

Joint Select Committee on the Parliamentary Budget Office**Inquiry into the Proposed Parliamentary Budget Office****Departments of the Treasury and Finance and Deregulation Response to Questions
Received on 2 February 2011****Question 1**

Would the Treasury and the Department of Finance and Deregulation be willing and able to provide all necessary information to the Parliamentary Budget Office, and would legislation be needed for this to be made available or would a memorandum of understanding be sufficient?

Answer:

The Departments of the Treasury and Finance and Deregulation preferred model for the Parliamentary Budget Office (PBO) to access information is through a memorandum of understanding (MOU).

The information needs of the PBO will be determined both by its mandate and capabilities, including its staff's skills and experience. The information needs are likely to evolve, and a memorandum of understanding could incorporate the flexibility to enable the PBO and the departments to manage changing information requirements relating to the maturing of the PBO and would encourage a transfer of understanding as well as information.

An MOU, with the relevant government agencies, would also reflect the restrictions on certain data collected under specific legislation or agreements, where constraints are imposed on the access to, and dissemination of data. This includes, for example, administrative data from the tax and transfer systems to which access is limited due to privacy and taxpayer secrecy provisions and some private sector information which is provided on a confidential basis with possible legal sanctions if not handled appropriately.

As noted in our submission, compelling agencies to provide information through legislation could create conflict with the *Public Service Act 1999* (Public Service Act), which requires agency heads to manage their departments for the benefit of their Minister. An MOU, supported by a set of information protocols, on the other hand, could incorporate the flexibility required to balance agencies' responsibilities under the Public Service Act. The protocols would need to take into account the type of information government agencies are able to provide, capacity constraints and public release of information.

In addition, as noted in our joint Submission, information protocols established as part of any memorandum of understanding could draw upon the provisions applying to agencies under the *Freedom of Information Act 1982* (FOI Act).

Question 2

How would the Parliamentary Budget Office access parties' policies?

Answer:

After seeking clarification from the Committee secretariat, we understand that the Committee is seeking an explanation of an appropriate process for undertaking election costings, including public release of the information.

As outlined in our joint submission, a number of challenges could arise if the PBO's mandate were to include the costing of election commitments under the *Charter of Budget Honesty Act 1998* (the Charter). These include the potential duplication of existing resourcing in the departments, the shortage of highly experienced specific professional skills, the potential lack of access to and familiarity with specialised data as well as financial and economic models designed for specific public policy costings, and potential differences between costings done by the PBO during the caretaker period and subsequent costings by the departments once the government has taken office.

The *Charter of Budget Honesty Act 1998* would also need to be amended to remove or change the role of the departments in relation to election costings.

If the PBO were to undertake election costings during the caretaker period, one option would be for a formal process where parties would have the option to submit their policies to the PBO, similar to the process that currently occurs for the major parties requesting costings during an election period. This process is explained in the Charter, which sets out the arrangements under which the Secretaries to the Treasury and the Department of Finance and Deregulation (the Secretaries) may be requested to cost Government and Opposition election commitments during the caretaker period prior to a general election.

The Charter also provides that the responsible Secretaries may jointly issue written guidelines recommending approaches or methods to be used in the preparation of policy costings. Such guidelines were issued for the 2010 election and were published on the Finance website (<http://www.finance.gov.au/publications/charter-of-budget-honesty/index.html>).

The guidelines aim to inform those requesting policy costings of the general methodology that is to be applied, what information will need to be supplied when requesting a policy costing, and what will be produced. They outline the principles and processes to be followed by the departments, with the aim of achieving consistent and transparent policy costings.

The Charter, under Clause 31, outlines the requirements for the public release of policy costings. The Charter requires the relevant Secretary to publicly release a costing as soon as practicable after the request is received and before polling day. If the costing cannot be undertaken before polling day, either due to insufficient information or time constraints, the relevant Secretary is to publicly release a statement to that effect. For example, under the guidelines for costing election commitments issued in June 2010, the Secretaries indicated that if a policy was not submitted for costing at least six business days prior to the election, then it would not be possible to complete the costing in time for release before polling day. The Secretaries are not obliged or authorised to take any further action in relation to a policy costing request on or after polling day.

In the absence of a formal role in the costing process, the PBO could simply monitor information released by relevant political parties, such as media statements, publications, and policies announced on their respective web sites. However, while some of this information may contain policies which are able to be costed, there may be some proposals which do not contain sufficient information to allow a viable costing to be undertaken, proposals announced which are ideas rather than official policies, or proposals which come to light too late in the process to be costed.

Question 3

In the Red Book, the Treasury noted that certain provisions of the Charter of Budget Honesty have not stood the test of time, in particular, those governing the process for costing election commitments. Can you expand on how the costing provisions of the Charter of Budget Honesty have not worked as well as they could have?

Answer:

Currently, the Prime Minister and the Leader of the Opposition, through the Prime Minister, can request the Secretaries of the Treasury and Finance to cost policy proposals during the caretaker period under the Charter of Budget Honesty. This provision is aimed at making the resources of the public service available to both major parties and reducing incumbency advantage, and the Charter arrangements have generally served this purpose well.

The references in the Treasury 'Red Book' reflect various public statements made over a number of years by both major political parties regarding some concerns about the

procedures and timeframes given for policies submitted to the Treasury and Finance under the Charter arrangements, as well as some uncertainty about the operation of this aspect of the Charter in the period between an election polling day and the formation of a Government.

Question 4

Has a review of the Charter of Budget Honesty commenced, if so, what are the terms of reference for this review and findings; if not, is a review planned?

Answer:

The Departments of Treasury and Finance and Deregulation are not currently undertaking, or planning, a review of the Charter of Budget Honesty.

Question 5

Do you see a role for the Parliamentary Budget Office to provide economic advice and briefings for parliamentary committees?

Answer:

As noted in our joint Submission, the PBO could take on an educational role to improve the capacity of Parliament to assess the annual budget and make decisions when considering related legislation - in particular, appropriation bills and other legislation with fiscal implications.

The OECD Submission to the inquiry suggested that a PBO could principally serve committees and sub-committees rather than individual members. While the mandate for the PBO will determine the nature of any direct support provided to parliamentary committees, as noted in our Submission, there are obvious advantages in using consistent forecasts and assumptions for the economic outlook when considering alternative policy options.

In addition, as noted in our Submission, resourcing a PBO to replicate the economic forecasting function may not be a cost effective use of taxpayer funds. Therefore it will be important that any 'economic advice' or 'briefings' is able to draw upon the detailed outlook for the economy published by the Government in the Budget and Mid-Year Economic and Fiscal Outlook updates.

**Departments of the Treasury and Finance and Deregulation Response to
Questions on Notice from the**

**Joint Select Committee on the Parliamentary Budget Office
1 February 2011**

QUESTION: Can you provide details of the number of accountants and economists in the costing areas of Finance and Treasury?

Finance and Treasury employ people with a range of skills, experience and tertiary qualifications, including accounting and economics. In terms of formal post tertiary accounting qualifications, Finance currently employs approximately 110 members of the accounting bodies (CPA Australia and the Institute of Chartered Accountants), of which around half work in Budget Group. The Treasury has a Taxation Analysis Division and Macroeconomic Modelling Division, which have a large number of officers specialised in pure quantitative analysis. The Domestic Economy Division has officers dedicated to the assessment and evaluation of the economic outlook while Budget Policy Division has officers assessing the fiscal outlook, including changes to various policy proposals.

All of these divisions have a relatively high quantitative component to their day-to-day work, and together comprise around 130 policy officers, with around 10 per cent with a straight accounting/commerce background, a further 15 per cent with pure quantitative qualifications such as mathematics/actuarial/science studies with the remainder having economics/law where the predominant majors are likely to have many quantitative or statistical subject streams.

QUESTION: Did the Treasury's 'Red Book' indicate that the Productivity Commission should prepare the *Intergenerational Report*?

The Treasury's Incoming Government Brief (the 'Red Book'), in the section titled 'Possible elements of a sustainable population strategy' proposed an option for analysis in the context of long-term population and infrastructure planning, where a "a regular independent report (by Treasury or a body like the Productivity Commission) outlining 20-year aggregate, geographic and demographic population projections could inform the planning and investment of all three tiers of government".