

Submission to the Public Accounts and Estimates Committee's inquiry into the Victorian Parliamentary Budget Office



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Danielle Wood, Kate Griffiths, and Tom Crowley

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Summary

We welcome the opportunity to present our views to the Committee's inquiry into the Victorian Parliamentary Budget Office (PBO).

The PBO is a relatively new institution, established in 2017, with three main functions: costing policies, informing the public, and providing general advice to parliamentarians.

Victorian parliamentarians have made strong use of the **policy costing function** since the PBO's establishment. Published costings are rigorous and detailed, and the availability of high-quality costings for opposition and crossbench parties is a significant positive contribution to Victorian policy debate.

Most of the PBO's costings are not published because MPs have full discretion on when to publish costings. It is appropriate that MPs can request confidential costings to assist their policy thinking, but once they refer publicly to a PBO costing, it should be released so the full context is provided.

The PBO's **public information** function is still developing. The PBO has so far published three factsheets, two dashboards and a Budget summary, all in 2020. These are useful products but there would be value-add in moving towards more detailed research reports on budget issues, including medium-term fiscal sustainability challenges and risks.

The Act should explicitly allow the PBO to publish self-initiated research and technical reports as part of its public information function. The Committee should also consider additional resourcing to support the PBO's public offering.

The **policy advice** function is an unusual function for an independent fiscal institution. We were not able to identify any national budget office with a similar remit. The Act provides minimal detail, except to emphasise that the PBO should not be involved in policy development and should not comment on the merits of policy.

Published requests for advice vary significantly. Some risk politicising the PBO or creating the impression that the PBO is assisting in policy development or endorsing a policy. Others overlap with the functions of the Parliamentary Library.

Overall, the broadly cast policy advice function seems to pose significant risks for the independence of the PBO. The function should be removed or be very explicitly narrowed to encompass only background policy research.

Liberating the PBO from this function may free up resources to assist with expanding its research into medium-term fiscal issues as suggested.

Over time, there is scope for the PBO to take on more functions. Most similar bodies overseas make or assess economic forecasts and monitor their government's compliance with fiscal rules. Both would add useful rigour and independence to the budget process.

The Victorian PBO has quickly established itself as a valuable public resource, and it produces high-quality output. Amendments to the Act to set a clearer scope for its functions, and to appropriately resource the execution of these functions, would help to ensure it remains a trusted, valuable institution.

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1 What the PBO does now

The PBO's functions are established by the *Parliamentary Budget Office Act 2017* (the Act).¹ Its main functions are:

- to provide “ongoing, authoritative, independent and credible policy costing” on request from MPs;
- to inform policy development and public debate in Parliament and the Victorian community; and
- to provide “ongoing, authoritative, independent and credible... advisory services” on request from MPs.

In 2019-20, the PBO employed 15 full-time equivalent staff members to achieve these functions.² Over the course of the year, they produced:

- 110 policy costings, 8 of which were published;
- 38 pieces of individual advice for MPs, 4 of which were published;
- 2 pieces of public awareness advice; and
- additional public products, including a Budget snapshot, a dashboard of economic and fiscal indicators, and a COVID-19 policy tracker.

The PBO's functions are similar to that of the Federal PBO, although the Federal PBO does not offer policy advice to MPs.

There are 29 countries in the OECD with similar independent financial institutions, and only two examples of equivalent subnational jurisdictions (Scotland and Ontario). As Figure 1 shows, several of these institutions perform similar functions to the Federal and Victorian PBOs. Some also have responsibility for economic forecasting and for oversight of budget rules.

A Grattan Institute submission to the federal inquiry into the operations of the Federal PBO recommended that the Federal PBO be given some of these additional responsibilities.³

For a relatively new institution, the Victorian PBO already has a broad range of responsibilities. Our submission focuses on how to strengthen the PBO's core functions.

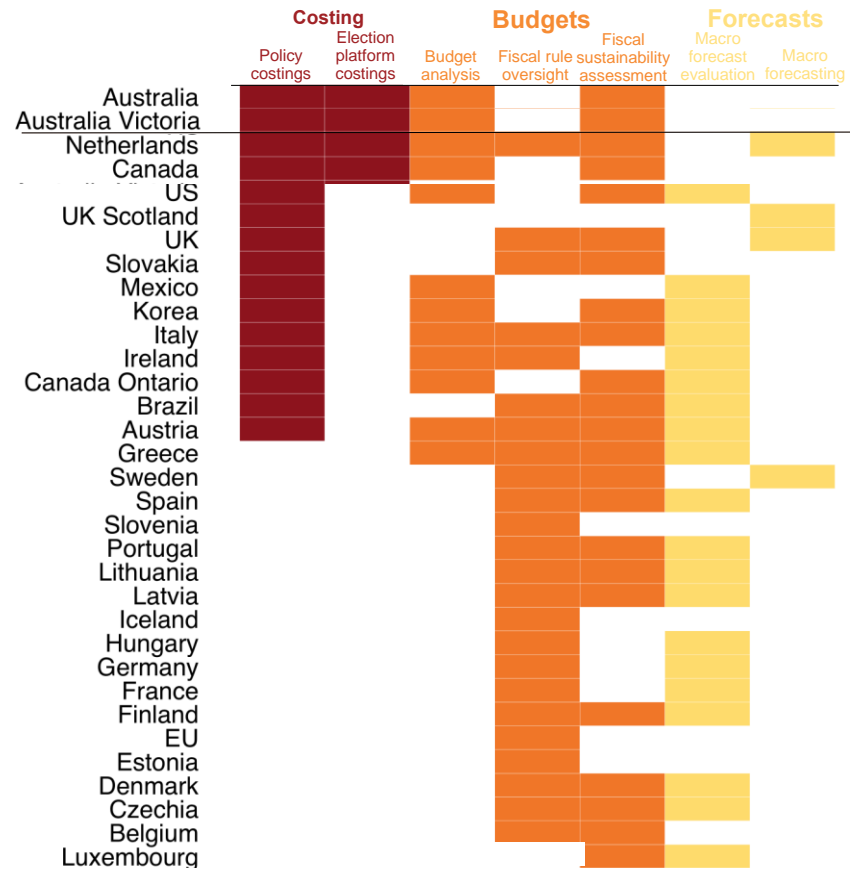
¹ [Parliamentary Budget Officer Act 2017](#)

² For comparison, the [Federal PBO](#) employs 35 staff full-time and 5 part-time:

³ The submission can be found [here](#).

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Figure 1: Independent financial institutions perform a range of functions



Source: [OECD](#)

2 Costings

The Victorian PBO has performed strongly to date in providing independent policy costings.

Policy costings provide high-quality, independent analysis on the financial implications of opposition and crossbench policy proposals. This function helps to 'level the playing field' in policy development by giving non-governing parties access to credible, accurate costings that incumbents have long benefited from.

During elections, the PBO also provides an impartial summary of the policy platforms of the two major parliamentary parties, including budget impact and a breakdown of spending by function.

Trusted, non-partisan costings by the PBO improve policy development and the contest of ideas. But the ongoing credibility of the process depends on parties refraining from misrepresenting or using the costings out of context.

The PBO's credibility would be further protected, and public debate improved, if the PBO was required to **make costing information public** once the costing was publicly referred to by the party that commissioned it. **A similar rule could apply to government costings** carried out by the Department of Treasury and Finance.

Box 1: The PBO's costing functions

The Act distinguishes two types of costings undertaken by the PBO:

Non-election costings. These can be requested by any MP and released at their discretion.

Election policy costings. This function includes costing policies requested by the leader of a parliamentary party and producing a pre-election report summarising the financial impact of a party's costed policies if requested. It also includes publishing a post-election report costing all policies that were publicly announced during an election campaign, whether or not a costing was requested.

Both of these costing functions appear to be well utilised. 114 non-election costings were prepared in 2019-20. 215 costings were prepared for the 2018 election, and 829 announced policies were costed for the post-election report.

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2.1 The PBO has reduced 'costing credibility risk' and improved policy development

The PBO's costing services have been enthusiastically embraced by parliamentarians: the PBO delivered 114 costings in the last financial year, and almost double that in the last election year.

This function reduces the potential for governments to critique opposition or minor party policies based on 'black holes' in costings. Free from these distracting critiques, there is greater scope to debate the merits of the policies themselves.

Reducing 'costing credibility risk' improves the contest of ideas by emboldening opposition and minor parties to engage in more policy development.

A related benefit is that the costing process requires the parties to specify a range of details about their policies. Going through the process engenders a level of discipline and helps prevent costly details being overlooked.

2.2 PBO costings should be made public when used in public debate

It is imperative that parliamentarians are able to submit confidential costings to assist them in developing policy. Parties need to be able to 'fly kites' outside the glare of the public spotlight, to assist them in working through potential policy options.

But the story is very different once a party releases the policy and refers publicly to the PBO's costings. The PBO costing minutes contain highly relevant information such as the assumptions and costing approach. This provides useful context for debating the merits of a policy.

Publicly releasing costing information when it is already part of the public debate would also help protect the PBO from unfounded attacks on its methodology, by making its assumptions transparent.

But public release of PBO costings might be seen as reintroducing the uneven playing field if policy costings from the Department of Treasury and Finance aren't subject to the same scrutiny.

One way to overcome this concern in the case of non-election costings would be requiring the Department of Treasury and Finance to produce standardised costing documentation in the same way as the PBO, and to release it when the costing is publicly referred to by the government.

For election costings, where the PBO is required to cost the policies of all parties, the Act should explicitly stipulate that other government departments should not produce costings, to ensure that all parties are assessed on a level playing field. The Act should also specify time-frames for government departments to provide any information the PBO requests to inform the costing.

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3 Public information

The PBO's public information function is still maturing and could be strengthened by a broader scope and additional resourcing.

One of the core objectives of the PBO is "to inform policy development and public debate in Parliament and the Victorian community".⁴

But the Act is silent on how the PBO should achieve this objective, and in particular on whether it can undertake research and analysis at its own initiative.

The PBO has published a small number of self-initiated products on its website,⁵ but in the absence of the power to self-initiate research it has done so using its power to advise MPs, as outlined in section 47 of the Act. This means that the PBO has only been able to release research to the public that has been commissioned and approved for release by an MP. Research published to date includes:

- Budget snapshots, first published in 2018-19;
- Three pieces of 'public awareness advice' in 2020, on revenue trends, schools funding, and public private partnerships;
- A COVID-19 policy announcements tracker; and
- A dashboard of key economic and fiscal indicators.

These are valuable products that help keep the public informed on key issues. But it is not appropriate that the PBO has to rely on the support of MPs to produce this research. This reliance risks compromising the independence of the PBO and is also likely to constrain the scope of the research produced.

We recommend that the Act be amended to **include scope for the publication of self-initiated research and technical reports** as part of its public information function.

If the PBO is given this power, it could consider widening the scope of its public research based on the example set by the Federal PBO (Box 2). In particular, research that goes outside the four-year electoral cycle to look at medium-term fiscal challenges, or work to identify and quantify fiscal risks, would both be particularly enlightening and would add an independent fact-base to an important area of public debate.

The Committee should also consider **additional resourcing** for the PBO to carry out this public information function.

⁴ [Parliamentary Budget Officer Act 2017](#), Part 1, 5(c)

⁵ https://pbo.vic.gov.au/Public_awareness_advice.

Box 2: Publications of the Federal PBO

The Federal PBO publishes a range of reports, research, and tools, including:

- Regular research reports on issues that impact the sustainability of the budget over the medium term. Includes regular medium-term fiscal projections and collations of Federal and state budgets into a national fiscal position.
- Other ad hoc research reports on topics of significance, including recent publications on JobSeeker expenditure trends and the ageing population. These are similar in scope to the Victorian PBO's public awareness advice.
- Budget snapshots, similar to the Victorian PBO.
- An online budget glossary which explains key budget terms for a general audience.
- A data portal for ease of access to all research report-related data.
- An annual report outlining the impact of selected unlegislated measures that have been announced by government.

4 Policy advice

The policy advice function under the Act appears to be unique to the Victorian PBO. We have not identified any other independent fiscal institution with a similar role.

There is very little guidance in the Act about what advisory services the PBO should provide, except that it should not develop policies for MPs and should not comment on the merits of policies.

Because the PBO's advice is only published at the request of MPs, there is also very little insight available into how MPs are using the function: of the 38 requests completed in 2019-20, only 4 have been published, and only 7 have ever been published.

The published requests vary significantly, but broadly speaking all of them are requests for information gathering on a proposed policy, a government policy or bill, or a topic relevant to policy development.

The large degree of 'grey' in the policy advice functions poses significant risks for the independence of the PBO and also risks drawing resources away from its core costing and research functions.

We recommend the policy advice role should be removed or be very explicitly narrowed to encompass only background policy research.

Policy advice role poses risks for the PBO's independence

Many of the types of requests that could be made under the policy advice function risk straying into policy development or assessing the merits of policies, putting the PBO in breach of the Act and compromising its independence.

For example, the Reason Party requested a cost-benefit analysis into extending out-of-home care to youth aged up to 21. The policy in question was not a government policy, although it related to the full rollout and extension of a trial program the government had funded (the 'Home Stretch' program).

Requests of this nature risk straying into the territory of policy development. They also run the risk that the PBO can be portrayed as 'endorsing' a particular policy if it has a benefit-cost ratio greater than 1.

There is also the risk that policy advice is used for political point scoring rather than to aid policy formulation.

There are two published requests from the Liberal Party that relate to government policy and appear designed to support 'talking points' rather than development of alternative policies.

Examples include a request for the long-term projections of CityLink toll costs under the West Gate Tunnel Project, and a request for an assessment of the amount saved by a government decision to downsize a youth justice facility.

These types of requests are a challenging grey area for a PBO to navigate because they can risks undermining the perceptions of its independence.

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Background research is less risky but overlaps with the Parliamentary Library

A less risky form of policy advice for the PBO is advice that simply provides background information or context for the development of policy.

However, this would seem to overlap with the research already offered to MPs by the Parliamentary Library Research Service. The Service, provided by the Department of Parliamentary Services, publishes:

- **“Research Papers**, which provide in-depth coverage and detailed analysis of key topics;
- **Current Issues Briefs**, which provide an overview of a subject in legislative, portfolio, or policy areas; and
- **Research Briefs**, which provide analysis and description of current bills.”⁶

The Library's publications are very detailed and cover a range of topics and bills. MPs can request research from the Library on topics of interest, and there is also some capacity for confidentiality.

It is not clear what the 'point of difference' is between the PBO's advice and the advice already offered by the Parliamentary Library. It may be that MPs ask the PBO for advice that contains information about budgetary cost or is otherwise of a quantitative nature.

But again, the lack of detail in the Act means that this is not a clear distinction. For example, a request from the Greens related to the state of glass recycling in Victoria appears indistinguishable from the sorts of requests the Parliamentary Library responds to.

Advice role should be removed or at least substantially clarified

The policy advice function of the PBO is unusual and seems to carry more risks than it delivers benefit. The role could be more explicitly refined to encompass only background research but given the Parliamentary Library already provides these services the value is unclear.

Removing the advice role would help free up resources for other core functions of the PBO.

⁶ <https://www.parliament.vic.gov.au/publications/research-papers>

5 Other functions that should be considered for the PBO

It is common for independent fiscal institutions to play a role in making or assessing economic forecasts and monitoring compliance with fiscal rules (see Figure 1).

We consider there is a good case for the PBO to be given these additional functions, although given that the PBO is a relatively new organisation there may be merit in introducing the functions over time.

Budget forecasts

The Victorian Government could give the PBO responsibility to produce and publish macroeconomic forecasts that would feed into the government's budget estimates.

Forecasts that are independent of government won't necessarily be more accurate, but they would avoid accusations that the government of the day is 'cooking the books' to improve its electoral fortunes, which is a common feature of public debate about budgets at all levels of government in Australia.

Handing responsibility to the PBO would also make macroeconomic forecasts more transparent. Independent fiscal institutions are more likely to publish the assumptions underpinning the forecasts, and engage more freely in discussions about significant economic uncertainties.

Another potential benefit is creating a more orderly budget process. The Office of Budget Responsibility in the UK has noted

that since it has taken responsibility for macroeconomic forecasts and monitoring fiscal rules, budget policy measures need to be locked in at least a week before the budget is released.⁷

Concerns that losing responsibility for macroeconomic forecasts would undermine the capability of the Department of Treasury and Finance are misplaced. The Department would retain full responsibility for macroeconomic and fiscal policy advice. Arguably, removing forecasting – a distinct skill set – would free up resources so Treasury could concentrate on its core remit.

Fiscal targets

The Victorian Government could require the PBO to report on the government's progress on its fiscal targets. This would make the government more accountable and would also encourage the government to more clearly specify its targets and focus on ones that are objectively measurable.

Whereas budget papers in most states explicitly report on whether fiscal targets have been achieved, Victoria's reporting is not as clear. Although it is possible to deduce performance against some targets from the budget papers, it is difficult to assess for example whether general government debt as a percentage of gross state

⁷ [OECD](#), Slide 6. Reference: Hughes, R. (2019). Building good relations between IFIs & Finance ministries.

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product is being maintained at a 'sustainable level over the medium-term'.⁸

Reporting from the PBO on progress against these targets would improve transparency and accountability.

⁸ For a more comprehensive discussion of Victoria's fiscal targets in comparison to other jurisdictions, see [Grattan Institute's State Orange Book](#) from 2018 (pages 98-100).