufficient independent analysis and advice on budget and expenditure issues'.⁴⁴
- 2.50 The Parliamentary Library's Pre-Election Policy Unit (PEPU) commissioned economic modelling on behalf of non government senators and members in the 2010 election period. An evaluation of the service identified an unmet need within the Parliament for economic modelling and recommended that the PBO 'should include the provision of the kinds of assistance offered by the PEPU in 2010, such as costing and economic modelling'.⁴⁵
- 2.51 Between 5 July 2010 and polling day on 21 August 2010, the PEPU received a number of substantial requests that were beyond the 'business as usual' capacity of the Parliamentary Library. The Parliamentary Librarian advised:

41 Department of Parliamentary Services, *Submission 4*, p. 5; Parliamentary Library, *Submission 10*, p. 2; Mr Peter Hicks, *Submission 12*, p. 2.

42 Joint Standing Committee on the Parliamentary Library, *Submission 5*, pp 3-4.

43 Business Council of Australia, Budget Submission 2011-12, attachment to *Submission 17*, p. 5.

44 Parliamentary Librarian, *Submission 10*, p. 3.

45 Mr Stephen Bartos, *Submission 18*, p. 5.

The sorts of inquiries that we were handling from the pre-election policy service were questions that were above and beyond what we had ever anticipated we would do. If clients had asked for that level of detail in the past, we would have said, 'No, we are unable to provide it with our resources.'⁴⁶

- 2.52 The Clerk of the Senate commented on the need for further assistance to the Parliament in relation to financial scrutiny and stated:

I see that there is a lot of economic and financial information that is produced by government that does not get picked up in the parliamentary process. It is prime material for good scrutiny, if that is what members of parliament want. I think there is a need for some kind of assistance for members of parliament to access that information.⁴⁷

Options for improving financial scrutiny assistance to the Parliament

- 2.53 Broad options presented to the committee for improving the assistance to Parliament can be summarised as: expanding existing mechanisms, establishing a PBO, and establishing a fiscal authority outside of the Parliament.

Improving existing mechanisms

- 2.54 One way of improving the scrutiny of public expenditure by the Parliament could be to expand the role of existing bodies. This approach was suggested as an option by the DPS.⁴⁸ Expanding existing mechanisms could be a means of complementing the work of the ANAO and the Productivity Commission.
- 2.55 An international example of building on existing mechanisms was the establishment of the Scrutiny Unit (the Unit) of the United Kingdom's House of Commons. The Unit was established in November 2002 to assist in providing additional resources and expertise to parliamentary committees in undertaking scrutiny of Government expenditure.⁴⁹
- 2.56 The main aim of the Unit is to support the Parliament through its select committees to perform its scrutiny function in the areas of Government expenditure, performance reporting and pre and post legislative scrutiny.

46 Ms Roxanne Missingham, Parliamentary Librarian, *Transcript of Evidence*, 1 February 2011, p. 9.

47 Ms Rosemary Laing, Department of the Senate, *Transcript of Evidence*, 1 February 2011, p. 35.

48 Department of Parliamentary Services, *Submission 4*, p. 7.

49 House of Commons Scrutiny Unit, *Submission 11*, paras. 5-12.

The Unit also provides staff to support the work of joint committees and House of Commons public bill committees in their examination of draft legislation.⁵⁰

- 2.57 The Unit does not undertake work for individual Members and its work is not usually published. Its main outputs are written briefings for committees. Administratively, the Unit forms part of the House of Commons Committee Directorate and is not separately funded.⁵¹
- 2.58 While the work of the Unit is valued in terms of its contribution to committee activity, it is recognised that it is a basic model of support and that its services could grow over time into a comprehensive Parliamentary Finance Office.⁵²
- 2.59 Also building on existing mechanisms, a Financial Scrutiny Unit within the existing Research and Library Service of the Northern Ireland Assembly was proposed. However, the Financial Scrutiny Unit was established as an interim measure, while a committee investigates the role of the Parliament in scrutinising Government expenditure. That committee is also investigating the need for a PBO as part of its inquiry.⁵³

A Parliamentary Budget Office

- 2.60 A range of benefits in establishing a dedicated independent fiscal body such as a PBO or external fiscal authority were suggested during the course of the inquiry. These were to:
- Provide a source of high-quality, independent analysis on Budget and related matters⁵⁴ and thereby improve the quality of parliamentary debate and enhance decision making.⁵⁵
 - Improve accountability and transparency.⁵⁶
 - Ensure integrity and sustainability of fiscal policy.⁵⁷
 - Strengthen the credibility of the Budget process.⁵⁸

50 House of Commons Scrutiny Unit, *Submission 11*, paras. 2-3.

51 House of Commons Scrutiny Unit, *Submission 11*, paras. 4, 15.

52 Comments from Hansard Society and House of Commons Liaison Committee, in House of Commons Scrutiny Unit, *Submission 11*, paras. 30-31.

53 Northern Ireland Assembly, *Submission 3*, p. 1.

54 Department of Parliamentary Services, *Submission 4*, p. 1.

55 Australian Chamber of Commerce and Industry, *Submission 9*, p. 1.

56 Department of Parliamentary Services, *Submission 4*, p. 2.

57 From covering letter to Coalition, *Submission 14*.

58 Organisation for Economic Co-operation and Development, *Submission 18*, p. 1.

- Address perceived bias in the role of Treasury and Finance in undertaking the election policy costings.⁵⁹
 - Enhance Australia's international reputation for good governance.⁶⁰
- 2.61 Unlike a fiscal authority or council, the key quality of a PBO is that it is a body dedicated to serving the needs of the Parliament. Treasury and Finance advised:
- ... a PBO could present an opportunity for members of Parliament, particularly non-government members, to have available additional analysis of the Budget, evaluation of fiscal policy settings independently from government and policy costing advice.⁶¹
- 2.62 The Clerk of the House of Representatives advised that 'the benefit from the work of the [PBO] might be to promote understanding on how the estimates are derived, including the assumptions involved and how sensitive the estimates are to these assumptions.'⁶²
- 2.63 The Clerk of the Senate advised that a PBO could support the scrutiny function of Senate estimates committees. The Clerk of the Senate stated:
- I think there is a strong possibility that a PBO could enhance the estimates process by providing analysis of budget documentation. ... It could possibly provide senators with a tailored service: 'I'm interested in X, Y and Z; please pull out what you've got on those topics and give me a briefing on where there might be some gaps in the documentation, or holes or flaws that we need to look at – all those sorts of things.'⁶³
- 2.64 The DPS was of the view that the broader impacts of a PBO could well outweigh the costs and stated:
- Even if the enhanced deliberations of Parliament were to influence the priorities for (say) 1% of the annual budget, this would amount to some \$3 billion, which is several magnitudes greater than the operating costs contemplated for a Commonwealth PBO.⁶⁴

59 Mr Stephen Bartos, *Transcript of Evidence*, 1 February 2011, p. 71.

60 S Bartos, 'Enhancing Budget Integrity in Australia', attachment to Business Council of Australia, *Submission 17*, p. 4.

61 Departments of the Treasury and of Finance and Deregulation, *Submission 16*, p. 1.

62 Department of the House of Representatives, *Submission 2*, p. 1.

63 Dr Rosemary Laing, Department of the Senate, *Transcript of Evidence*, 1 February 2011, pp 29-30.

64 Department of Parliamentary Services, *Submission 4*, p. 2.

- 2.65 A key message to the committee regarding the potential contribution of a PBO is the value to the Parliament of a source of high-quality analysis and advice, independent from Executive Government. The importance of establishing an independent PBO and measures to support its independence are discussed further in Chapter 4.

An external fiscal authority

- 2.66 The idea of an external fiscal authority outside the Parliament and independent from the Government was the third broad option suggested. The primary purpose of an external fiscal authority would be to assist policy development and scrutiny by indirectly serving both the Parliament and the Government.
- 2.67 BCA proposed a 'permanent independent Commission of Budget Integrity' as a Commonwealth owned company funded by the Government. It was argued that such a Commission could promote fiscal sustainability, strengthen accountability, improve the effectiveness of spending and enhance the credibility and transparency of Budget estimates.⁶⁵
- 2.68 The main focus of the proposed Commission would be to prepare fiscal sustainability reports, conduct value for money evaluations of Government programs and review Government expenditure. Further, the Commission would publish an analysis on the annual budget modelled on the current review of the defence Budget undertaken by the Australian Strategic Policy Institute.⁶⁶
- 2.69 BCA proposed that the Commission of Budget Integrity receive an annual funding of approximately \$10 million to support 30 to 40 staff. It was suggested that the funding for the Commission could be raised from reductions to tax expenditures on business income.⁶⁷

Concluding comments

- 2.70 Budget Papers remain lengthy and complex documents. The range of statutory reporting requirements, particularly since the 1990s, has resulted in more information being made available on public spending. However, linking the various reports and statements available, making sense of the

65 Business Council of Australia, *Submission 17*, p. 3.

66 Business Council of Australia, *Submission 17*, attachment, pp 3-7.

67 Business Council of Australia, *Submission 17*, p. 9.

information and identifying issues for further examination continues to present a challenge for the Parliament.

- 2.71 Governments have responded to some of these issues through the establishment of the *Charter of Budget Honesty* and Operation Sunlight. While these processes are intended to improve transparency and therefore accountability, it is recognised that the agencies charged with implementing these measures are directly responsible to the Government of the day.
- 2.72 However, the committee recognises that, over time, the task of the Parliament in effectively discharging its responsibilities in relation to scrutinising Government expenditure has become increasingly difficult. This is despite the array of Government statements and reports and previous reforms to the way information is presented.
- 2.73 Existing information scrutiny mechanisms, including those provided through the parliamentary departments, are constrained because of limited resources, competing responsibilities, limited access to Government information and the unavailability of expertise. Expanding the role of these mechanisms to provide specialised analysis and advice would dilute their primary focus.
- 2.74 The committee recognises that there is a logical limit to the time that parliamentarians can spend scrutinising the annual Budget and examining related economic issues at other times of the year and there is a similar limit to the detail of these matters that can be effectively scrutinised.
- 2.75 While it is unrealistic to expect that the Parliament could be resourced to match the level of research and expertise of Executive Government, some of the disadvantages faced by non government members in their access to high quality analysis and advice on financial matters can be addressed.
- 2.76 The requests made of the Pre-Election Policy Unit service offered through the Parliamentary Library demonstrated that there is an unmet need for additional and higher level economic analysis and modelling among non government parliamentarians. Other evidence to the inquiry suggests a further demand for simplifying the complexity of Budget Papers and government reporting and identifying issues for parliamentary scrutiny.
- 2.77 The committee considers that the current arrangements to support the role of the Parliament in exercising its responsibilities in relation to Government expenditure and fiscal policy are inadequate. The establishment of a specialised Office dedicated to providing the Parliament with high quality analysis and advice on Budget related matters is warranted.

Recommendation 1

- 2.78 **The committee recommends that the Australian Government establish a Parliamentary Budget Office dedicated to serving the Australian Parliament.**