

21 January 2011

Committee Secretary
 Joint Select Committee on the Parliamentary Budget Office
 Department of House of Representatives
 PO Box 6021
 Parliament House
 CANBERRA ACT 2600
 AUSTRALIA

Dear Committee Secretary,

ACCI COMMENT ON ESTABLISHMENT OF PARLIAMENTARY BUDGET OFFICE

Following the outcome of the 2010 Federal Election, the *Agreement for a Better Parliament* negotiated between the major parties and the independents included a commitment to establish a Parliamentary Budget Office (PBO).

ACCI welcomes the decision to create a PBO and the opportunity to provide input to the *Joint Select Committee's* inquiry into its proposed mandate, resources and functions. The business community believes an independent fiscal authority will improve the quality of public debate and enhance policy decision making.

In recent years, debate about Treasury's economic forecasts and the size of budget surpluses and deficits have tended to overshadow and distract from discussion about the merits of the fiscal policy setting proposed and implemented by governments. In part, this concern is due to the legal status of the Treasury and Finance Departments as part of the executive arm of government.

However, the concern also appears to reflect a perception faced by all governments that the advice provided to them by the public service, and in this case Treasury, closely aligns with a government's own objectives. Ultimately, the Treasury is responsible and accountable to the government of the day and this unavoidable closeness of interests may provide a useful opportunity for another source of economic review.

This issue has been identified in other jurisdictions and the response has been to create independent fiscal authorities which are non-partisan public sector bodies that provide advice to government and the community in relation to the projected budget position, economic forecasts and fiscal policy settings. The provision of authoritative and independent forecasts and analysis to the legislature and the broader body politic mitigates the problem of complete public reliance on just one level of assessment.

ACCI believes that the establishment of an independent fiscal authority in the form of the PBO is highly desirable and will make economic and budget forecasts less contentious and serve to re-focus public discourse on the merits of the fiscal policy stance and the government's performance against its fiscal strategy.

The primary motivation for the creation of a body like the PBO is to increase fiscal transparency and the accountability of governments. This objective is accomplished by improving both the transparency and the independence of the budget process. When considering the structure and resourcing of the PBO, this overriding purpose should be taken into account and used to inform decisions in relation to these various matters.

Independent fiscal authorities also serve to inform Parliamentary and public debate about fiscal policy settings and issues surrounding fiscal sustainability. A substantial analytical capacity is generally required in order to fulfill this role adequately while remaining both authoritative and independent. It is also envisaged that the PBO would have responsibility for policy costings, including election commitments which would require an ability to deliver a significant "peak-load" capacity.



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A brief survey of independent fiscal authorities in other advanced economies reveals that internationally there are nine bodies that perform similar functions to those envisaged for the PBO. (There were ten until recently. The Hungarian Fiscal Council is considered to have been effectively abolished after having its budget almost eliminated following its suggestion that the ruling government's fiscal projections were unduly optimistic.)

Broadly, independent fiscal authorities are either long-established and well-funded, or recently formed and in possession of limited resources. The table below outlines some basic summary level information in relation to these organisations. Only those independent fiscal authorities with substantial resources, either in absolute or relative terms, appear able to generate economic and budget forecasts independently of their respective governments.

Country	Independent Fiscal Authority	Created	Staff	Budget (\$AUDmn)	Budget (\$AUD per capita)	Independent Forecasts
Netherlands	Bureau for Economic Planning Analysis	1945	140	\$15.7	\$0.95	Yes
Denmark	Economic Council	1962	20	\$2.5	\$0.45	Yes
United States	Congressional Budget Office	1974	250	\$44.5	\$0.14	Yes
Sweden	Fiscal Policy Council	2009	12	\$0.9	\$0.10	No
Canada	Parliamentary Budget Officer	2008	14	\$2.8	\$0.08	No
United Kingdom	Office of Budget Responsibility	2010	11	\$2.7	\$0.04	No
Belgium	Federal Planning Bureau	n.a.	100	n.a.	n.a.	Yes
Austria	Government Debt Committee	2002	15	n.a.	n.a.	n.a.
Slovenia	Fiscal Council	2009	n.a.	n.a.	n.a.	n.a.
Hungary	Fiscal Council (Abolished 2010)	2008	n.a.	n.a.	n.a.	n.a.

(n.a. = not available)

Source: various

The international experience would suggest that Australia faces a choice between a well-resourced PBO, capable of producing forecasts independently of the Department of the Treasury, or a far more limited organisation which lacks this capacity and merely renders an independent assessment of the government's forecasts.

ACCI believes the PBO should be a substantive body, capable of independently producing its own forecasts. The staffing levels required to achieve such an output on a regular basis would be considerable. Current forecasting resources within the Reserve Bank and Treasury would suggest a staff contingent of at least forty or fifty would represent a reasonable estimate of the personnel requirement. Some of the required forecasting capacity may need to be re-allocated from Treasury.

It is also the case that the larger independent fiscal authorities often have responsibilities that extend beyond fiscal policy. For instance, the *Bureau for Economic Planning Analysis* in the Netherlands conducts cost-benefit analysis of all large infrastructure projects and produces economic research on a range of issues in much the same way as the *Productivity Commission*.

There is a clear public interest in ensuring Parliamentarians and the electorate are properly informed of the costs and benefits of major infrastructure investments and the effectiveness of government policy generally. ACCI considers that there is merit in the PBO being granted a mandate that includes responsibility for analysis of matters beyond fiscal policy and economic forecasts. This would have obvious implications for the PBO's staff requirements.

The independence of the PBO is a paramount reason for its existence. Accordingly, security of funding for the body must be guaranteed for an extended period and a mechanism should be adopted to ensure its staff, including its head, are independent of the government.

The PBO will also need to solicit information from government departments and agencies in order to fulfill its function. Provision must be made for powers to compel the production of information if such compulsion becomes necessary.

Yours Sincerely,

Greg Evans
Director, Industry Policy and Economics