

# **The Administration of the Parliamentary Budget Office**

Parliamentary Budget Office

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Canberra ACT  
5 June 2014

Dear Mr President  
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Parliamentary Budget Office titled *The Administration of the Parliamentary Budget Office*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations and Glossary

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Agencies	Commonwealth departments and agencies that are defined as agencies under the <i>Financial Management and Accountability Act 1997</i> and bodies under the <i>Commonwealth Authorities and Companies Act 1997</i> .
ANAO	Australian National Audit Office
Caretaker period	The period prior to an election of the House of Representatives, in which the Government assumes a 'caretaker' role.
Charter of Budget Honesty	<i>Charter of Budget Honesty Act 1998</i>
Charter Guidelines	The Charter of Budget Honesty Policy Costing Guidelines
DPS	Department of Parliamentary Services
Finance	Department of Finance
Fiscal policy	Economic policies that relate primarily to government revenues and expenditures.
FOI Act	<i>Freedom of Information Act 1982</i>
IFI	Independent Fiscal Institution
IMF	International Monetary Fund
ISM	Australian Government Information Security Manual
IT	Information technology
JCPAA	Joint Committee of Public Accounts and Audit



Joint Select Committee	Joint Select Committee on the Parliamentary Budget Office
KPI	Key performance indicator
MoU	Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Cooperation and Development
PBO	Parliamentary Budget Office
PBS	Portfolio Budget Statement
Policy costing	An estimate of the financial impact, relative to a given benchmark, of any new policy proposal or any change to an existing policy.
Post-Election Report	The PBO's Post-Election Report of Election Commitments
PS Act	<i>Parliamentary Service Act 1999</i>
PSPF	Australian Government's Protective Security Policy Framework
Protocols	Australian Government Protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer
Treasury	Department of the Treasury



## **Summary and Recommendation**



# Summary

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## Introduction

1. There has been a growing trend, both in Australia and internationally, to examine the adequacy of fiscal management, government forecasting, and transparency of public expenditure, and to provide for greater independence in the process of costing election commitments.<sup>1</sup> The International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) explain this trend, in part, as being influenced by the Global Financial Crisis in 2007–08. It has led to an increasing number of independent specialist research and analytical offices being established with varying mandates, functions and authority. Australia's Parliamentary Budget Office (PBO), which began operation in July 2012, is one of 10 such offices established in OECD countries since 2007.

## Background to the establishment of Australia's PBO

2. In Australia, the merits of establishing an independent fiscal policy analysis body had been raised by various political parties since at least 2005. However, it was not until August 2010 that, as part of the formation of the then minority Government, the *Agreement for a Better Parliament* specified that a Parliamentary Budget Office would be established.

3. Subsequently, in November 2010, the Joint Select Committee on the Parliamentary Budget Office (the Joint Select Committee) was established to report on the appropriate mandate for the PBO; the nature of the information needed by the Parliament; and the role and adequacy of current institutions in providing this information. The committee also considered the operation of similar offices in other jurisdictions, and the contribution of the Departments of the Treasury (Treasury) and Finance (Finance) in undertaking policy costings through the *Charter of Budget Honesty Act 1998* (the Charter of Budget Honesty). The Charter of Budget Honesty provides a framework for the conduct of government fiscal policy, and among other things, sets out the

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1 Joint Select Committee on the Parliamentary Budget Office, *Inquiry into the Proposed Parliamentary Budget Office*, March 2011, p. 7.

arrangements for election policy costings to be prepared by Treasury or Finance during the caretaker period for Federal elections.<sup>2</sup>

4. The Joint Select Committee tabled its report in Parliament on 23 March 2011, and the then Government agreed in full to 23 of the 28 recommendations, and in principle to the other five. Recommendations included the functions of the PBO; and amendments to the election costings provisions of the Charter of Budget Honesty. Legislation was prepared, with the second reading speech to the Bill describing the PBO as an:

... important new institution that will further strengthen Australia's fiscal and budget frameworks. It will bring greater accountability and transparency to policy costings processes, particularly during election periods. And it will ensure that no party or member of parliament will have an excuse to avoid the scrutiny of its policy costings. It will ensure that the Australian public can be better informed about the costs of election policy proposals before they cast their vote at the election.<sup>3</sup>

5. Legislation establishing the PBO received royal assent on 4 December 2011<sup>4</sup>, and the PBO began operation on 23 July 2012 with the appointment of the Parliamentary Budget Officer. The PBO is one of four parliamentary departments supporting the Australian Parliament, and in 2013–14, the PBO had budgeted program expenses of \$7.7 million and as at April 2014, had 35 staff.

## Purpose and functions of the PBO

6. The *Parliamentary Service Act 1999* states that the PBO's purpose is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. The Joint Committee of Public Accounts and Audit (JCPAA) is the PBO's oversight body, and is responsible for: approving the appointment of the Parliamentary Budget Officer; considering the operations and resources of the PBO; and reporting to Parliament on relevant matters relating to the PBO. The

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2 The caretaker period is the period preceding an election for the House of Representatives. It begins at the time the House of Representatives is dissolved and continues until the election result is clear or, if there is a change of government, until the new government is appointed.

3 Commonwealth, *Parliamentary Debates*, House of Representatives, Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011, Second reading, 24 August 2011, W Swan MP, p. 9142.

4 The *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011* amended the *Parliamentary Service Act 1999*, the *Charter of Budget Honesty Act 1998*, and the *Freedom of Information Act 1982* to establish the PBO and the office of Parliamentary Budget Officer.

Parliamentary Budget Officer is not subject to direction in the performance of the following six functions specified by the *Parliamentary Service Act 1999*:

- outside the caretaker period for a general election, to prepare policy costings on request by Senators and Members, with requests and responses to be kept confidential if directed by the requestor;
- during the caretaker period, to prepare costings of publicly announced policies on request by authorised members of parliamentary parties<sup>5</sup>;
- to prepare responses (other than policy costings) to requests relating to the budget by Senators and Members, with requests and responses to be kept confidential if directed by the requestor;
- to prepare submissions to parliamentary inquiries on request;
- after a general election, to report on election commitments of designated parliamentary parties<sup>6</sup>; and
- to conduct self-initiated research on the budget and fiscal policy settings.

7. As mentioned above, outside of the caretaker period, parliamentarians can elect that their requests remain confidential. At the time of establishment, documents prepared by the PBO that related to confidential requests were exempt from access under the *Freedom of Information Act 1982* (FOI Act), but documents held by Commonwealth agencies were not specifically exempted. A legislative amendment to protect the confidentiality of these records from freedom of information requests received royal assent on 4 December 2012. A further legislative amendment, passed in June 2013, allowed the PBO the same access to Australian Taxation Office data as Treasury for compiling budget revenue estimates.

8. The PBO's capacity to perform its functions is heavily reliant on its ability to access information (both data and costing models used to cost policies). Access to information from Commonwealth agencies is facilitated by the *Australian Government Protocols governing the engagement between*

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5 These requests and costings are to be made public, consistent with those prepared under caretaker period costing provisions of the Charter of Budget Honesty by Treasury and Finance.

6 In June 2013, the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013* expanded the PBO's mandate to include the requirement for reporting on the election commitments of designated parliamentary parties. Other amendments made by this Act are discussed in paragraph 2.42.

*Commonwealth bodies and the Parliamentary Budget Officer (the Protocols), and the Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents (the MoU).*

### ***International comparison***

9. Internationally, specialist budget offices such as Australia's PBO are collectively known as Independent Fiscal Institutions (IFIs), and there are some key contrasts between their mandates.<sup>7</sup> Most have a role in preparing or assessing macroeconomic assumptions and analysing long-term fiscal sustainability. However, of the 17 IFIs in OECD countries, six have no role in monitoring compliance with fiscal rules (Australia, Canada, Korea, Mexico, the Netherlands and the United States); two have no role in macroeconomics (Australia and the Slovak Republic); and only two prepare election policy costings (Australia and the Netherlands).

## **Audit objective, criteria and scope**

10. The audit objective was to assess the effectiveness of the Parliamentary Budget Office in conducting its role since being established in July 2012.

11. In order to form a conclusion against this audit objective, the ANAO adopted the following high level criteria:

- effective governance and administrative arrangements were established, to support the delivery of services to the Parliament;
- sound and timely processes facilitated the conduct of the PBO's key functions within and outside of the caretaker period; and
- performance was monitored, reviewed and reported.

12. The audit focused on the functions of the PBO including arrangements in place to prepare costings, and whether these arrangements had been consistently followed. The audit did not independently cost any of the policies, or other work costed by the PBO but did consider the views of Treasury and Finance in relation to PBO policy costings that were subsequently prepared for the 2014 Budget process.

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7 The OECD has avoided setting a strict definition for IFIs because of the variation in mandates, functions and authority between these offices. OECD, *OECD Principles for Independent Fiscal Institutions*, Working party for Senior Budget Officials, OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, 12 February 2013, p. 3.



13. This audit has been conducted under subsection 15(1) of the *Auditor-General Act 1997*.<sup>8</sup> In conducting this audit, the Australian National Audit Office (ANAO) was mindful of the Parliamentary Service Act, which allows the JCPAA to request an independent review of the operations of the PBO, to be completed within nine months after a general election. The ANAO briefed the JCPAA on the planning for this audit—its objective, criteria and expected tabling date (planned for completion within nine months of the general election held on 7 September 2013).

14. In conducting the audit, the ANAO was aware of the Government's National Commission of Audit and its terms of reference, which included identifying options for strengthening Commonwealth budgeting arrangements, incorporating an examination of the role of the PBO. The Commission's report was released publicly on 1 May 2014. The report contained a recommendation for the Government to adopt a high-level fiscal strategy with fiscal rules which set out how a fiscal strategy will be achieved (Recommendation 1). With reference to the PBO, the Commission recommended that the PBO reports the Government's progress against the fiscal rules following the release of the Final Budget Outcome each year (Recommendation 2). The Government has not yet responded to these recommendations, however, the additional function for the PBO suggested in Recommendation 2 would be consistent with one of the four key features of effective IFIs identified by the IMF, and with the functions performed by 11 of the 17 OECD countries' IFIs.

## Overall conclusion

15. Prior to the establishment of the PBO in July 2012, there was no independent body in Australia that specialised in the research and analysis of fiscal policy for the Federal Parliament. At this time, there were also limited resources for non-government political parties, individual and independent members of parliament to have policies costed outside of the caretaker period for a general election. The establishment of the PBO was expected to: help level the playing field for all parliamentarians by providing non-partisan access to policy costings (outside of and during the caretaker period), budgetary and

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8 Under subsection 15(1) of the *Auditor-General Act 1997*, the Auditor-General may at any time conduct a performance audit of an agency.

fiscal policy analysis; and improve the transparency of Australia's budgetary frameworks.

16. Since commencing operation in July 2012, the PBO has effectively undertaken its statutory role and is already well regarded as an authoritative, trusted and independent source of budgetary and fiscal policy analysis. The PBO has made a significant contribution to levelling the playing field for all parliamentarians. Stakeholders<sup>9</sup> consulted during the course of this audit all agreed that, for the first time, all parliamentarians have access to independent policy costing and information request services during all periods of the parliamentary cycle. In addition, parliamentary and peer group stakeholders viewed the costings prepared by the PBO as being of high quality, and those involved in the costing process agreed that the PBO was professional to deal with. These stakeholders also agreed that the PBO's work has improved the transparency around election commitments, and facilitated a more informed public debate about budgetary matters that has the potential to increase as the PBO releases further information and the public becomes better educated about these topics.

#### *Establishment and governance of the PBO*

17. The PBO was established at a time in the Federal election cycle when an election had to be held by November 2013, but could be held earlier. Consequently, the PBO had a limited timeframe of about two months (from establishment in July 2012 to accepting requests for work in September 2012) in which to implement the necessary governance and administrative arrangements to be in a position to respond to requests for policy costings and information from parliamentarians. In the expected intense period of activity before the forthcoming election, implementation planning was important and key elements were incorporated into the PBO's first annual work plan, released on 12 October 2012.

18. Liaison with Treasury and Finance occurred frequently during the establishment of the PBO. The PBO advised the ANAO that of particular importance for the PBO was access to the information holdings of these departments, and arrangements for coordinating the policy costings workload

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9 The ANAO interviewed representatives of the Coalition, the Australian Labor Party, the Australian Greens and Mr Andrew Wilkie MP, as well as Prof. Peter Shergold AC, Mr Len Scanlan, Mr Geoff Carmody, Mr Chris Richardson and Mr John Daley.

during the caretaker period to avoid duplication.<sup>10</sup> Temporary staff were seconded (the majority already experienced in fiscal analysis and policy costings from working at Treasury and Finance) and permanent recruitment commenced in late 2012. In preparation for the peak workload of the 2013 election period, the PBO's internal business plans (prepared for January to June 2013) appropriately incorporated planning for a 'surge' capacity. Strategies included the flexible deployment of PBO staff across work areas, the use of contractors, and preparatory training for staff.

19. Despite the intense period of activity leading up to the 2013 Federal election, the PBO has established, or is in the process of finalising, appropriate governance and administrative arrangements. Self-initiated process improvements are underway and the PBO has also taken steps to ensure the security of its data and information technology (IT) systems but the associated governance documentation is yet to be finalised. The PBO's monitoring and reporting of its performance is also well established.

#### *The PBO's access to information*

20. Unlike some IFIs, the PBO does not have statutory information gathering powers, and relies instead on agreements with government and key government agencies (the Protocols and the MoU). By late September 2012, the PBO had finalised the MoU with Treasury, Finance and 22 other agencies that facilitated access to the information sources necessary for conducting its research and analysis.

21. For the period from September 2012 to April 2014, the PBO made 679 requests for information from 52 Commonwealth agencies. The median response time was nine business days, with 18 responses taking more than 51 business days.<sup>11</sup> The length of time taken by an agency to respond to the PBO depends on a number of factors, including the ease of extracting historical data, other work priorities, the complexity of the request and how many other requests the agency has at the time. In the ANAO's interviews with officers representing 20 of the agencies that are signatories to the MoU, all reported

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10 Treasury's and Finance's mandates to prepare policy costings comes from the Charter of Budget Honesty. The PBO's mandate comes from the *Parliamentary Service Act 1999*, but is aligned with guidelines issued by Treasury and Finance for preparing policy costings during the caretaker period.

11 The timeframes for agencies to respond to requests for information (urgent within five days, routine within 10 days, and during the caretaker period within three days) are indicative, and agencies can negotiate timeframes with the PBO. Under the Charter Policy Costing Guidelines, the PBO endeavours to complete costings within five days.

adhering to the intent of the Protocols. However, there were instances where agencies could not provide certain data (as they did not hold that data, or historical data would have taken too long to collate) and where extensions to timeframes were necessary. In these circumstances, the PBO modified its requests to obtain such information as was possible in the timeframe.

22. The PBO advised the ANAO that to date, it has been able to access the information it needs under the Protocols and the MoU, although on occasion there have been long delays. However, the PBO does not have access to the details of provisions for individual items included in the Contingency Reserve.<sup>12</sup> The Secretary of the then Department of Finance and Deregulation decided that providing such information would be contrary to the public interest. As a mitigating measure, the PBO has issued guidance stating that all PBO costings are prepared in the absence of this information. While this constraint only affected two policy costings in preparing the 2013 Post-Election Report<sup>13</sup>, the likelihood remains that the PBO may not be able to determine the net budget impact of certain policies in the future because it does not have access to this information.

23. Agencies interviewed by the ANAO said their relationship with the PBO was positive. Nevertheless, agencies did raise an issue about the PBO's approach to requesting information, in circumstances where the requestor stipulated confidentiality. In these instances, agencies were concerned that they may not be providing the most relevant information because the full details of the request were not known. Nine agencies felt that their responses would be better tailored and more accurate if the PBO had explicitly identified how the information sought would be used, and four agencies expressed concern about subsequently being expected by government to deliver programs within the amount costed by the PBO, even where the costing was inaccurate because of imperfect data.

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12 The Contingency Reserve is an allowance included in the aggregate expenses of the budget to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Budget estimates—see Statement 6 of Budget Paper 1. The Reserve is designed to ensure that aggregate estimates are as close as possible to expected outcomes and is not intended to be a general policy reserve. The Reserve is not specifically mentioned in either the Protocols or the MoU.

13 The two costings were: *Regional Cooperation to Combat People Smuggling* (Coalition) and *Safer pathways for refugees policy, refugee health and end immigration detention* (Australian Greens). As the former Government had included costs for operating the processing facilities on Nauru in the Contingency Reserve, the PBO was not aware of the quantum of the allowance made and, as a consequence, the potential savings from the non-operation of that facility in these two instances.

24. While there is no legislative requirement prohibiting the PBO from disclosing the potential use of the information being requested<sup>14</sup>, and the Protocols and MoU require strict non-disclosure by agencies of requests made by the PBO, the arguments in favour of confidentiality reflect the importance of the PBO maintaining confidence among its primary clients—parliamentarians.<sup>15</sup> Parliamentary stakeholders’ feedback to the ANAO emphasised the importance of confidentiality to their policy development processes, confirming that this strengthens the PBO’s capacity to provide assistance to parliament; allows costings to occur in a considered manner; and subsequently improves the policy debate. One party commented that it recognised the confidentiality of the PBO’s information requests created a risk of the PBO producing less accurate costings, but on balance, the party would be more concerned if this confidentiality was relaxed with agencies. The feedback from agencies referred to above nevertheless underlines the benefits of the PBO providing sufficient context in relation to each information request to position agencies to provide the most appropriate information in response to requests, while being respectful of maintaining the confidentiality of the policy proposal where this has been requested.

### *Policy costings*

25. An important component of policy development is the analysis of the costs and benefits of a range of approaches to the policy’s design. Policy costings often form part of this analysis, and by their nature, costings are an estimate at a point in time that can be sensitive to variables such as assumptions, data quality, behavioural impacts, and dates of implementation. An important point of consideration for the Joint Select Committee was the consistency of PBO, Treasury and Finance costings. In this context, the ANAO observed that the PBO actively seeks to align its costing methodologies and data with these departments through regular updates of costing models and

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14 Section 64V (3) of the Parliamentary Service Act states that the PBO is not prevented from disclosing information related to a request for the purpose of complying with the request.

15 In a United Kingdom study of pre-election costing processes in Australia and Ireland, confidentiality was seen as critical in encouraging parties to become more transparent about policy costs, as parties must be confident that details will not be leaked until they are ready to release the information. Institute for Government, *Pre-election Policy Costing Mechanisms in Australia, Whitehall in year Five of the Coalition: Lessons from Elsewhere*, 19 March 2014, United Kingdom, pp. 16–17.

data sets. The PBO also includes a reliability rating in all costings, as an assessment of the risk that the actual costs will differ from those calculated.<sup>16</sup>

26. The PBO's early administrative arrangements included developing and implementing processes to work with agencies to obtain information, and to prepare policy costings outside of and during caretaker periods. On 28 August 2012, guidance on the PBO's policy costing function was released, with the PBO accepting requests from this date. In this context, from September 2012 to April 2014, there have been 1101 requests for costings or information<sup>17</sup> made by parliamentarians, and the PBO has completed 969 requests (103 of those requests were withdrawn, leaving 29 requests outstanding at the time of preparing this report). PBO data shows that the average time taken to complete these requests has improved from 55 business days for requests received to the end of September 2012, to 7.2 days for those received before the end of October 2013.

27. During a Senate Finance and Public Administration Legislation Committee hearing in February 2013, the Parliamentary Budget Officer reported that he was encouraging parliamentarians to submit any policy costing requests well in advance of the caretaker period.<sup>18</sup> The ANAO's analysis of the PBO's costing data shows there was a peak of 326 costings and requests for information prior to the caretaker period. All of these were completed by polling day. Many of these requests were updates to previous costings, and this enabled the PBO to more rapidly complete them during the caretaker period. If the PBO had been faced with a significant number of new costing requests during the caretaker period, for which it had no costing models or data, the same outcome would have been very challenging, if not impossible, to achieve. The inclusion of the PBO, along with Treasury and Finance, in providing costings during the caretaker period also influenced the balance of departmental workloads in relation to formal requests. For the 2010 election, Finance prepared 129 of the 144 total costings and Treasury

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16 The PBO's costing reliability indicators are based on an assessment of the quality of data sources and the predictability of the behaviour of the party to which the policy will apply. These correspond to the ratings used by Treasury in the 2012 Tax Expenditures Statement. At the time of preparing this report, the PBO was reviewing its reliability ratings.

17 The PBO's data from July 2012 to September 2013 records requests, and does not differentiate between a costing request or an information request from a parliamentarian (that is, a request other than a costing request).

18 The PBO could more readily update the costing with the latest budget report (the Pre-election Economic and Fiscal Outlook) if the PBO had costed that policy previously, and would likely have the models and much of the data needed.



prepared 15. In 2013, Finance prepared 76 costings, Treasury prepared three costings and the PBO prepared 85 costings.<sup>19</sup>

28. The ANAO's analysis of PBO data also shows broad uptake of PBO services by parliamentarians, with the Coalition and the Australian Greens making the most requests in the lead up to the election (500 requests and 404 requests respectively outside of the caretaker period). There were also 12 requests made by individual parliamentarians (independent member or private members) for the same period.<sup>20</sup>

29. The PBO follows the Charter of Budget Honesty Policy Costing Guidelines (Charter Guidelines) when preparing a costing.<sup>21</sup> These specify the inclusion of agency administrative expenses where requested and feasible, although the PBO advised the ANAO that it makes a judgement about the inclusion of administrative expenses for each policy. This assessment focuses on whether or not those costs are significant in the context of implementing that specific policy, and not on whether the agency is able to absorb those costs within its existing budget. If administrative expenses are not considered to be significant in relation to the implementation of that policy, they may not be included, or be assumed to be covered by existing agency resourcing. The PBO also advised that an exception to this approach would be where the specification that costs are to be absorbed by the agency is made by the party holding government (as occurred for some costings prepared for the 2013 Post-Election Report). For some confidential costings, the PBO may not be able to discuss any aspect of these expenses with the agency. However, the PBO advised that it does consult with agencies particularly where it considers that a proposal includes significant IT costs. Results of the ANAO's examination of 126 PBO costings prepared outside the caretaker period<sup>22</sup> showed that in 27 per cent of the sample (34 of the 126 requests) the PBO's treatment of

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19 This comparison needs to be read with some caution, as prior to the caretaker period the Government may seek costings and advice from these agencies at any time.

20 The ANAO's feedback from parliamentarians identified that independents may increase their usage of the PBO in the future, as agreements with the former government gave them access to more resources at that time.

21 The Parliamentary Service Act requires the PBO to follow the Charter Guidelines if the Parliamentary Budget Officer has not issued his/her own written principles. At the time of preparing this report, the Parliamentary Budget Officer had not issued his own costing principles.

22 The 126 costings were part of a larger indicative sample of 240 costings examined by the ANAO.

administrative expenses differed from the request made (either including or excluding these expenses).<sup>23</sup>

30. The ANAO has commented in various reports about the challenges to policy implementation that agencies face, and that a government's policy agenda relies not only on the provision of sound policy advice but on the effective implementation of new programs.<sup>24</sup> One of the essential elements of program implementation is to understand the administrative expenses needed to support the implementation process, particularly where they are significant. There can be a subsequent decision taken about an agency's capacity to absorb administrative expenses, and the PBO is not always in a position to be able to assess this. In the interests of transparency, there is a strong argument for always separately including both administrative expenses (where significant to the implementation of the policy) and program funds (where applicable) in a costing as this would fairly present the full cost of implementing a proposal to the parliamentarian who made the request.

31. A related matter is the capacity of the PBO to advise parliamentarians on broader policy design considerations. Treasury and Finance provide policy advice to government outside of the caretaker period, including proposing and analysing policy options. In contrast, the PBO advised that it does not provide policy advice because its mandate is to provide independent and non-partisan analysis, and providing policy advice could bring the PBO's impartiality into question. However, the PBO does meet with requestors to clarify aspects of the policy, or seek additional information to complete the costing.<sup>25</sup> The PBO's practice has been to prepare costings on the basis of the parameters provided by the requestor, and not to provide advice and feedback on the merits, or feasibility, of the policy or its parameters. In practice, where some caution has been required the PBO has added a caveat. For example, in the costing of a major savings initiative (the Coalition's election policy *Reduce Public Service*

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23 Agencies consulted by the ANAO raised issues in relation to the apparent non-inclusion of administrative expenses, such as for systems development or tender processes, in some policy costings. The ANAO's analysis of the 92 costings that had documentation included in the PBO's Post-Election Report of Election Commitments, showed that 43 had agency administrative expenses included, 26 did not, and 23 could not be assessed (due to there being no mention of the expenses, the policy being for the termination of a program, or the explanation was unclear).

24 For example: ANAO, Audit Report No.9 2010–11, *Green Loans Program*; and Audit Report No.12 2010–11, *Home Insulation Program*.

25 Due to time constraints during the caretaker period, the PBO advised the ANAO that it had greater flexibility outside of the caretaker period to meet with requestors.



*headcount by 12,000 through natural attrition*) the PBO included the following caveat:

A tight constraint on both the engagement of new ongoing staff and re-engagement of non-ongoing staff will be required for this policy to be implemented through natural attrition without recourse to additional redundancy payments.<sup>26</sup>

32. Parliamentary and peer group stakeholders interviewed by the ANAO confirmed the value of informal discussions about proposed policies with the PBO. Such discussions help to improve the policy development process by allowing: more iterative policy development; more reliable cost estimates; and the comparison of costs when different policy parameters were proposed.

33. Another matter raised by stakeholders was the timing of the release of policy costings during the 2013 caretaker period. The Charter of Budget Honesty specifies that requests for policy costings made before polling day during the caretaker period for a general election must be made public as soon as possible.<sup>27</sup> In 2013, the Government's Economic Statement<sup>28</sup> was released on 2 August 2013, two days before the start of the caretaker period on 5 August 2013. As the Coalition's policies had been previously costed by the PBO in the lead up to the election, the Coalition was able to resubmit its costings to be updated for the new economic statement in this two day period. The public release provision of the Charter of Budget Honesty did therefore not apply to the Coalition's election policies and the Coalition chose to release the costings just prior to polling day. This tactical decision had the effect of reducing the time available for scrutiny of the costs of the Coalition's election platform. Such an approach was consistent with the provisions of the Charter of Budget Honesty, and the Parliamentary Service Act. Nevertheless, some stakeholders commented that this ran counter to the trend for greater transparency that had been fostered by the establishment of the PBO.

34. The ANAO compared the costings for the election commitments of incoming governments for the 2007, 2010 and 2013 elections with the corresponding Budget papers. While a smaller proportion of policy costings

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26 PBO, *Post-election report of election commitments—2013 general election*, Commonwealth of Australia, 18 October 2013, p. 198.

27 Clause 31(1) of the *Charter of Budget Honesty Act 1998*.

28 The Economic Statement is a budget document that provides an update of the Government's economic forecasts and key fiscal aggregates.

were varied in the corresponding Budget papers in 2007 and 2010 than in 2013 (43 per cent, 30 per cent and 58 per cent respectively), the average variance was lower in 2013 (24 per cent variance compared with 54 per cent variance in 2007 and 2010). The range of variances was also lower for 2013 (between 2 to 261 per cent in 2013 compared with 1 to 536 per cent in 2007). These figures would suggest that policies costed during the 2013 election period were more comparable with Budget figures than the previous election period costings. That said, care needs to be taken in making this comparison, as differences between governments, and a range of costing variables (such as assumptions, data quality, behavioural impacts, and dates of implementation) will affect the final policies (and their costs) that went forward to respective budgets. Nevertheless, the greater comparability of PBO costings to the 2014–15 Budget figures may have been influenced by political parties' access to the PBO in the year leading up to the election, allowing for greater refinement of policies.

#### *The Post-Election Report of Election Commitments and other functions*

35. In addition to its costing of individual policy measures, the PBO has also contributed to improving the transparency of budgetary and fiscal matters through its Post-Election Report of Election Commitments (Post-Election Report); and by publishing self-initiated research. The Post-Election Report was a major achievement and the first time the effect of all major parties' election platforms on the budget had been publicly released. Peer group stakeholders interviewed by the ANAO were generally positive about the report in providing transparency around election commitments, but commented that the report had little publicity and this could have reduced the report's impact.

36. Parliamentarians also considered the report to be an achievement, but feedback to the ANAO on the process was mixed. One political party reported satisfaction with the process, but another party reported concern at the compressed preparation time (the report has to be released 30 days after the end of the caretaker period), and also the extensive detail that was given in the report to costing assumptions for individual policies.

37. The PBO has also released three research papers, covering the structural budget balance, historic government spending trends, and trends in

Australian Government receipts.<sup>29</sup> Parliamentary and peer group stakeholders interviewed by the ANAO agreed that the PBO's work facilitated a more informed public debate, and there is the potential for this to increase as the PBO releases further information and the public becomes better educated about these topics. Stakeholders also commented that there is an opportunity for the PBO to take on a greater educative role of the Parliament and the media about Budget and fiscal matters.

### *Concluding comments*

38. For a new organisation with an important statutory mandate to provide the Parliament with independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals, the PBO has been effectively established and performed its role creditably, as indicated in paragraph 16 above. In performing this role, the PBO has received good cooperation from the Treasury, Finance and other Commonwealth agencies.

39. The ANAO has made one recommendation to improve the transparency of agency administrative expenses, where applicable, in policy costings as part of the full costs of implementing policy proposals. The approach taken by the PBO to include agency administrative expenses on a case by case basis when policies are costed, raises the question about the completeness of the information available to the requestor. Including these administrative expenses in all costings (where significant to the implementation of the policy) would fairly present the full cost of implementing a proposal, and its administrative and program components, to the parliamentarian who made the request.

40. The ANAO has also identified a limited number of administrative improvements for the PBO to consider going forward, including: providing sufficient context in relation to each information request to position agencies to provide the most appropriate information in response.<sup>30</sup> Additionally, the audit highlighted issues of a policy nature that may warrant further consideration:

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29 The PBO paper on *Trends in Australian Government receipts: 1982–83 to 2012–13* was released on 15 April 2014, after the ANAO's interviews with stakeholders.

30 The concluding comments of Chapters 2 to 5 of this report contain further suggestions such as: finalising governance documentation and reviewing key performance indicators to better demonstrate the PBO's effectiveness; seeking formal feedback from agencies about the process for requesting information; and documentation of quality control decisions.

- to date the PBO has generally been able to access the information it needs without statutory information access powers. However, one of the OECD's recommended principles for IFIs is to have information access guaranteed in legislation.<sup>31</sup> The absence of statutory information access powers for the PBO means that there is an inherent risk that this ready access that has been available could be constrained in the future. In this context, the issue of the lack of access by the PBO to the composition of the Budget's Contingency Reserve on public interest grounds could also be considered;
- Australia's PBO has nearly two years' experience, and since its establishment there are now evolving international perspectives on the mandates and functions of IFIs.<sup>32</sup> The Government's National Commission of Audit has also recommended an additional function for the PBO—reporting the Government's progress against a new set of fiscal rules<sup>33</sup>—and this would be consistent with one of the four key features of effective IFIs identified by the IMF, and with the functions performed by 11 of the 17 OECD countries' IFIs.

41. These issues of a policy nature are matters for consideration, as appropriate, by the JCPAA (given its statutory oversight role in relation to the PBO), the Government and/or the Parliament. The ANAO's mandate does not extend to commenting on the merits of government policies.

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31 OECD, *OECD Principles for Independent Fiscal Institutions*, Working party for Senior Budget Officials, OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, 12 February 2013, p. 7.

32 For example, information contained in: OECD, *OECD Principles for Independent Fiscal Institutions*, Working party for Senior Budget Officials, OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, 12 February 2013; OECD, *Independent Fiscal Institutions in Government at a Glance 2013*, OECD Publishing, p. 99; and IMF, *The Functions and Impacts of Fiscal Councils*, 16 July 2013.

33 The issue of whether the PBO should be given statutory information access powers (mentioned above) is also relevant to this proposal.

## Summary of responses to the proposed report

**42.** The Parliamentary Budget Officer provided the following response, with the formal response at Appendix 1:

On behalf of the management and staff of the PBO I wish to record our appreciation of the cooperative and thoughtful approach adopted by your officers in conducting the first performance audit of the PBO.

The comprehensive nature of the audit and the thoroughness with which it was undertaken provide me with a high level of assurance that our governance arrangements and processes are sound and that the PBO is meeting its obligations to the Australian Parliament. I appreciate the constructive suggestions in the report for further improving the PBO's processes.

I agree with the recommendation that the PBO include in all costings, estimates of administrative expenses, where significant. This will improve transparency by separately identifying significant administrative expenses in costings of policies that are specified as capped amounts. This is consistent with the approach that we take to separately identifying significant administrative expenses in costings of other policies.

**43.** The ANAO also provided an extract of the report to Treasury and Finance. Neither of those agencies had comments on the extract provided. Their responses are also included at Appendix 1.

# Recommendation

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## Recommendation No. 1

### Para 3.34

In the interests of greater transparency, the ANAO recommends that the Parliamentary Budget Office includes in all costings, estimates of administrative expenses, where significant.

**PBO response:** *Agreed.*

## **Audit Findings**





# 1. Background and Context

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*This chapter provides the background and context for the audit, including an overview of the establishment of the Parliamentary Budget Office and its key functions. The audit approach is also outlined.*

## Introduction

**1.1** There has been a growing trend, both in Australia and internationally, to examine the adequacy of fiscal management, government forecasting, and transparency of public expenditure, and to provide for greater independence in the process of costing election commitments.<sup>34</sup> The International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) explain this trend, in part, as being influenced by the Global Financial Crisis in 2007–08. It has led to an increasing number of independent specialist research and analytical offices—collectively known as Independent Fiscal Institutions (IFIs)—being established with varying mandates, functions and authority. Within this context, the OECD stated:

... governments, regional and international bodies, and academics [are] looking to IFIs (often in concert with new or strengthened fiscal rules) to strengthen fiscal governance and to combat deficits and unsustainable debts. Moreover, these actors recognise the potential of IFIs to reduce informational asymmetries, educate the public, and raise the quality of public debate.<sup>35</sup>

Australia's Parliamentary Budget Office (PBO), which began operation in July 2012, is one of 10 such offices established in OECD countries since 2007.

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34 Joint Select Committee on the Parliamentary Budget Office, *Inquiry into the Proposed Parliamentary Budget Office*, March 2011, p. 7.

35 OECD, *OECD Principles for Independent Fiscal Institutions*, Working party for Senior Budget Officials, OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions, 12 February 2013, p. 3.

## Background to the establishment of Australia's Parliamentary Budget Office

1.2 In Australia, the merits of establishing an independent body to provide services such as fiscal policy analysis were identified before the establishment of the PBO.<sup>36</sup> For example, in:

- 2005, the former Manager of Opposition Business asked the former Speaker of the House to consider 'how much more effective and accountable governments in Australia could be if we had something like [the United States of America's] Congressional Budget Office charged with providing budget and economic projections in an independent way that all members of parliament could access'<sup>37</sup>;
- 2009, the former Leader of the Opposition advocated for the establishment of a PBO, envisaging that a parliamentary budget office would be '...chartered to provide parliament with independent, objective analysis of fiscal policy, including long-term projections of the impact of various measures on the economy...'<sup>38</sup>; and
- 2010, the establishment of a parliamentary budget office became one of the Federal Coalition's 2010 election policies.<sup>39</sup>

1.3 Following the August 2010 Federal Election and as part of the formation of the then minority Government, agreements were reached between the Australian Labor Party, three independent Members<sup>40</sup> and the Australian Greens. These agreements encompassed a broad range of matters to facilitate greater engagement by backbench Members of Parliament in parliamentary business. Among them was the *Agreement for a Better Parliament*, which stated:

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36 The report of the Joint Select Committee on the Parliamentary Budget Office, *Inquiry into the Proposed Parliamentary Budget Office*, March 2011, pp. 1–2, contains further examples.

37 Commonwealth, *Parliamentary Debates—Parliamentary Service Amendment Bill Second Reading Speech*, House of Representatives, 16 March 2005, J Gillard MP, p. 57.

38 Commonwealth, *Parliamentary Debates—Appropriation Bill (No. 1) 2009–2010, Second Reading Speech*, House of Representatives, 14 May 2009, M Turnbull MP, p. 3975.

39 T Abbott MP, *Real Action to End the Waste & Deliver Lower, Fairer and Simpler Taxes*, 12 August 2010, available at <http://www.liberal.org.au/latest-news/2010/08/12/real-action-end-waste-and-deliver-lower-fairer-and-simpler-taxes-0> [accessed 11 November 2013].

40 R Oakshott MP, T Windsor MP and A Wilkie MP.

A Parliamentary Budget Office be established, based in the Parliamentary Library, to provide independent costings, fiscal analysis and research to all members of parliament, especially non-government members. The structure, resourcing and protocols for such an Office be the subject of a decision by a special committee of the Parliament which is truly representative of the Parliament.<sup>41</sup>

## Joint Select Committee on the Parliamentary Budget Office

**1.4** In November 2010, the Joint Select Committee on the Parliamentary Budget Office (the Joint Select Committee) was established. The committee's terms of reference were to report on: the appropriate mandate for the PBO; the nature of the information needed by parliament; the role and adequacy of current institutions in providing this information; the scope for the PBO to fulfil its mandate in a cost-effective manner; and the most appropriate structure, resourcing and protocols for the PBO.

**1.5** The committee also considered the operation of similar offices in other jurisdictions, and the contribution of the Departments of the Treasury (Treasury) and Finance and Deregulation<sup>42</sup> (Finance) in undertaking policy costings through the *Charter of Budget Honesty Act 1998* (the Charter of Budget Honesty).

The Charter of Budget Honesty provides a framework for the conduct of government fiscal policy, and among other things, requires the Government to table in Parliament regular fiscal reports (such as an economic and fiscal outlook with each budget, a mid-year economic and fiscal outlook, and a tax expenditure statement). The Charter of Budget Honesty also sets out the arrangements for election policy costings to be prepared by Treasury or Finance during the caretaker period<sup>43</sup> for Federal elections.

**1.6** The committee received 25 submissions and one exhibit, held three public hearings, and its report was tabled on 23 March 2011. Submissions to the committee were varied, with some of the key discussion points revolving around the roles and functions of existing IFIs. Respondents also raised the cost-effectiveness of duplicating the work of already existing services, the role

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41 House of Representatives, *Agreement for a Better Parliament*, tabled paper, 20 October 2010, p. 8. The PBO was subsequently established as an independent entity, rather than as part of the Parliamentary Library.

42 The Department of Finance and Deregulation is now known as the Department of Finance.

43 The caretaker period is the period preceding an election for the House of Representatives. It begins at the time the House of Representatives is dissolved and continues until the election result is clear or, if there is a change of government, until the new government is appointed.

and function of the PBO and how it would collect information from the Government.

1.7 The committee's report made 28 recommendations, with three underpinning values of: incorporating mechanisms for the PBO to enhance the transparency of process; ensuring equality of access to its services; and maintaining the PBO's independence. The then Government agreed in full to 23 recommendations, and agreed-in-principle to five. Recommendation 1 was the establishment of a PBO. Other key recommendations included:

- the functions of the PBO (Recommendation 3);
- the Charter of Budget Honesty, as the committee found that the election costings provisions of this legislation had significant shortcomings, and recommended that the PBO, along with Treasury and Finance, prepare election costings, new measures to provide incentives for political parties to use the process to enhance transparency and accountability, and to enable minor parties to access the existing elections costing process, among other changes (Recommendations 4–9); and
- the PBO accessing information from government departments through a negotiated Memorandum of Understanding with Treasury and Finance and other departments or organisations as necessary (Recommendation 13).

## **Passage of the legislation**

1.8 Members of the bi-partisan committee agreed with the report unanimously and, after the Government's response to the report was tabled in the Parliament, funding for the PBO was provided in the 2011–12 Budget (\$24.9 million over four years). In August 2011, the Second Reading Speech to the Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011 described the PBO as an:

... important new institution that will further strengthen Australia's fiscal and budget frameworks. It will bring greater accountability and transparency to policy costings processes, particularly during election periods. And it will ensure that no party or member of parliament will have an excuse to avoid the scrutiny of its policy costings. It will ensure that the Australian public can be

better informed about the costs of election policy proposals before they cast their vote at the election.<sup>44</sup>

**1.9** Nonetheless, there were differences of view over the Bill as it passed through both houses of Parliament. Some of the concerns raised were: the need for the PBO to have statutory information gathering powers; the inclusion of the PBO with Treasury and Finance in preparing caretaker policy costings; the PBO only being allowed to use official economic and budget forecasts from Treasury and its inability to use other independent economic information; and the inability of the PBO to prepare its own economic forecasts and budget estimates.<sup>45</sup>

**1.10** The Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011 was introduced into Parliament on 24 August 2011 and passed by both Houses on 23 November 2011. The *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011* received Royal Assent on 4 December 2011 and its operative provisions commenced on 15 February 2012. Amongst others, the amended Act altered the:

- *Parliamentary Service Act 1999* (the PS Act) by establishing the PBO, its purpose and functions, access to information, oversight arrangements and the position of the Parliamentary Budget Officer;
- Charter of Budget Honesty, by amending the definition of ‘caretaker period’ consistent with the definition in the *Guidance on Caretaker Conventions* and by clarifying the processes associated with the provision of policy costings during a caretaker period (encompassing the PBO), including requests made before polling day and requests made on or after polling day<sup>46</sup>; and
- *Freedom of Information Act 1982* (FOI Act) by including the PBO and the Parliamentary Budget Officer as an exempt agency, so that documents

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44 Commonwealth, *Parliamentary Debates*, House of Representatives, Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011, Second reading, 24 August 2011, W Swan MP, p. 9142.

45 For example: on 22 August 2011 (two days before the introduction of the Government’s PBO Bill on 24 August 2011), a private members bill was submitted to the House of Representatives for an alternative PBO to that proposed by the committee and agreed by government. Commonwealth, *Parliamentary Debates*, House of Representatives, 22 August 2011, J Hockey MP, pp. 8722–8723.

46 The Department of Prime Minister and Cabinet issues *Guidance on Caretaker Conventions* to guide Ministers and their departments while the caretaker period is in place.

prepared by the PBO that relate to confidential requests cannot be accessed under that Act.<sup>47</sup>

Table 1.1 outlines the key events in the establishment of the PBO.

**Table 1.1: Key events in the establishment of the PBO**

Date	Event
20 October 2010	<i>Agreement for a Better Parliament</i> made
22 November 2010	Joint Select Committee on the Parliamentary Budget Office formed
23 March 2011	Joint Select Committee report is tabled
1 August 2011	Government responds to Joint Select Committee recommendations
24 August 2011	PBO Bill introduced into Parliament
23 November 2011	PBO Bill passed by both Houses
23 July 2012	PBO began operation

Source: ANAO analysis.

## The purpose and functions of the Parliamentary Budget Office

**1.11** Prior to the establishment of the PBO there was no independent body in Australia that specialised in research and analysis of fiscal policy for the Federal Parliament. While Treasury and Finance have joint responsibility for providing advice to the Government; resources for use by non-government parliamentary parties, individual and independent Senators and Members of Parliament were largely limited to the Parliamentary Library. This support was not ideal, as indicated by submissions to the Joint Select Committee on the Parliamentary Budget Office which stated that:

- the Parliamentary Library had only a small number of resources available, and regularly received feedback that Senators and Members did not receive sufficient independent analysis and advice on budget and expenditure issues<sup>48</sup>; and

47 Amendments were also made to the *Remuneration Tribunal Act 1973* and the *Long Service Leave (Commonwealth Employees) Act 1976* to encompass the position of the Parliamentary Budget Officer.

48 Office of the Parliamentary Librarian, *Submission to the inquiry into the Parliamentary Budget Office from the Parliamentary Librarian*, p. 3.

- there was an unmet need for a service to assist non-government parties in developing and costing policies on an ongoing basis.<sup>49</sup>

**1.12** The PBO, established on 23 July 2012<sup>50</sup>, is one of four parliamentary departments supporting the Australian Parliament.<sup>51</sup> In 2013–14, the PBO had a total estimated departmental budget of \$7.7 million<sup>52</sup>, and as at April 2014, had 35 staff.

## The purpose of the PBO

**1.13** The PS Act sets out the purpose of the PBO: to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.<sup>53</sup> The Parliamentary Budget Officer is not subject to direction in the performance of functions specified by the PS Act.

**1.14** In May 2012, the Joint Committee of Public Accounts and Audit (JCPAA) announced the appointment of the Parliamentary Budget Officer, stating:

The PBO will improve the transparency of Australia’s fiscal and budgetary frameworks, and help level the playing field by giving all Senators and Members access to independent policy costings and additional support to scrutinise the Budget.<sup>54</sup>

**1.15** The Parliamentary Budget Officer has described the PBO’s mandate as being of two parts: firstly, to support the Parliament in a range of budget-related matters; and secondly, to help inform the public debate on budgetary and fiscal policy issues.<sup>55</sup>

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49 Joint Standing Committee on the Parliamentary Library, *Submission to the inquiry into the Parliamentary Budget Office*, p. 7.

50 The inaugural Parliamentary Budget Officer, Mr Phil Bowen PSM FCPA, took office on 23 July 2012 for a term of four years. The PBO commenced operations from that date.

51 The other three parliamentary departments are the Departments of: Parliamentary Services; the House of Representatives; and the Senate.

52 Funding also available for this period was \$1.8 million from the prior year, and a special appropriation of \$6 million.

53 Section 64B of the *Parliamentary Service Act 1999*.

54 JCPAA, *Appointment of the Parliamentary Budget Officer*, Media Alert, 20 May 2012.

55 P Bowen, Parliamentary Budget Officer, *Maintaining a Focus on Fiscal Discipline and Budget Transparency—the Role of the Parliamentary Budget Office*, Address to the Carnegie Mellon Forum, Adelaide, 29 November 2013, p. 2.



## The functions of the PBO

**1.16** The PS Act gives the Parliamentary Budget Officer the following six functions:

- outside the caretaker period for a general election, to prepare policy costings on request by Senators and Members, with requests and responses to be kept confidential if directed by the requestor;
- during the caretaker period, to prepare costings of publicly announced policies on request by authorised members of parliamentary parties;
- to prepare responses (other than policy costings) to requests relating to the budget by Senators and Members, with requests and responses to be kept confidential if directed by the requestor;
- to prepare submissions to parliamentary inquiries on request;
- after a general election, to report on election commitments of designated parliamentary parties<sup>56</sup>; and
- to conduct self-initiated research on the budget and fiscal policy settings.

**1.17** The Act also specifies the administrative arrangements for the collection of information, establishment of costing conventions, reporting confidentiality and oversight. The JCPAA is the PBO's oversight body, and is responsible for: approving the appointment of the Parliamentary Budget Officer; considering the operations and resources of the PBO; and reporting to Parliament on matters relating to the PBO.

## Information collection arrangements

**1.18** The PS Act enables the Parliamentary Budget Officer to obtain information from Commonwealth bodies relevant to the Officer's functions. This arrangement is detailed in the *Australian Government Protocols governing the engagement between Commonwealth bodies and the Parliamentary Budget Officer* (the Protocols) and the *Memorandum of Understanding between the Parliamentary Budget Officer and the heads of Commonwealth bodies in relation to the provision of information and documents* (the MoU). Treasury and Finance have the closest

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<sup>56</sup> In June 2013, the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013* expanded the PBO's mandate to include the requirement for reporting on the election commitments of designated parliamentary parties.



working relationship with the PBO and this is guided by the Protocols, MoU and the Charter of Budget Honesty.

## Independent Fiscal Institutions internationally

**1.19** According to the IMF, in January 2013 there were 29 IFIs and the mandate, budget, and resources of each institution varied depending on the context of its establishment. In July 2013, the IMF released a paper identifying the operational features to design and implement an effective IFI. Four key features of effective IFIs were identified, and the following two apply to the Australian PBO model:

- a strict operational independence from politics; and
- a strong presence in the public debate (notably through an effective communication strategy).<sup>57</sup>

**1.20** There are 17 IFIs in OECD member countries and, in 2009, the OECD formed a network for parliamentary budget officials and IFIs across member countries (including Australia). Discussions at these network meetings often focus on the institutional arrangements for, practices of, and challenges faced by these institutions. Discussions have also recognised the growing complexity that parliaments face in their oversight role when scrutinising economic assumptions, fiscal risks, and long-term fiscal sustainability.

**1.21** There are some key differences between the IFIs of OECD member countries: only two have no role in macroeconomic forecasts (Australia and the Slovak Republic); six have no role in monitoring the government's compliance with fiscal rules (Australia, Canada, Korea, Mexico, the Netherlands and the United States); and only two cost election policy platforms (Australia and the Netherlands). Appendix 2 provides a 2013 OECD summary table of contrasts between the 17 IFIs in its member countries.

**1.22** In February 2014, the OECD Council agreed to a set of principles for IFIs and recommended that member countries take these into account for established or future IFIs. There are 22 principles grouped under nine broad headings, and these are summarised in Table 1.2.

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<sup>57</sup> The IMF uses the term 'fiscal councils'. The other two key features of effective IFIs were the provision of public assessment of budgetary forecasts; and an explicit role in monitoring fiscal policy rules. IMF, *The Functions and Impacts of Fiscal Councils*, 16 July 2013, p. 8. See also paragraphs 1.25–1.26.

**Table 1.2: Summary of OECD principles for Independent Fiscal Institutions**

Heading	Principles
Local ownership	IFIs require broad national ownership, commitment and consensus across the political spectrum; and the local institutional environment should determine the role and structure of the IFI.
Independence and non-partisanship	IFIs should be independent and non-partisan; leadership selected on the basis of merit and competence; terms of length for leadership defined in legislation; position of head should be remunerated and full-time; IFI leadership should have the freedom to hire and dismiss staff; and staff should be selected according to a merit based process.
Mandate	The mandate of IFIs should be clearly defined in legislation; include the scope to produce reports and analysis at their own initiative; and the mandate should establish clear links to the budget process.
Resources	The resources must be commensurate with the mandate in order for IFIs to fulfil their mandate in a credible manner.
Relationship with the legislature	There should be mechanisms for appropriate accountability to the legislature; and the role of the IFI and the legislature be clearly defined.
Access to information	Access to information should be guaranteed in legislation; and any restrictions to access should also be clearly defined in legislation.
Transparency	IFIs should apply full transparency to their work and operations; reports and analysis should be published and made freely available; release dates of major reports and analysis should be formally established; and IFIs should release their own reports and analysis.
Communications	Effective communication channels should be developed to influence fiscal policy making.
External evaluation	IFIs should develop a mechanism for external evaluation of their work.

Source: ANAO summary of OECD, Principles for Independent Fiscal Institutions in *Recommendation of the Council on Principles for Independent Fiscal Institutions*, 13 February 2014.

## Recent reviews

**1.23** With many IFIs around the world only being established in the last few years, there have been no performance audits of the administration of any of these institutions. However, a number of parliamentary committees have conducted reviews, including reviews of the:

- operations of the Canadian Parliamentary Budget Officer, particularly on the independence of that office<sup>58</sup>;
- United Kingdom's interim Office for Budget Responsibility, to assist with the permanent arrangements for that office<sup>59</sup>; and
- New South Wales Parliamentary Budget Office, regarding the future of the Office.<sup>60</sup>

**1.24** In addition, in March 2014, the United Kingdom's Institute for Government published two case studies on pre-election policy costing mechanisms in Ireland and Australia. The institute found that mechanisms for political parties to cost policies in non-election periods could improve the quality of policies and deliver more informed public debate by encouraging parties to be more open about the costs of their proposals.<sup>61</sup>

**1.25** On 22 October 2013, the Government announced the commencement of a National Commission of Audit. Among the terms of reference for the Commission was:

- identify options for strengthening Commonwealth budgeting arrangements by: increasing independent and credible scrutiny; examining the role of the Parliamentary Budget Office, the Australian National Audit Office and the Intergenerational Report; and reviewing the way risk expenditures are accounted for.<sup>62</sup>

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58 Parliament of Canada, *Report on the Operations of the Parliamentary Budget Officer within the Library of Parliament*, Standing Joint Committee on the Library of Parliament, June 2009.

59 United Kingdom House of Commons Treasury Committee, *Office for Budget Responsibility*, September 2010.

60 Parliament of New South Wales, *Inquiry into the Parliamentary Budget Office*, Joint Selection Committee on the Parliamentary Budget Office, Report 1/55, December 2011.

61 The Institute for Government describes itself as an independent charity with cross-party and Whitehall governance working to increase government effectiveness. United Kingdom Institute for Government, *Pre-election policy costings—practical lessons from overseas*, Blog, 19 March 2014, available at <<http://www.instituteforgovernment.org.uk/blog/7376/pre-election-policy-costings-practical-lessons-from-overseas/>> [Accessed 31 March 2014].

62 *Terms of Reference—National Commission of Audit*, in: J Hockey MP and Senator M Cormann, *Coalition Commences National Commission of Audit*, Media Release, 22 October 2013.

**1.26** The Commission's report was publicly released on 1 May 2014. The report contained a recommendation for the Government to adopt a high-level fiscal strategy with fiscal rules which set out how a fiscal strategy will be achieved (Recommendation 1). With reference to the PBO, the Commission recommended that the PBO reports the Government's progress against the fiscal rules following the release of the Final Budget Outcome each year (Recommendation 2). The Government has not yet responded to these recommendations, however, the additional function for the PBO suggested in Recommendation 2 would be consistent with one of the four key features of effective IFIs identified by the IMF, and with the functions performed by 11 of the 17 OECD countries' IFIs.

## Audit approach

**1.27** The audit objective was to assess the effectiveness of the Parliamentary Budget Office in conducting its role since being established in July 2012.

**1.28** In order to form a conclusion against this audit objective, the Australian National Audit Office (ANAO) adopted the following high level criteria:

- effective governance and administrative arrangements were established, to support the delivery of services to the Parliament;
- sound and timely processes facilitated the conduct of the PBO's key functions within and outside of the caretaker period; and
- performance was monitored, reviewed and reported.

**1.29** The audit focused on the functions of the PBO including arrangements in place to prepare costings, and whether these arrangements had been consistently followed. The audit did not independently cost any of the policies, or other work costed by the PBO but did consider the views of Treasury and Finance in relation to PBO policy costings that were subsequently prepared for the 2014 Budget process.

**1.30** This audit has been conducted under subsection 15(1) of the *Auditor-General Act 1997*.<sup>63</sup> In conducting this audit, the ANAO was mindful of the Parliamentary Service Act, which allows the JCPAA to request an independent review of the operations of the PBO, to be completed within nine

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<sup>63</sup> Under subsection 15(1) of the *Auditor-General Act 1997*, the Auditor-General may at any time conduct a performance audit of an Agency.

months after a general election. The ANAO briefed the JCPAA on the planning for this audit—its objective, criteria and expected tabling date (planned for completion within nine months of the general election held on 7 September 2013).

## Audit methodology

**1.31** The audit included the examination of documentation held by the PBO and the information systems that support the PBO. Interviews were also held with a wide range of stakeholders including: officers of the PBO, Treasury, Finance, and Commonwealth agencies that are signatories to the PBO's MoU on information sharing; representatives of parliamentary parties and independent Members of the Parliament; and a selection of 'peer group' stakeholders that were, by nature of their employment, familiar with the work of the PBO. Appendix 3 contains the full list of stakeholders consulted by the ANAO. A detailed examination of a sample of costings was also undertaken.

**1.32** The audit was conducted in accordance with the ANAO Auditing Standards at an approximate cost to the ANAO of \$518,000.

## Report structure

**1.33** The structure of the report is outlined in Table 1.3.

**Table 1.3: Report structure**

Chapter	Chapter overview
2. Establishment and Governance of the Parliamentary Budget Officer	Examines the establishment of the PBO and the governance and administrative arrangements that support the PBO in providing its services to Parliament. Key issues arising during the establishment of the PBO are also discussed.
3. Access to Information	Examines the PBO's approach to accessing information, and reports feedback from the Commonwealth agencies that provide much of this information to the PBO.
4. Policy Costings	Examines the PBO's processes and performance in preparing policy costings outside and during the caretaker period and the quality of the PBO's costings.
5. The Post-Election Report and Other Functions	Examines the PBO's approach to preparing the Post-Election Report of Election Commitments, the self-initiated research prepared by the agency, and the PBO's lessons learnt after the 2013 election. Stakeholders' views about the PBO's contribution to transparency of fiscal and budgetary frameworks are also discussed.

Source: ANAO.

## 2. Establishment and Governance of the Parliamentary Budget Office

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*This chapter examines the establishment of the PBO and the governance and administrative arrangements that support the PBO in providing its services to Parliament. Key issues arising during the establishment of the PBO are also discussed.*

### Introduction

**2.1** The PBO was established in July 2012, at a time in the Federal election cycle when an election had to be held by November 2013, but could be held earlier. Consequently, the PBO had a limited timeframe to implement governance, administrative arrangements, recruit staff, and develop processes and procedures in order to be able to undertake its mandated functions, including requests for policy costings.

**2.2** The ANAO reviewed the preparations for the establishment of the PBO, and its administrative and governance arrangements. The management of key issues that had the potential to affect the PBO's performance during the establishment phase was also examined.

### Establishment of the Parliamentary Budget Office

**2.3** At the same time the Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011 was being debated in Parliament (August to December 2011), the Government was deliberating on the details of how the new PBO would operate. Given their joint role in Charter of Budget Honesty matters, Treasury and Finance worked on operational arrangements relating to the PBO, particularly the PBO's access to information from government agencies (draft Protocols were developed at this time) and the Charter of Budget Honesty Policy Costing Guidelines (which were released on 29 June 2012).

**2.4** In April 2012, a working group comprising a representative from each of the parliamentary departments was formed to advise the Presiding Officers on administrative matters for the creation of the PBO. On 19 April 2012, an interim executive officer was seconded from Finance to the Department of Parliamentary Services to assist the working group by undertaking scoping and planning work. This included providing advice on governance, funding and budget, corporate services, human resources, accommodation and

working arrangements with Commonwealth agencies. On 23 July 2012, this officer provided a brief to the newly appointed Parliamentary Budget Officer that outlined the major issues associated with the establishment of the PBO.

**2.5** The development of an implementation plan, incorporating major activities and milestones, was mentioned in the brief. No implementation plan was subsequently developed, but many elements of this planning already existed in the brief itself (such as suggestions for immediate priorities and legislated timeframes). Key elements of implementation planning were then incorporated into the PBO's first annual work plan, and progress was monitored in weekly executive meetings.

**2.6** The Parliamentary Budget Officer is required to produce an annual work plan each financial year in consultation with the JCPAA.<sup>64</sup> The *PBO Work Plan 2012–13* was released on 12 October 2012, less than three months after the establishment of the PBO. The work plan outlined the key priorities for the PBO in its first year of operations, including further arrangements needed for the office. Two key priorities were identified, to: make the PBO fully operational with the capacity to fulfil its mandate; and gain the trust of the Parliament as a valued source of budget and fiscal policy analysis. Timeframes linked to legislated activities were also identified, for example, the upcoming Federal election's imperative for preparing policy costings and the Post-Election Report of Election Commitments.<sup>65</sup>

**2.7** The annual work plan also documented key implementation activities already undertaken, including:

- seconding temporary staff and commencing recruitment;
- establishing financial framework elements (consistent with *Financial Management and Accountability Act 1997* obligations), and an interim shared services arrangement with the Department of Parliamentary Services for corporate services such as finance, human resources, procurement and information technology services;
- accepting a location for permanent accommodation in Parliament House (the PBO's staff were initially accommodated in three separate locations within Parliament House);

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<sup>64</sup> Section 64Q, *Parliamentary Service Act 1999*.

<sup>65</sup> Discussed in Chapter 5, the Post-Election Report had to be released 30 days after the end of the caretaker period for the 2013 election.



- consulting key parliamentary stakeholders, providing guidance to parliamentarians on the policy costings function on 28 August 2012, and accepting requests for policy costings from this date; and
- finalising the MoU for information sharing, necessary for the PBO to obtain information needed for policy costings and research.

**2.8** The PBO advised that regular executive meetings were also held during the first few months of its operation, although minuting of these meetings only began in January 2013. The minutes of these meetings appropriately cover a variety of topics, including: risk management, governance, human resources, communications with APS agencies, and costing operations.

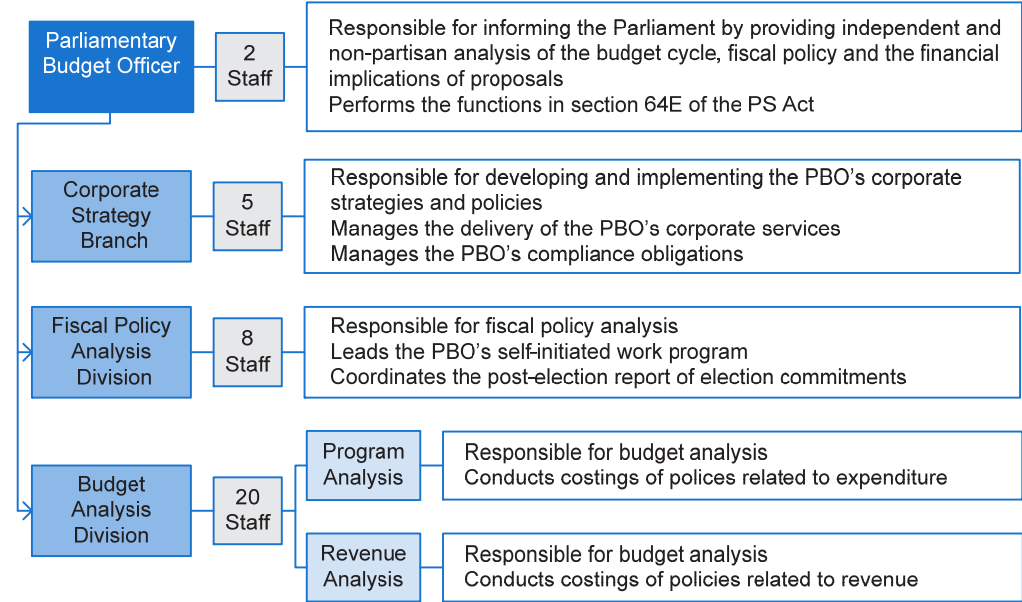
**2.9** The brief, work plan, regular executive meetings, and the associated monitoring of priorities provided a sound basis for the successful implementation of the PBO, especially given its small size. While no official risk management strategy existed for the implementation, the PBO advised that risks to successful implementation were examined (although not explicitly stated) in the above mentioned documents and monitored in the regular executive meetings.

## **Governance arrangements**

**2.10** The PBO's organisational structure came into effect in December 2012, following initial recruitment activities, and reflects its key functions. As at April 2014 the PBO had 35 full time equivalent staff (one on non-ongoing contract) and two graduates on secondment, with the majority allocated to the PBO's analytical divisions. To contain costs the PBO has, where possible, used the existing processes and systems of other parliamentary departments. It has arrangements with the: Department of Parliamentary Services (DPS) for the provision of financial, records management and information technology (IT) services; Department of the Senate for development of human resource policies and guidelines; and with the Department of the House of Representatives for payroll services. Figure 2.1 illustrates the organisational structure of the PBO.



**Figure 2.1: Structure of the PBO as at April 2014**



Source: PBO, *Annual Report 2012–13*, Canberra, 2013, p. 8; and information provided by the PBO.

Note: The two graduate secondees are not reflected in this diagram.

**2.11** The PBO is accountable to the Parliament for its activities through the JCPAA and the Senate Finance and Public Administration Legislation Committee, and has established an appropriate governance framework to support its operations.

## Business planning

**2.12** As discussed, the PS Act requires the PBO, in consultation with the JCPAA, to prepare an annual work plan by 1 October each year. This work plan is publicly available and identifies key priorities, how the priorities will be completed within its allocated resources, and contains information on its operations. Two annual work plans have been prepared to date, for 2012–13 and for 2013–14.<sup>66</sup> These annual plans broadly align with the PBO's Portfolio Budget Statements (PBS).

**2.13** The annual work plan informs the divisional work plans and the Corporate Strategy Branch plan, which have also been produced for 2012–13

<sup>66</sup> The 2013–14 annual work plan was released on 18 December 2013, as the PBO was waiting for the formation of the JCPAA after the 2013 election.

and 2013–14. Priorities from the annual work plan are reflected in the relevant lower-level plan. These divisional work plans build on previous plans, are time-specific, identify a range of goals and allocate the resources to achieve them.

## **Risk management**

**2.14** The PBO's risk management framework was finalised in April 2014, with the first risk register scheduled for completion by mid-2014. The PBO has, however, had two processes in place to manage risks in the interim: the weekly executive meeting; and the PBO Audit Committee. The PBO advised that the weekly executive meetings enable the executive to promptly identify and monitor business risks and respond with appropriate mitigation strategies.

**2.15** The PBO Audit Committee first met in July 2013 and its sole objective is to provide independent assurance and advice to the Parliamentary Budget Officer on the risk management arrangements of the PBO and on external accountability responsibilities.<sup>67</sup> The committee meets at least four times a year, and has developed an internal audit work plan. In the 2013–14 work plan the PBO's internal auditor identified two broad business risks:

- reputation damage: from any adverse impact arising from real or perceived lack of independence, rigour and accuracy from PBO costings, and/or damage from the loss of confidential information; and
- non-compliance with legislative requirements: being a new agency with some key corporate functions provided by other departments, there is a slightly heightened risk that there are gaps in the control frameworks.

**2.16** The PBO has also completed a Fraud Control Plan to raise awareness of fraud among PBO staff and provide a fraud control framework. A fraud risk assessment and a Business Continuity Plan are scheduled for completion in mid-2014. The PBO advised that the timing for completing the risk register, fraud risk assessment and business continuity plan took into account the date when the PBO's new protected network was expected to be in place (December 2013).

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<sup>67</sup> Membership comprises two external appointees and the Assistant Parliamentary Budget Officer, Corporate Strategy Branch, with PBO secretariat staff and Chief Finance Officer, and representatives from the internal audit provider and the ANAO as observers.

## Performance management and reporting

**2.17** The Australian Government's Outcomes and Programs framework requires agencies to publish in their PBS their outcomes, program objectives, deliverables and key performance indicators (KPIs) for each program. In 2012–13, while the PBO was included in the PBS, the objectives, deliverables and KPIs were yet to be developed, awaiting the appointment of the Parliamentary Budget Officer.

**2.18** The PBO's 2013–14 and 2014–15 PBS outcome and single objective were the same: to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. The PBO's deliverables mirrored its functions at that time<sup>68</sup>, but excluded preparing submissions to parliamentary inquiries on request and included a statement about further developing the PBO's capabilities to better fulfil its mandate. Table 2.1 outlines the PBO's KPIs.

**Table 2.1: PBO key performance indicators for 2013–14 and 2014–15**

**2013–14.** The PBO's outputs are: high quality; timely; relevant; and useful to parliamentary stakeholders. Indicators of performance include: satisfaction from parliamentary stakeholders; and independent and transparent processes are followed.

**2014–15.** The PBO's performance will be judged by:

- the relevance, quality and timeliness of its outputs, based on feedback from parliamentary stakeholders;
- the independence, transparency and integrity of its processes; and
- its overall performance since its establishment, based on the findings of an ANAO performance audit.

Source: Australian Government, *Portfolio Budget Statements 2013–14, Budget Related paper No. 1.19D, Parliamentary Budget Office*, Commonwealth of Australia, Canberra, p. 14; and Australian Government, *Portfolio Budget Statements 2014–15, Budget Related paper No. 1.17D, Parliamentary Budget Office*, Commonwealth of Australia, Canberra, p. 14.

**2.19** Agencies report against their PBS deliverables and KPIs in their annual reports. The PBO's 2012–13 Annual Report contains commentary on the activities undertaken in establishing the PBO (such as recruiting staff, engaging with parliamentary stakeholders, and developing guidance for stakeholders and staff), building analytical capability in financial modelling and costings,

68 As given by the PS Act and outlined in paragraph 1.16. In 2013–14, the Post-Election Report was not included, as this function was allocated to the PBO in June 2013. In the 2014–15 PBS, the Post-Election Report and caretaker costing functions were excluded, as these are only applicable during an election year.

the self-initiated work program and preparation for the 2013 election. Performance reporting included:

- the number of requests from parliamentarians received and responded to, with the average timeframe for completion; and
- the number of requests for information the PBO sent to Commonwealth agencies and responded to, with the average timeliness of receipt.<sup>69</sup>

**2.20** In September and October 2013, the PBO also sought verbal feedback from the Coalition and the Australian Greens on the quality, timeliness and relevance of its outputs. The Annual Report states that these stakeholders were very satisfied with the quality and relevance of outcomes, particularly the policy costings and support for policy development. Stakeholders were generally satisfied with timeliness, but expressed concerns about delays the PBO experienced in obtaining some information from Commonwealth agencies.

**2.21** While the PBO's deliverables support its objective, better practice KPIs would clearly relate to the main components of the objective, and be relevant, reliable and complete.<sup>70</sup> In this regard, neither the deliverables nor the KPIs contain targets or service standards to measure the PBO's performance and allow a comparison over time.<sup>71</sup> The PBO already reports some relevant performance information—its timeframes for responding to parliamentarians' requests—but a corresponding quantifiable standard is not incorporated in the KPIs. The PBO also currently has no established process or timeframe for receiving feedback from parliamentarians (both parliamentary parties and individuals). Given that this feedback forms the basis of the PBO's reporting against its KPIs, there would be merit in formalising the process and developing a repeatable survey that allows consistent assessment of results over time. Now that the PBO has almost completed two full years of operation, there would also be merit in reviewing the KPIs to better demonstrate the effectiveness of the PBO in performing all of its functions.

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69 Results against these parameters are discussed in Chapter 3: Access to Information, and Chapter 4: Policy Costings, respectively.

70 ANAO, Audit Report No.21 2013–14, *Pilot Project to Audit Key Performance Indicators*.

71 Service standards that could have been relevant to 2013–14, include the suggested five business day completion of caretaker policy costings from the Charter Guidelines, and the requirement to release the Post-Election Report 30 days after the end of the caretaker period.

## Internal management reporting

**2.22** Internally, the PBO's weekly executive meeting has broad responsibilities to monitor the strategic direction of the agency and other PBO-wide management issues. This meeting is attended by the Parliamentary Budget Officer and all Senior Executive Service staff. These meetings are minuted, and the minutes demonstrate a focus on monitoring the PBO's progress on strategic issues, as well as against costing requests, self-initiated research, information requests to agencies, workforce planning, and corporate and financial items.

## Parliamentary Budget Office resourcing

**2.23** In 2011–12, the Budget allocation for the PBO was \$24.9 million over four years, including \$0.5 million to provide additional costing capability during the 2013 election. In 2012–13, the PBO had a departmental budget of \$6.1 million and was allocated a special appropriation of \$6 million (the prior year's unspent funding, as provision for costs related to the PBO's permanent accommodation and secure IT network project). An additional budget measure in 2013–14 provided the PBO with \$4.5 million over five years to enhance capability and functions, and to produce the Post-Election Report (also including \$0.5 million for additional costing capability for the 2015–16 election period). Table 2.2 summarises the PBO's budgeted program expenses from 2014–15 to 2017–18.

**Table 2.2: PBO budgeted program expenses for 2014–15 to 2017–18**

	2014–15	2015–16	2016–17	2017–18
Budgeted program expenses (\$m)	7.5	8.2	7.9	7.9

Source: Australian Government, *Portfolio Budget Statements 2014–15, Budget Related paper No. 1.17D, Parliamentary Budget Office*, Commonwealth of Australia, Canberra, p. 13.

## Human resource management

**2.24** The PBO's 2012–13 Annual Report stated that the PBO had two competing priorities on commencement of operations: accepting requests from parliamentarians as quickly as possible; and putting in place the capability to respond to these requests. This necessitated the rapid recruitment of suitably qualified staff and the development of guidance material.

## *Recruitment and workforce planning*

**2.25** In its report, the Joint Select Committee did not recommend a number of staff for the PBO but rather, the level of funding (no less than \$6 million per annum with consideration of extra resources for election years). The Parliamentary Budget Officer is responsible for determining staffing numbers in line with allocated funding.

**2.26** Pending the recruitment of permanent employees, in September 2012 the PBO seconded 10 temporary employees from Australian Public Service agencies (the majority from Treasury and Finance). Throughout 2012–13, priority was given to recruiting permanent staff. This was accomplished through two bulk recruitment rounds in September 2012 and January 2013, supplemented by targeted recruiting for specific positions. During its peak work load and particularly for the 2013 election period, the PBO also employed nine contractors (with the average contract length being 1.6 months).

**2.27** The PBO's rapid recruitment of staff was supported by workforce planning, with recruitment strategies documented in the PBO's annual work plans of 2012–13 and 2013–14, and the divisional work plans for the same years. The work plans track staffing resource levels and comment on whether they are sufficient for the current workload. The plans also provided details on the PBO's approach to dealing with the increased workload of the 2013 election. Pragmatic strategies were adopted and included:

- flexibility across divisions, with Fiscal Policy Analysis Division staff helping to undertake policy costings during the caretaker period and Budget Analysis Division staff helping with the self-initiated work plan during non-peak periods. This flexibility was enhanced by staff having similar work experience and education across the two divisions;
- the use of contractors, with the PBO anticipating employing short-term contractors with suitable security clearances during the election period; and
- training staff in preparation for peak workloads, with Budget Analysis Division running training prior to the commencement of the caretaker period for internal and contractor staff on the policy costing function of the PBO.

**2.28** The PBO monitors a range of staffing statistics and information, including education, and previous employment history. This provides the PBO executive with relevant and up-to-date information for workforce planning, and also documents the broad academic and experience base of the PBO's staff. Parliamentary and peer group stakeholders interviewed by the ANAO agreed that PBO staff were well regarded, professional, and had the necessary expertise for their roles.

### *Guidance and training*

**2.29** It is important for staff of an agency, and especially a new agency, to have clearly defined roles and responsibilities so that they are able to fulfil their specific roles. In April 2013, the PBO Operations Manual was developed for staff involved in policy costing processes, and has become the key procedural guidance document for all PBO staff. As well as comprehensively detailing costings, information requests and records management processes, the manual outlines the roles and responsibilities of the PBO, the Parliamentary Budget Officer, and the Parliament in providing oversight to the operations of the PBO. The manual is considered a 'living' document, to be updated progressively as PBO procedures develop over time.

**2.30** The roles and responsibilities of PBO staff are further defined in a PBO specific performance management framework which has clear and detailed work level standards and role accountabilities for the different substantive roles within the PBO. The framework is underpinned by a Code of Conduct which explains how PBO staff should act when carrying out their roles and responsibilities.

**2.31** Staff receive on-the-job training and have access to specific PBO training courses, and a wide range of courses made available by Treasury. In-house training is usually specific to PBO operations and includes, for example, training on specific financial or economic models used in policy costings. Training provided by Treasury ranges from introductory courses on different tax and financial arrangements to more advanced courses on analysing complex data sources. The PBO advised the ANAO that a future training calendar, and recording and monitoring system for staff who have attended training, will be developed in 2014.



## Information technology

**2.32** The PBO handles confidential data, particularly in receiving and responding to requests from parliamentarians, and information received from agencies. As a small agency, the PBO relies on the services of the DPS to provide and manage its IT systems, and has a Memorandum of Understanding with the DPS (DPS MoU) for the provision of these services. Prior to December 2013, the PBO's IT systems were based on an unclassified network, and external media for securely storing classified data. To facilitate access to confidential information requested from and provided by agencies, the PBO used a joint Treasury/Finance protected network drive, or agencies hand delivered the information. The PBO commissioned the DPS to implement a PBO protected network, which consists of a records management system, data and model repository, and twitter account. The protected network went live in December 2013.

**2.33** The management of the PBO's confidential data is dependent upon a secure IT environment. The Australian Government's *Protective Security Policy Framework* (PSPF) requires government agencies to implement policies and procedures for the security classification and protective control of information which match their value, importance and sensitivity.<sup>72</sup> The underlying procedures about IT security are provided in the *Australian Government Information Security Manual* (ISM), which sets out technical measures (controls) to protect information used, stored and transmitted by electronic means.<sup>73</sup>

**2.34** To assess the PBO's IT security and management of its confidential data, the ANAO examined the IT governance arrangements in place from December 2013, including the agency's:

- process for compliance with the PSPF and the ISM;
- management of the data used in its analytical functions;
- restriction of access to the protected network, the records management system, data and model repository, and twitter account; and
- management of the regular backup of its data holdings.

Table 2.3 summarises the ANAO's findings.

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72 Australian Government, *Protective Security Policy Framework*, INFOSEC 3, June 2013, p. 27.

73 Prepared by the Australian Signals Directorate, and available from <http://www.asd.gov.au/infosec/ism/index.htm>.



**Table 2.3: Summary assessment of the PBO's IT governance arrangements**

Issue	Relevance	Assessment and comment
IT security framework	Compliance with the Australian Government protective security requirements.	✓ The PBO has a comprehensive security framework that includes an Information Communication and Technology Security Policy, a Security Risk Management Plan and a System Security Plan.  However, the schedule to the DPS MoU reflecting the current level of IT services provided is not finalised.
Management of the PBO's data sets	Data sets used by the PBO are appropriately updated, stored and access is controlled to safeguard the integrity and confidentiality of the data.	✓ Data sets are appropriately managed, however the PBO is continuing to develop its data set management spreadsheet.  The level of user access to the data and model repository is appropriate for their roles, and the number of privileged user accounts are minimised.
Access to the protected network	Only authorised user accounts have access to the network. Privileged user accounts are monitored for inappropriate access and behaviour.	✓ The level of user access is appropriate for their roles, and the number of privileged user accounts are minimised. Password security meets the ISM requirements.  ✗ The monitoring of the activities of privileged users has not yet been conducted (scheduled to begin in June 2014).
Access to the records management system	Only authorised user accounts have access to the records management system. Privileged user accounts are monitored for inappropriate access and behaviour.	✓✓ The level of user access is appropriate for their roles, the number of privileged user accounts are minimised, and the activities of privileged users are monitored.
Access to the PBO twitter account	Only authorised users can access and post twitter messages.	✓✓ Access to the PBO twitter account is appropriately controlled.
Backup of confidential data	Safeguard the confidentiality, integrity and availability of the PBO's data.	✓ Backups are made based on DPS's assessment of the PBO's requirements. There is no finalised Business Continuity Plan to identify PBO's business requirements.

Legend: ✗: not adequate; ✓: generally satisfactory, with scope to improve; ✓✓: satisfactory

Source: ANAO analysis of PBO data and controls.

**2.35** At a governance level, the PBO has a sound security framework and user access management controls, and data confidentiality is appropriately managed. However, at the time of writing this report, several IT governance arrangements were yet to be finalised:

- while there is an MoU in place between the DPS and the PBO, the schedule to this MoU reflecting the services provided by the DPS in managing the protected network has been drafted but not finalised;
- the first quarterly assessment of activities performed by privileged users on the network is due to be conducted in June 2014; and
- the Business Continuity Plan, scheduled for completion in May 2014, does not currently reflect the involvement required from DPS staff in relation to the protected network. The DPS is responsible for backups of the PBO's data, in accordance with a draft policy prepared in June 2013 on behalf of the PBO. Incremental backups occur daily with a full backup weekly, but without a finalised Business Continuity Plan the PBO's specific business needs have not been identified. The PBO advised that the finalised plan will document the involvement of DPS staff.

The PBO advised the ANAO that finalisation of the above-mentioned arrangements was underway at the time of preparing this report.

## **Key establishment issues for the Parliamentary Budget Office**

**2.36** Several key issues that had the potential to affect the PBO's performance during establishment were managed during the implementation period, and included the:

- relationships between the PBO and parliamentarians, and the PBO and Treasury and Finance; and
- need to protect the confidentiality of information.

### **Liaison with parliamentarians**

**2.37** The PBO actively engaged with parliamentary stakeholders early in its establishment, with consultation occurring with key stakeholders in the first few weeks of operation. On 28 August 2012, the first formal communication from the PBO to parliamentarians was a guidance document on the PBO's

policy costing role.<sup>74</sup> This was followed by a House briefing on 18 September 2012, to explain the role of the PBO and how to submit costings. The PBO has continued to use multiple avenues for communication with parliamentarians, including informal discussion, guidance documents, House briefings, social media and the PBO website. The website provides specific guidance on the PBO's processes and other information deemed pertinent by the Parliamentary Budget Officer.<sup>75</sup> Parliamentary stakeholders who provided feedback to the ANAO felt that the PBO's communications were helpful, and had no criticism of the PBO's guidance material. One parliamentary stakeholder said the requirements for submitting requests were clearly outlined, and the costing request template provided a good framework.

## **Liaison with Treasury and Finance**

**2.38** Communication between the PBO, Treasury and Finance occurred frequently during the establishment of the PBO, at both the executive and working levels. A high degree of cooperation was essential, so that: working arrangements with the PBO were clear and duplication of work was minimised; information held by Treasury and Finance was accessible by the PBO; and costings workload during the 2013 election caretaker period was jointly planned for and coordinated.

**2.39** The PBO, Treasury and Finance advised the ANAO that initially, meetings between the executive occurred quarterly, but at the time of writing this report, meetings were held as needed. These meetings were not minuted, but all three departments advised that the meetings were collaborative. Of particular importance for the PBO was access to Treasury's and Finance's information, as these two departments hold the majority of the information needed by the PBO in conducting its functions.<sup>76</sup> Treasury and Finance also have a role ensuring the integrity of the Government's official estimates are maintained (discussed in Chapter 3).

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74 PBO, *A Summary Guide to Policy Costings—procedures, information requirements and methodology*, PBO Guidance 01/2012, 28 August 2012.

75 Guidance to Senators and Members can be found at: <[http://www.apb.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office/guidance](http://www.apb.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/guidance)> [Accessed 21 March 2014].

76 Discussed in Chapter 3, around 26 per cent of all requests for information from the PBO are to these two departments.

**2.40** Of equal importance were arrangements for undertaking policy costings during the 2013 election caretaker period. The departments agreed on arrangements for preparing election costings on 13 August 2013, including their respective responsibilities during the period.

## **Protecting the confidentiality of information**

**2.41** In late 2011, during the Government's deliberations on operational aspects of the PBO, consideration was given to legislative amendments to protect the confidentiality of PBO requests. At the time of establishment, the PBO was designated an exempt agency under the FOI Act.<sup>77</sup> However, specific exemption was not provided for documents relating to requests from the PBO that were held by Commonwealth agencies. This had the potential to undermine the processes of the PBO, an essential part of which was the confidentiality of the work conducted for parliamentarians outside the caretaker period. An amending bill was introduced into Parliament on 10 October 2012, to extend the exemption for documents held by agencies and relating to PBO requests. The bill was subject to a Senate inquiry, and later received royal assent on 4 December 2012.<sup>78</sup>

**2.42** In early 2013, further legislative amendment was made. Privacy provisions in the *Taxation Administration Act 1953* precluded the PBO from accessing the taxpayer information used by Treasury in compiling budget revenue estimates, without significant data manipulation by the Australian Taxation Office in order to protect taxpayer's privacy. On 29 June 2013, the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2013* removed this restriction and provided the PBO with the same confidential access to this data that Treasury has, along with the equivalent obligation to protect taxpayer privacy. The same amending Act also endowed the PBO with another function, that it produce the Post-Election Report on the election commitments of designated parliamentary parties.

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77 As amended by the *Parliamentary Service Amendment (Parliamentary Budget Officer) Act 2011*, and discussed in paragraph 1.10.

78 The Freedom of Information Amendment (Parliamentary Budget Office) Bill 2012 amended the FOI Act by providing exemption for Commonwealth agencies for information relating to PBO requests. The PBO's arrangements with agencies for acquiring information, and the views of these agencies, are discussed in Chapter 3 of this report.

## Conclusion

**2.43** The work done prior to and during the establishment of the PBO enabled it to accept requests from parliamentarians from 28 August 2012, just over five weeks after beginning operations on 23 July 2012. This work incorporated the key elements of implementation planning, such as identifying priorities and critical success factors, as well as workforce planning, developing systems and processes, and building relationships with stakeholders and clients. The PBO's workforce planning approach enabled it to recruit suitably qualified staff and develop a surge capacity for peak workloads. A comprehensive operations manual, containing staff induction material, documented roles and responsibilities, and the procedures to be followed when preparing costings, was also produced.

**2.44** Given the small size of the PBO, it has where possible used the existing processes and systems of other parliamentary departments. The PBO has also established an appropriate protected network to secure the confidential information it uses for policy costings and self-initiated research, but the associated governance documentation is yet to be finalised. At the time of conducting this audit the PBO had established, or was in the process of finalising, appropriate administrative and governance and administrative arrangements such as business planning, risk management and performance reporting. There would be merit in the PBO reviewing its KPIs to better demonstrate the effectiveness of the PBO in performing all of its functions; and finalising governance documentation to reflect the services provided by the DPS in managing its IT network and associated systems.

**2.45** Key issues that had the potential to affect the PBO's performance during its establishment have effectively been resolved. These included: extending the freedom of information exemption to protect the confidentiality surrounding parliamentarians' requests for information held by agencies; and legislative amendment to allow the Australian Taxation Office to provide de-identified tax data to the PBO. In addition, the PBO, Treasury and Finance have worked proactively to develop a cooperative relationship.

## 3. Access to Information

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*This chapter examines the PBO's approach to accessing information, and reports feedback from the Commonwealth agencies that provide much of this information to the PBO.*

### Introduction

**3.1** The PBO's capacity to perform its functions is heavily reliant on its ability to access information, which comes from a range of public and private sector sources. In this context, information encompasses data and any models used for estimating the costs of policies. To answer parliamentarians' requests, particularly during election caretaker periods, information is required quickly and needs to be relevant, accurate and current.

**3.2** To assess the PBO's access to information, the ANAO examined the processes for requesting and receiving information from Commonwealth agencies. The ANAO also sought feedback from 20 of the Commonwealth agencies that supply information to the PBO.

### Arrangements for the PBO's access to information

**3.3** The PS Act does not give the PBO statutory information gathering powers. Rather, two instruments facilitate the PBO's access to information from Commonwealth agencies: the Protocols and the MoU.<sup>79</sup>

#### *The Protocols*

**3.4** The Protocols provide a broad statement of the Australian Government's intent to support the PBO in the performance of its functions and outline the responsibilities of staff engaging with the PBO. Signed by the Prime Minister, the Treasurer and the Minister for Finance, the Protocols make it clear that the PBO requires access to information and documents owned, held, managed or administered by agencies designated under the *Financial Management and Accountability Act 1997* and entities under the *Commonwealth Authorities and Companies Act 1997*.

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79 The Protocols and the MoU are available on the PBO's website <[http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Budget\\_Office](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office)> [Accessed 20 February 2014].

### *The Memorandum of Understanding*

3.5 The MoU between the Parliamentary Budget Officer and the Heads of Treasury, Finance and 22 other agencies<sup>80</sup> was signed on 24 September 2012. Consistent with the Protocols, it describes the roles and responsibilities of the parties, the process for requesting and providing information, avenues of communication and dispute resolution.

### *Confidentiality*

3.6 Outside the caretaker period, parliamentarians can elect to have requests, including costings, prepared on a confidential basis.<sup>81</sup> To give force to these provisions, the Protocols and the MoU state that:

- agencies must not disclose to the Government the details of the PBO request and the subsequent response if the request is confidential;
- government ministers and their staff will not ask agencies to provide them with any information which would disclose the nature of a confidential request from the PBO; and
- agencies must not disclose the details of a request for information and the subsequent response to a third party, other than another agency, unless required to do so by law.

3.7 In December 2012, Finance issued additional guidance material to agencies in relation to their dealings with the PBO. Amongst other things, Finance advised agencies to put procedures in place to ensure that confidential information provided to the PBO is not disclosed through regular reporting and advice to government ministers. The 20 Commonwealth agencies interviewed by the ANAO agreed that the Protocols and MoU provided an effective framework for information exchange, one reporting that the MoU was a good briefing tool for incoming ministers.

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80 The MoU was not amended after the 2013 Machinery of Government changes and at the time of writing this report, there were 20 agencies: the Attorney-General's Department; Australian Bureau of Statistics; Australian Customs and Border Protection Service; Australian Taxation Office; Public Service Commission; and the Departments of: Agriculture; Communications; Defence; Education; Employment; Environment; Foreign Affairs and Trade; Health; Human Services; Immigration and Border Protection; Industry; Infrastructure and Regional Development; Prime Minister and Cabinet; Social Services; and Veterans' Affairs.

81 Section 64M and subsection 64H(3)(d) of the PS Act detail the confidentiality provisions. In contrast, requests for election policy costings made during the caretaker period must be publicly available, consistent with the Charter of Budget Honesty.



## The process of requesting and receiving information

**3.8** The PBO requests information if it is needed to conduct any of its six functions, and may require data from a particular agency or a costing model developed by that agency. Some information requested, such as statistical databases, may have a general use for a variety of costings and research projects, while other requests may be related to a specific costing. Typically, information requested includes program and sub-program estimates, data on activity levels, expenditure and client statistics, costing models, and updates of previously supplied information. Figure 3.1 illustrates the process by which information is requested by the PBO and provided by agencies.

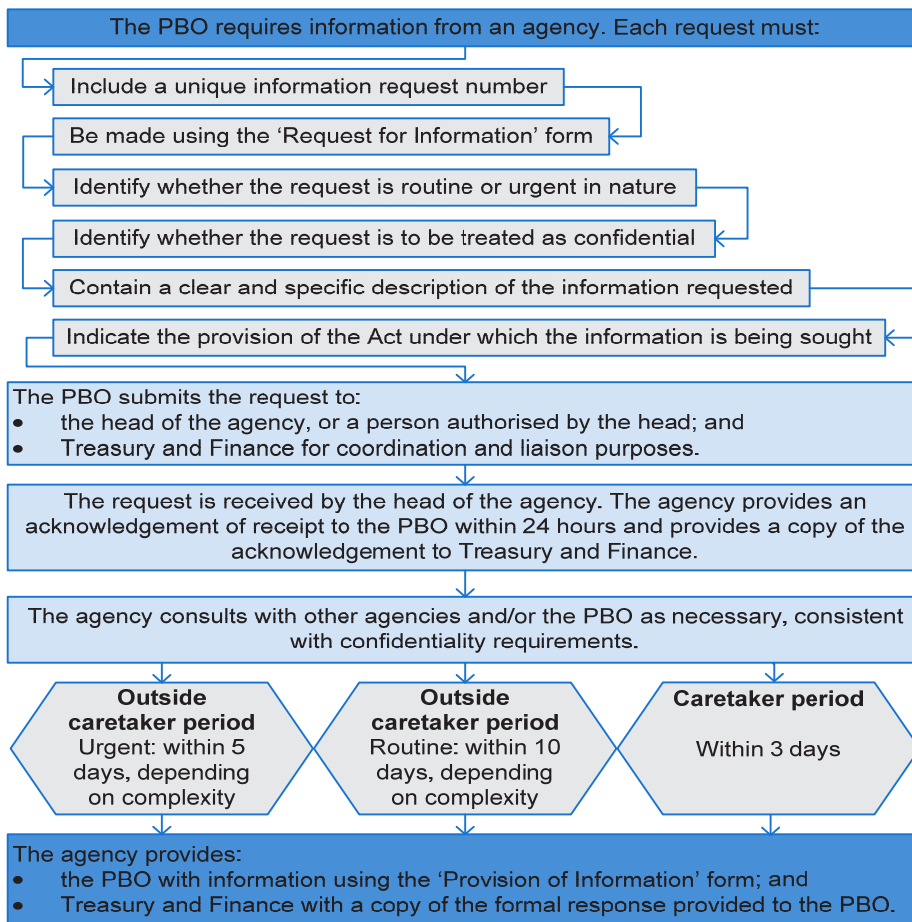
**3.9** The PBO's Operations Manual contains instructions for staff on the internal process to be followed for information requests. The progress of requests is recorded on the PBO's Information Request Register, a spreadsheet that tracks the topic and date of a request, the agency to which the request was sent, and the date the response is received. The PBO weekly executive meeting monitors information request statistics.

**3.10** The Information Request Register is an essential tool for the PBO, but its spreadsheet functionality means that only one staff member has access at any time, and this creates difficulties in busy work periods. The ANAO's review of the spreadsheet found data sets that had not been consistently completed, and the PBO advised that these fields became redundant over time as the information was not needed for tracking purposes. In addition, whilst acknowledging the experience of PBO staff, there is the potential that the data and functionality of the spreadsheet could be corrupted through user error. In late 2013, the PBO conducted an 'After Action Review' of its activities, and documented shortcomings with the Information Request Register. As a result, the PBO intends developing a purpose built registration system to replace this register and the Costing Register, which is expected to be delivered in early 2015.<sup>82</sup>

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82 The Costing Register is discussed in Chapter 4, and the project to deliver the purpose built registration system is discussed in Chapter 5.



**Figure 3.1: The process for requesting and receiving information**

Source: ANAO interpretation of the Protocols, MoU and the PBO's Operations Manual.

Note: The timeframes for response (urgent within five days, routine within 10 days, and during the caretaker period within three days) are indicative, and agencies can negotiate these with the PBO.

**3.11** The PBO stores all the information it obtains in its data repository. Before the PBO's protected network was operational, the repository existed in external hard drives kept under appropriate security. From December 2013, the repository is on both the PBO's protected network and external hard drives (very large data sets are not loaded onto the network). In February 2013, the Parliamentary Budget Officer wrote to the Heads of 14 agencies considered to have the largest data holdings from which the PBO requested regular updates, to seek assistance in building a comprehensive repository of data and costing models. The letter also sought to put in place arrangements to receive updates of both data and costing models on a regular basis. The data repository was

intended to have two benefits: to allow the PBO to improve its responsiveness to parliamentarians' requests; and to reduce the ongoing need for the PBO to send ad hoc information requests to agencies. The PBO advised that the data repository has enabled the PBO to progress a number of costings without having to seek information from agencies, so in this regard it has realised the intended benefits.

## Information requests to agencies

**3.12** The PBO monitors and reports the number of information requests sent to agencies, and the responsiveness of these agencies, both in its Annual Report and in reports to the Senate Finance and Public Administration Legislation Committee. Since the establishment of the PBO in July 2012 to 30 April 2014, the PBO has sent 679 information requests (total minus 23 superseded requests) to 52 agencies. Table 3.1 reports PBO data on the number of information requests sent by the PBO between July 2012 and March 2014, and the responsiveness of agencies (collectively) for this period.<sup>83</sup>

**Table 3.1: PBO information requests and responsiveness of agencies, July 2012 to March 2014**

Date	Requests sent	Responded by due date (%)	Responded after due date (%)	Average business days late <sup>(1)</sup>
2012	85	43 (51)	42 (49)	3.4
2013 Qtr 1	100	35 (35)	65 (65)	11.1
2013 Qtr 2	175	75 (43)	100 (57)	4.9
2013 Qtr 3	234	126 (54)	108 (46)	2.0
2013 Qtr 4	16	11 (69)	5 (31) <sup>(2)</sup>	0.1
2014 Qtr 1	43	23 (53)	20 (47) <sup>(2)</sup>	0.8
<b>Total</b>	<b>653</b>	<b>313 (48)</b>	<b>340 (52)</b>	<b>-</b>

Source: PBO data.

Note 1: Average lateness is calculated using the days late for all requests (which can include negative figures if responses were made early).

Note 2: Overdue requests were also included in this total, one for 2013 Qtr 4, and seven for 2014 Qtr 1.

**3.13** The number of information requests peaked during the 2013 election period as there were an increasing number of requests from parliamentarians,

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<sup>83</sup> April 2014 is not included in this table, as some information requests had not been responded to, but were not yet late.

and also due to the PBO's focus on building its data repository. These numbers have since reduced with fewer requests from parliamentarians. The average time taken by agencies to respond has improved, with responses being an average of 11.1 days late in the first quarter of 2013 but 0.8 days late in the first quarter of 2014 (the median response time was nine business days). The ANAO observed that factors contributing to this improvement include fewer recent requests from the PBO, and more of those requests involving updates to information previously supplied, which generally are easier for agencies to provide. However, PBO data also shows that there were 18 responses that took more than 51 business days to provide. For the agencies that had received 20 or more information requests from the PBO, Table 3.2 provides a summary of the number of requests, timeframes for response and the timeliness of the agency's response (April 2014 is not included, as some information requests had not yet been responded to).

**Table 3.2: Agencies that received 20 or more information requests, September 2012 to March 2014**

Agency	No. of PBO requests	Agreed timeframe for provision <sup>(1)</sup>				Average business days late
		1-3 days	4-5 days	6-10 days	More than 10 days	
Treasury	117	6	39	42	30	14
Industry	68	9	30	20	9	4
Finance	56	4	20	24	8	2
Employment	50	3	20	17	10	3
Social Services	50	8	15	16	11	1
Health	34	4	14	10	6	4
Human Services	28	3	9	12	4	0
Infrastructure and Regional Development	28	4	11	8	5	1
Australian Taxation Office	26	1	9	11	5	6
Veterans' Affairs	23	3	5	14	1	0
<b>Total</b>	<b>480</b>	<b>45</b>	<b>172</b>	<b>174</b>	<b>89</b>	<b>-</b>

Source: ANAO analysis of PBO data.

Note 1: Timeframes set by the PBO are urgent (five days), routine (10 days), and caretaker period (three days), but various timeframes are recorded because the PBO has been asked for an extension.

**3.14** As at 31 March 2014, of the 52 agencies that have received requests, 10 of these agencies received 73.5 per cent of the total requests, with Treasury

receiving the most requests (17.9 per cent). There is understandably a correlation between the agencies that have received the highest number of information requests, and the longest timeframes for provision of information. However, when compared to the data in Table 3.2, there is also a correlation between requests made early in the operation of the PBO and the longer timeframes taken to provide information. Many factors can influence the timeliness of an agency's response, and these are discussed in paragraph 3.19.

## Feedback from Commonwealth agencies

**3.15** The ANAO contacted all agencies that are signatories to the MoU (post Machinery of Government departmental changes) and interviewed officers representing 20 of these agencies (Appendix 3 contains a list of all stakeholders consulted by the ANAO). Agencies were asked about the processes followed when responding to PBO information requests, feedback on their interaction with the PBO, as well as any other comments they wished to make. Table 3.3 provides a summary of the agencies' feedback.

**Table 3.3: Summary of comments made by agencies**

Question	Yes	No	Comments volunteered by agencies
Is the MoU effective?	20	0	No agencies reported any concerns with the MoU.
Have PBO information requests had an effect on your agency's resources?	20	0	All agencies reported some effect on resources, but 18 had not formally recorded the implications. The two agencies with formal records reported 365 hours and 381.5 hours respectively. Anecdotally, another agency said one full-time Australian Public Service level 5 staff member was needed to service PBO requests, whilst another said that hundreds of hours were spent because of the large number of models held by the agency.
Are the timeframes for response reasonable?	1	17	Sixteen reported that their ability to meet the timeframes depended on the complexity of the request and other workload, but the PBO was accommodating when asked for extensions. Seven reported that most PBO requests were 'urgent' and that they had no real sense of why. Nine reported that they could provide quicker and more accurate information if the PBO was able to be clearer about the information it sought.
Have there been any disputes with the PBO?	0	20	Agencies did, however, report instances of differences in opinion in timeframes and the types of information the agency could supply, with five uncertain about supplying Cabinet- or Budget-in-Confidence material.

Question	Yes	No	Comments volunteered by agencies
Are there concerns about the PBO's use of the confidential information your agency has provided?	0	18	No agency was concerned about the PBO's ability to maintain confidentiality, although, at times some placed caveats on the further dissemination of data. One reported a potential future risk for the release of de-identified personal data, as unique demographics can sometimes be identified.
Is the PBO's stakeholder management effective?	20	0	All were positive, variously describing the PBO as professional, communicative and reasonable. Fourteen that had a large number of requests from the PBO reported early relationship-building meetings and a high level of engagement from the PBO.
Is your agency able to supply all of the information that the PBO requests?	13	5	Thirteen agencies reported supplying what the PBO asked for. Five agencies however, were not able to supply particular information as the information was not held by the agency, or was too complex to collate. Two agencies could not immediately supply information without a legislative amendment, or a waiver of legislative provisions.

Source: ANAO analysis of information provided in interviews with 20 Commonwealth agencies.

Note: The 'Yes' and 'No' figures do not always total 20 as not all agencies answered all questions.

**3.16** In addition to the feedback presented in Table 3.3, several key themes arose during the process of interviewing the 20 agencies. These included:

- the PBO's ability to access the information it needed, and the role of Treasury and Finance in the information gathering process;
- confidentiality arrangements put in place by the PBO;
- the agency's visibility of the inclusion of administrative expenses in policy costings; and
- potential improvements to the information request process.

### **The PBO's ability to access the information it needs**

**3.17** All 20 agencies reported a general intent to adhere to the spirit of the Protocols in providing everything they could to the PBO. Agencies were aware of the significance of the PBO's role, and four stated that it was to their advantage to provide accurate information as a PBO costing may become government policy in the future. Where there was uncertainty about providing particular information, agencies could contact Finance for clarification.

**3.18** Some agencies proactively engaged with the PBO to clarify the information requested. The PBO was also proactive, with fourteen agencies reporting early contact from the PBO, including meetings that helped to

establish an ongoing working relationship. Many agencies now regularly provide updated data and models to the PBO without requests being made.

**3.19** There were, however, instances where agencies could not provide all information requested by the PBO within the specified timeframe. Agencies reported particular difficulty in managing requests:

- involving historical data, as the data often needed to be extracted from redundant systems and consolidated into a single communicable form;
- made in the lead up to the Budget, due to other work priorities;
- where information sourced from multiple areas or portfolio agencies required coordination and checking; and
- when the agency was servicing multiple PBO requests at once.

The PBO also reported that, at times, agencies needed to undertake considerable work to document costing models that had been developed for internal use, prior to the model being provided to the PBO.

**3.20** There were only three instances where the PBO was impeded in accessing information. Two were resolved through legislation<sup>84</sup>, and the PBO advised the ANAO that no others arose prior to preparing this report. However, the PBO does not have access to the details of provisions for individual items included in the Contingency Reserve.<sup>85</sup> The Secretary of the then Department of Finance and Deregulation decided in July 2013 that providing such information would be contrary to the public interest. In July 2013, as a mitigating measure, the PBO released guidance on the possible impact of this on PBO costings, stating that all PBO costings were prepared in the absence of this information.<sup>86</sup> While this only affected two policy costings during the preparing the 2013 Post-Election Report<sup>87</sup>, the likelihood remains

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84 One impediment was the previously mentioned amendment to the *Taxation Administration Act 1953*, and the other required a legislative waiver to be authorised by the Secretary of the department involved.

85 The Contingency Reserve is an allowance included in the aggregate budget expenses for the budget to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Budget estimates—see Statement 6 of Budget Paper 1. The Reserve is designed to ensure that aggregate estimates are as close as possible to expected outcomes and is not intended to be a general policy reserve.

86 PBO, *Possible Impact of Contingency Reserve on PBO costings*, PBO Guidance 05/2013, 23 July 2013.

87 The two costings were: *Regional Cooperation to Combat People Smuggling* (Coalition) and *Safer pathways for refugees policy, refugee health and end immigration detention* (Australian Greens). As the former Government had included costs for operating the processing facility on Nauru in the Contingency Reserve, the PBO was not aware of the quantum of the allowance made and, as a consequence, the potential savings from the non-operation of that facility.

that the PBO may not be able to determine the net budget impact of certain policies in the future because it does not have access to this information.

### *The role of Treasury and Finance*

**3.21** The Protocols indicate that Treasury and Finance have a central role in the PBO's information gathering process, with a view to ensuring the integrity of the Government's official budget estimates. One step in the information request process—to provide copies of all requests and responses to Treasury and Finance—was designed for this express purpose. The need for consistency of information held by the PBO, Treasury and Finance takes on particular significance in the caretaker period where all three agencies undertake the costing of election commitments.

**3.22** Importantly, being copied into requests allows Treasury and Finance to monitor the consistency of information being provided to the PBO and to inform the PBO if there is an update it needs to be aware of. Finance advised the ANAO that it checks to make sure the information provided by agencies is the most up-to-date, and informs the PBO if there are updates the PBO needs to be aware of. Treasury advised that it does not check the information provided by agencies, but the majority of revenue requests made by the PBO are produced by Treasury or are cleared by Treasury first. The PBO advised the ANAO that it is not aware of a situation where Treasury or Finance has raised with the PBO the need to update data provided by an agency but these issues may have been raised with agencies prior to the information being provided to the PBO. The PBO also advised the ANAO that because of confidentiality concerns, requests are framed so that even the Treasury and Finance would not be able to specifically determine the purpose for which the information would be used. As such, Finance or Treasury may not be in a position to ascertain the extent to which information provided by an agency meets the needs of the PBO.

## **Confidentiality of information**

**3.23** None of the 20 agencies interviewed by the ANAO were concerned about the PBO's treatment of their confidential information (and they reported that the PBO clarified the information that could be released to parliamentarians).<sup>88</sup> However, agencies raised an issue about the PBO's

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88 Both the MoU and the PS Act require the PBO to protect the confidentiality of information provided by an agency if directed by the head of the agency.



approach to requesting information, where the requestor had stipulated confidentiality. In such circumstances, the PBO does not discuss how the information will be used, and agencies comments included:

- three reporting that understanding the specific information being sought was made difficult as the request had no context;
- one reporting that it was often deliberately vague in its response so that the PBO had to return with a further, more specific request;
- nine reporting that if the PBO more explicitly identified the information it sought, their responses would be easier and quicker to compile and would likely contain more accurate information;
- four were concerned about subsequently being expected by government to deliver programs within the amount costed by the PBO, even if this costing was inaccurate because of imperfect data. In these circumstances, seven agencies reported they often contacted the PBO to clarify what was needed and to discuss what the agency could best supply;
- seven querying whether a lack of clarity might also be caused by the PBO not knowing exactly the information it needed. However, two of these seven agencies (both of which had received more than 20 requests) reported that request clarity had improved over time, as the PBO's officers became more knowledgeable about the particular portfolio; and
- another agency questioned the need for confidentiality between the PBO and the agency at all. This agency felt that, as the Protocols and the MoU both require strict non-disclosure of the details of a request or the response to it, the confidence given to the requesting parliamentarian by the PBO is, by extension, also given by the agency providing the information. It was argued that this would allow a freer and clearer exchange of information between the PBO and the agency.

**3.24** There is no legislative requirement that the PBO not disclose to agencies the potential use of the data being requested, as Section 64V (3) of the PS Act states that the PBO is not prevented from disclosing information related to a request for the purpose of complying with the request. However, there are arguments in favour of strict confidentiality, as the PBO's primary client is parliamentarians. In March 2014, the United Kingdom's Institute for Government released a study of pre-election policy costing processes in



Australia and Ireland. The confidentiality of the costing process was seen as critical in encouraging political parties to be more transparent about policy costs, as parties must be confident that policies and costings will not be leaked until the party is ready to release the information.<sup>89</sup> The Parliamentary Budget Officer advised the ANAO that the decision to maintain such strict confidentiality is also based on the risk of damaging the PBO's reputation with its clients. Where a parliamentarian elects for a costing to be confidential, a detailed description of the information sought would increase the risk of the policy being identified. This could put at risk the confidentiality of the request, and potentially the willingness of the parliamentarian to use the PBO.

**3.25** Parliamentary stakeholders' feedback to the ANAO emphasised the importance of confidentiality to their policy development processes. They confirmed that confidentiality strengthens the PBO's capacity to provide assistance to parliament; allows costings to occur in a considered manner; and subsequently improves the policy debate. One party commented that it recognised the confidentiality of the PBO's information requests created a risk of the PBO producing less accurate costings, but on balance, the party would be more concerned if this confidentiality was relaxed with agencies. The feedback from agencies nevertheless underlines the benefits of the PBO providing sufficient context in relation to each information request to position agencies to provide the most appropriate information in response to requests, while being respectful of maintaining the confidentiality of the costing when this has been requested.

### **Visibility of the inclusion of administrative expenses in policy costings**

**3.26** Another issue raised by agencies was the apparent non-inclusion of administrative expenses in PBO costings. Agency administrative expenses can include items such as physical and systems infrastructure, training, advertising, and staff and other administrative resources to prepare for and implement a new policy. Eight agencies were concerned that significant expenses, such as IT systems development and tender processes, did not appear to have been included in the policy costings prepared by the PBO. Agencies do not see the results of confidential costings, so these comments

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<sup>89</sup> Institute for Government, *Pre-election Policy Costing Mechanisms in Australia, Whitehall in year Five of the Coalition: Lessons from Elsewhere*, 19 March 2014, United Kingdom, pp. 16–17.

were made with reference to the publicly released policy costings during the caretaker period and in the PBO's Post-Election Report.

**3.27** The PBO costs policies based on the Charter of Budget Honesty Policy Costing Guidelines (Charter Guidelines)<sup>90</sup> which specify the inclusion of agency administrative expenses where requested and feasible. The PBO template for costing requests includes specific questions for parliamentarians about including agency expenses associated in the costing, or whether the agency will be expected to absorb expenses associated with the policy. For some confidential costings, the PBO may not be able to discuss any aspect of these expenses with the agency, although in such instances the PBO may be able to identify similar previous Budget measures, or may have access to established agency models, to calculate such costs. The PBO advised that it does consult with agencies, particularly where it considers that a proposal includes a significant IT cost.

**3.28** The ANAO examined the documentation for the costings that had costing documentation included in the Post-Election Report (92 costings of the 434 items included in the report). Of the 92 costings, 43 had agency administrative expenses included, 26 did not (the expenses were noted as being minimal and not estimated, or the costing indicated the expenses were to be absorbed), and 23 could not be assessed (due to there being no mention of the expenses, the policy being for the termination of a program, the policy relating entirely to agency administrative expenses or the explanation was unclear).

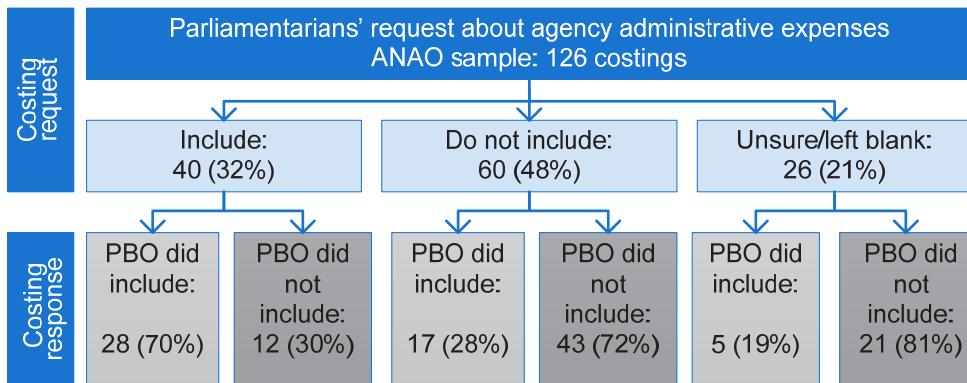
**3.29** For an indicative sample of 126 costings prepared outside the caretaker period, the ANAO also examined what parliamentarians asked for in relation to inclusion of administrative expenses, and the response that the PBO provided in its finalised costing.<sup>91</sup> A summary of the ANAO's results is provided in Figure 3.2.

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90 The PS Act requires the PBO to follow the Charter Guidelines if the Parliamentary Budget Officer has not issued his/her own written principles. At the time of preparing this report, the Parliamentary Budget Officer had not issued his own costing principles.

91 The 126 costings were part of a larger indicative sample of 240 records examined by the ANAO, from the PBO's Costing Register.

**Figure 3.2: Results of ANAO testing of the PBO's inclusion of agency administrative expenses**



Source: ANAO examination of PBO costing records.

Note: Not all percentages equal 100 per cent due to rounding effects.

**3.30** The ANAO tallied where the PBO had treated administrative expenses differently to the instructions included in a parliamentarian's request. This occurred in circumstances where:

- the PBO's response differed to the parliamentarian's request for agency administrative expenses to be absorbed, or not absorbed;
- the parliamentarian had not answered the section of the costing request about agency administrative expenses and the PBO included them; or
- the parliamentarian requested that the PBO include administrative expenses within a capped policy (for example, a grants program). Where the PBO considered that the administrative expenses would consume a substantial proportion of the overall costed amount, the PBO added them to the total cost of the policy.

The difference in the PBO's treatment of agency administrative expenses compared to the parliamentarian's request is provided in Table 3.4.

**Table 3.4: Difference in the PBO's treatment of agency administrative expenses compared with the parliamentarian's request**

	Number	Percentage
Agreement on treatment of administrative expenses	92	73%
Difference in treatment of administrative expenses	34	27%
<b>Total</b>	<b>126</b>	<b>100%</b>

Source: ANAO examination of PBO costing records.

**3.31** Notwithstanding the parameters set by the requesting parliamentarians, in 27 per cent of costings examined by the ANAO, the PBO's decision about treatment of agency administrative expenses differed from the request (either including or excluding these expenses). The PBO advised the ANAO that it makes a judgement about the inclusion of administrative expenses for each policy. The PBO advised that its assessment focuses on whether or not those expenses are significant in the context of implementing that specific policy, and not on whether the agency is able to absorb those expenses within its existing budget. If administrative expenses are not considered to be significant in relation to the policy, they may not be included, or be assumed to be covered by existing agency resourcing. Factors considered by the PBO in this assessment include whether:

- the proposal involves any significant additional administrative work by the agency. If the proposal is for a simple one-off grants program for agencies that regularly administer grants it is unlikely to involve significant additional work, but proposals involving new payments, new eligibility criteria or new client populations would;
- the parliamentarian requesting the costing has specified that the proposal is for a capped amount of funding, and administrative expenses are to be met within the amount. In such cases, if the expenses do not change the bottom line of the proposal they may not be separately identified<sup>92</sup>; or
- the parliamentarian specifies that agency administrative expenses are to be absorbed by the agency. The PBO still determines whether the expenses are significant, and if so, includes them in the costing. The PBO advised that an exception to this approach would be where the specification that costs are to be absorbed by the agency is made by the party holding government (as occurred for some costings prepared for the 2013 Post-Election Report).

**3.32** The PBO also advised the ANAO that, unlike Finance which allocates funding, the PBO it is not in the position to know if an agency has excess

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92 In those circumstances where the PBO considers the administrative expenses would significantly impact on the intent of the policy, the PBO may include these expenses as an addition to the policy's cost. For example, if the parliamentarian has requested that administrative expenses for an industry subsidy program are to be met within a capped amount, but the costs of administering the subsidy would be significant when compared with the capped cost, and would materially reduce the amount of the subsidy that could be paid.

resources that can be applied to meet administrative expenses. Any new policy still has to go through the process of costing by the Government, and this is when the discussion about administrative costs can occur.

**3.33** In the interests of transparency, there is a strong argument for always separately including administrative expenses (where significant to the implementation of the policy) in a costing, including for capped proposals. This would fairly present the full cost of implementing a proposal, and its administrative and program components, to the parliamentarian who made the request. The ANAO has commented in various reports about the challenges to policy implementation that agencies face, and that a government's policy agenda relies not only on the provision of sound policy advice but on the effective implementation of new programs.<sup>93</sup> One of the essential elements of program implementation is to understand the administrative expenses needed to support the implementation process, particularly where they are significant.

## Recommendation No.1

**3.34** In the interests of greater transparency, the ANAO recommends that the Parliamentary Budget Office includes in all costings, estimates of administrative expenses, where significant.

**PBO response:** *Agreed.*

## Potential process improvements

**3.35** Agencies acknowledged that the PBO had a difficult task to establish an office in a busy election period, and that it now has a good foundation to work from. These agencies also made some process improvement suggestions around how the PBO requests information:

- two agencies reported receiving multiple requests on one day during the election period, but individual PBO staff were unaware of the other requests. The PBO's planned purpose built registration system should improve this situation by enabling the coordination and prioritisation of requests;

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93 For example: ANAO, Audit Report No.9 2010–11, *Green Loans Program*; and Audit Report No.12 2010–11, *Home Insulation Program*.

- seven agencies reported that most PBO requests are classified as 'urgent', leaving them with no sense of what was urgent or routine. Despite these concerns, 16 agencies reported that the PBO was flexible and accommodating when informed that the response would not be supplied within the timeframe. The ANAO's analysis of the urgency of requests sent to the 'top 10' agencies showed that almost 30 per cent (142 of the 480 total requests) had timeframes of five days or less, however this analysis does not reflect where request timeframes were extended by the PBO. While there are many factors involved in how quickly an agency can respond to a request, the PBO could consider advising agencies and requestors as to how it determines the urgency of requests; and
- five agencies questioned if they could have more involvement in costings that included their portfolio areas, as certain policy areas needed large teams to run models due to the complexity of the interactions with other policies. The task of the PBO, with a small staff and large cross-portfolio coverage, was acknowledged by agencies as difficult. One large agency with multiple models had arranged to run its models in-house and provided the results to the PBO.

**3.36** While the PBO has provided copies of models for publically released costings to agencies that have requested them, at the time of writing this report, the PBO had not sought feedback from agencies about the information request process. At the time of interview, agencies had also not offered any formal feedback to the PBO. Three agencies reported that they would like feedback on how their data was being used, for quality improvement purposes, and one reported that the MoU opened the possibility for two-way exchange and it would like the PBO to reciprocate information sharing. Overall, the ANAO considers that there would be merit in the PBO seeking agencies' feedback in relation to these matters, to inform future information requests and improve the processes for obtaining information.

## Conclusion

**3.37** The PBO has so far been able to access the information that it needs to answer parliamentarian's requests for policy costings and information, and to conduct self-initiated research. The Protocols and MoU contain guidance covering all parties and the 20 agencies interviewed by the ANAO reported adhering to the intent of the Protocols. The PBO advised the ANAO that to

date it had been able to access the information it needed to conduct its functions, but on occasion there have been long delays in getting information. At present, there is no indication of any need for change in these arrangements for information access. However, the PBO's lack of statutory information access powers are not aligned with the OECD's recommendation that an IFI's access to information should be guaranteed in legislation, and any restrictions to access should also be clearly defined in legislation.<sup>94</sup> Due to the importance of the PBO's information access, this will be a matter for close monitoring. This will be particularly important in the future if there are unreasonable delays in obtaining information, or there are a large number of costings the PBO cannot undertake due to lack of access to information, including information about the Contingency Reserve.

**3.38** The PBO is well regarded by the 20 agencies interviewed by the ANAO and no agency expressed any concerns about the PBO's ability to keep sensitive information confidential. Agencies however raised two issues about the PBO's administrative arrangements for obtaining information. Firstly, the approach adopted by the PBO to protect the confidentiality of parliamentarian's requests can make it difficult for agencies to determine the most pertinent information to provide. Secondly, there is a perception that potentially significant administrative expenses may not be included for some costings. There are strong arguments supporting the confidentiality of the costing process to encourage political parties to be more transparent about policy costs. There is also a strong argument for always including agency administrative expenses (where significant to the implementation of the policy) in all costings.

**3.39** Agencies also suggested some improvements that could be made to the information request process, including better coordination of multiple concurrent requests, consideration of the time allowed for providing information and the opportunity to provide expertise in matters that concern them. These are reasonable suggestions for consideration, and there would be merit in the PBO seeking agencies' formal feedback in relation to the above matters, to inform future information requests and to improve processes for obtaining information.

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94 As provided in Table 1.2.



## 4. Policy Costings

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*This chapter examines the PBO's processes and performance in preparing policy costings outside and during the caretaker period and the quality of the PBO's costings.*

### Introduction

**4.1** A critical component of policy development is the analysis of the costs and benefits of a range of approaches to the policy's design. Costings provide valuable input to the policy development process, as they give an estimate of the financial impact of the proposal in terms of the Government's budgetary position.

**4.2** To assess the policy costings prepared by the PBO (both outside and during the caretaker period), the ANAO examined the:

- demand for PBO costings and its performance in completing them;
- PBO's processes for preparing costings, and compliance with its own administrative procedures; and
- quality of the costings.

The ANAO did not re-perform any PBO, Treasury or Finance costings, but did consider the views of Treasury and Finance in relation to PBO policy costings that were subsequently prepared for the 2014 Budget process.

### The nature of policy costings

**4.3** Requests for the PBO to prepare policy costings can result from a parliamentarian's and political party's decision to develop a new policy proposal. Requests can also be made to update existing policy costings following the release of updated economic data (such as the Budget, or the Mid-year Economic and Fiscal Outlook (MYEFO)), or to determine the financial impact of a specific event (such as an increase in interest rates).

**4.4** There are standardised practices for preparing policy costings but by their nature, costings are sensitive to variables such as assumptions, data quality, and dates of implementation. These variables can mean that considerable professional judgement is necessary to supplement the methodology used, and staff require quantitative skills, policy development knowledge and experience to make these judgements.



**4.5** Factors that can influence the approach taken in preparing a costing include the type of funding that the policy entails. Capped policies (such as a grants program that allocates a fixed amount of funding for a particular purpose), tend to be simpler to cost, as the amount of money allocated is the amount the policy will cost (along with consideration of agency administrative expenses). Policy repeals largely reflect known costs and use similar methodologies. Demand driven policies and interrelated policies (for example a tax rate change, or an uncapped health expenditure program) tend to be considerably more complex to cost, as they often involve a mix of historical data, assumptions and professional judgement to consider how many parties will be affected, how they will respond, and how those factors will be assessed. The following example illustrates a policy costing of medium complexity released in the 2013 caretaker period.

**Example: Millionaires Tax (Australian Greens)**

The policy proposal involved introducing an additional five per cent tax on personal incomes in excess of \$1 million, with income including reportable fringe benefits.

In costing this policy, the PBO considered timing assumptions about collecting the tax (quarterly for identified millionaires, but annually for one-off millionaires), and departmental expenses (the Australian Taxation Office would need additional administrative resources). The PBO also considered the behaviour of affected individuals, using data from the United Kingdom about the introduction of a similar increase in income tax. This led to the PBO assuming that some individuals would reduce their declarable income below \$1 million, and some would bring forward their declaration of income prior to the tax's introduction. Both scenarios reduced the amount of tax collected.

The PBO estimated the effect of this policy using a 16 per cent sample of de-identified taxpayer data supplied by the Australian Taxation Office. This enabled the application of the \$1 million income definition to an actual sample of taxpayer data. Results were then extrapolated to the total number of individuals earning in excess of this amount.

The PBO's costing projected an increase in the Government's underlying cash and fiscal balances by \$526.9 million over the 2013–14 forward estimates period, comprising \$530 million in additional revenue (less \$3.1 million in agency expenses). The costing was considered to be of medium reliability, as, while the costing was based on actual taxpayer data, it also contained a number of assumptions about the behavioural effects of the policy.

Source: PBO, *Post-Election Report*, 18 October 2013, pp. 260–262.

## Legislative arrangements for the PBO to conduct policy costings

4.6 In relation to policy costings, the PS Act requires the PBO to:

- align its approach to policy costing requests during the caretaker period with that of Treasury and Finance under the Charter of Budget Honesty; and
- follow the approaches and costing conventions in the guidelines issued under the Charter of Budget Honesty, if the Parliamentary Budget Officer has not issued his/her own written principles. At the time of conducting this audit, the Parliamentary Budget Officer had not issued his own costing principles, so the requirements of the Charter of Budget Honesty applied to all of the PBO's costings (both outside and during the caretaker period).

4.7 The Secretaries of Treasury and Finance have jointly issued written guidelines recommending approaches for the preparation of costings. The *Charter of Budget Honesty Policy Guidelines* (Charter Guidelines) were updated in 2012 following the establishment of the PBO, and specify the obligations of these Secretaries and the Parliamentary Budget Officer (provided below).

### Costing obligations under the Charter Guidelines

The Secretaries will aim to be clear, transparent and timely in costing policies. In undertaking policy costings, the Secretaries will:

- endeavour to provide their best estimate of the full cost of a policy (including departmental expenses where requested and feasible);
- endeavour to complete the costing in the shortest time possible, generally within five business days (noting that where additional information is required, the five days will exclude the time taken to obtain the additional information);
- cost policies in a manner consistent with methodologies used to prepare the Budget statements and fiscal reports required under the Charter of Budget Honesty;
- cost Government, Opposition and minority party policies in a consistent manner;
- only provide financial costings, and not provide policy advice or assessments of the economic impact of policies; and
- produce a self-contained written report on the costing that fully justifies the published costings.

Source: Commonwealth of Australia, *Charter Guidelines*, 2012, p. 12.

4.8 The Charter Guidelines also outline potential methodology, costing conventions and proforma for requesting a costing, as well as for publicly

releasing an election costing. An important point of consideration for the Joint Select Committee was the consistency of PBO, Treasury and Finance costings. Applying standardised practices such as the Charter of Budget Honesty and the Charter Guidelines encourages a consistent approach when analysing or comparing costings. This is particularly applicable during the caretaker period, where policy costings are publicly released by the PBO on its website, and by Treasury and Finance on <http://www.electioncostings.gov.au/>. Both websites are linked to each other.

## Policy costings outside and during the caretaker period

**4.9** There are differences in who can ask for a policy costing from the PBO, Treasury or Finance outside or during the caretaker period, and whether or not the costing can be prepared on a confidential basis. These differences are summarised in Table 4.1.

**Table 4.1: Who can request and conduct costings**

Parliamentarian	Requested of Treasury or Finance	Requested of the PBO	Costings may be kept confidential
Costing requests submitted outside the caretaker period			
Party in government	Yes	Yes	Yes
Opposition and minor parties	No <sup>(1)</sup>	Yes	Yes
Independents	No <sup>(1)</sup>	Yes	Yes
Private members	No	Yes	Yes
Costing requests submitted during the caretaker period <sup>(2)</sup>			
Party in government <sup>(3)</sup>	Yes <sup>(4)</sup>	Yes <sup>(4)</sup>	No
Party with < five members	No	Yes	No
Party with ≥ five members <sup>(3)</sup>	Yes <sup>(4)</sup>	Yes <sup>(4)</sup>	No
Independents	No	Yes	No
Individual party members	No	No	-

Source: ANAO analysis of the PS Act, Charter Guidelines and PBO Guidance 03/2013, *Election Policy Costings in the Caretaker Period for the 2013 General Election*.

Note 1: Exceptions have existed, such as an agreement between the former Government, the Australian Greens and three independent Members, that allowed access to government departments for policy costings and analysis, with prior approval from the Prime Minister.

Note 2: For the purpose of costing policies, the caretaker period ends on the Friday before polling day.

Note 3: Known as a designated parliamentary party. The PBO is required to publish in the Post-Election Report those costings considered to have a material impact on the Budget, regardless of whether the policies were submitted for costing outside or during the caretaker period.

Note 4: Duplicate costings cannot be requested from both the PBO and Treasury/Finance.

**4.10** There are also differences in the policy costing roles of the PBO, Treasury and Finance, applying throughout the election cycle and during the caretaker period:

- Treasury costs new taxation policy proposals, while Finance costs new expense, capital and non-taxation revenue proposals. The PBO costs all of these types of proposals; and
- Treasury and Finance provide advice to the Government outside the caretaker period, including proposing and analysing policy options. In comparison, the PBO advised that it does not provide policy advice.

## **Costings conducted by the Parliamentary Budget Office**

### **The PBO's performance**

**4.11** The PBO monitors and reports the number of requests from parliamentarians (costings and information requests) and its responsiveness, in its Annual Report and to the Senate Finance and Public Administration Legislation Committee. Since the PBO began accepting costing requests in September 2012 to 30 April 2014, there have been 1101 requests for costings or information made by parliamentarians and the PBO has completed 969 requests (103 of these requests were withdrawn, leaving 29 requests outstanding at the time of preparing this report). Table 4.2 reports PBO data on the number of requests received (both outside and during the caretaker period), and the time taken to complete them for this period. The PBO advised that from May 2014, it will report the total number of policy options requested to be costed, as many individual requests contain multiple options to be costed.

**4.12** The PBO's average response times have improved over time, taking an average of 54.6 business days in September 2012 and an average of 15 business days in the last quarter of 2013. The PBO's 2012–13 Annual Report explains that improvements in responsiveness were due to the progressive implementation of processes and procedures, developing models and modelling capability, refining processes for obtaining data from agencies, and increased staff resources becoming available. It is important to note that the agencies' response times can also influence the PBO's responsiveness, along with potential delays if further information is required from parliamentarians about the request.

**Table 4.2: Number of requests from parliamentarians and the PBO's responsiveness, September 2012 to April 2014**

Date	Requests received	Withdrawn or lapsed at election	Requests completed	Average business days to completion	Requests outstanding
2012 Sep	32	-	32	54.6	-
2012 Qtr 4	165	6	159	43.4	-
2013 Qtr 1	75	3	72	25.0	-
2013 Qtr 2	351	67	284	24.0	-
2013 Qtr 3	395	26	369	7.2	-
2013 Qtr 4	2	1	1	15.0	-
2014 Qtr 1	20	-	11	_( <sup>1</sup> )	9
2014 April	61	-	41	_( <sup>1</sup> )	20
<b>Total</b>	<b>1101</b>	<b>103</b>	<b>969</b>	<b>-</b>	<b>29</b>

Source: PBO data.

Note 1: This average has not been calculated as requests were outstanding at this time.

**4.13** The ANAO consulted representatives of three parliamentary parties and one independent parliamentarian, and five 'peer group' stakeholders who were, by nature of their employment, familiar with the work of the PBO.<sup>95</sup> Two parties referred to delays in responding to costing requests in the early stages of the PBO's operation. Both of these stakeholders attributed the delay to the PBO's difficulty in obtaining information from agencies, and noted that the PBO's responsiveness had improved over time. Both parties also reported fast turnaround as particularly important during the caretaker period; with one saying that it would not want PBO costings to take longer than they did; and the other that an after-hour contact for the PBO would have assisted with the party's heavy election workload.

## The PBO's workload

**4.14** During a Senate Finance and Public Administration Legislation Committee hearing in February 2013, the Parliamentary Budget Officer reported that he was encouraging parliamentarians to submit any policy costing requests well in advance of the caretaker period. This was because the PBO could more readily update the costing with the latest budget report (the

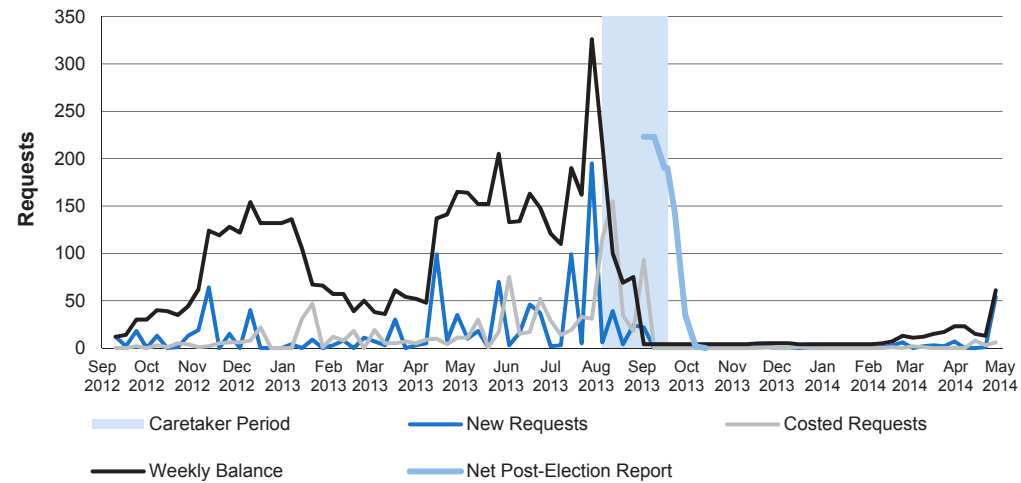
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95 Appendix 3 contains a list of all stakeholders consulted by the ANAO.

Pre-election Economic and Fiscal Outlook) during the busy caretaker period if the PBO had costed that policy previously, as it would likely have the models and the data needed. Along with the staffing measures for surge capacity, the PBO was anticipating and was planning to manage the increased workload.

**4.15** To assess the PBO’s request workload over time, the ANAO analysed the PBO’s request records for 10 September 2012 to 2 May 2014. Figure 4.1 represents the weekly requests on hand, calculated by the number of requests received minus the number completed and withdrawn for this period.

**Figure 4.1: Weekly requests on hand, 10 September 2012 to 2 May 2014**



Source: ANAO analysis of PBO data.

Note: The Post-Election Report records are not technically requests, but are representative of workload for the PBO. No start date is recorded, so a notional start date has been used (the election on 7 September 2013).

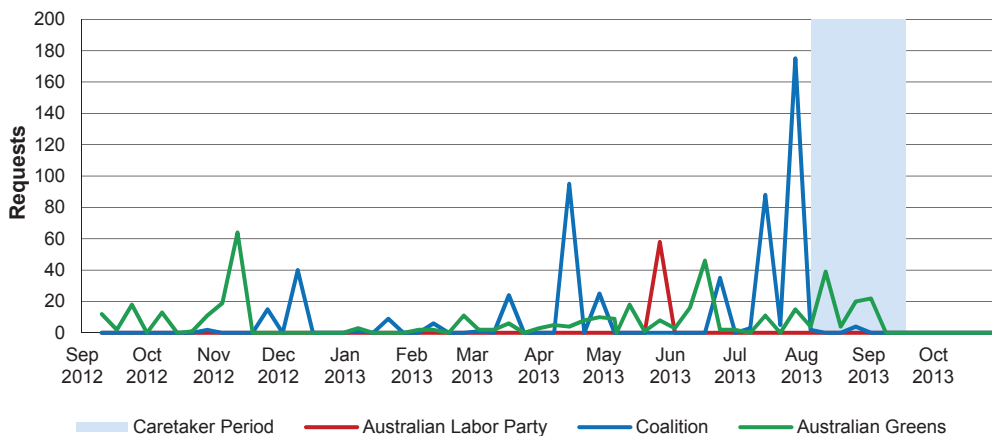
**4.16** This analysis shows a peak of 326 requests outstanding prior to the caretaker period (80 of these were withdrawn and are discussed in paragraph 4.18). In addition, during the caretaker period the PBO received 85 requests for costings, and all were completed before polling day (7 September 2013), in an average response time of 2.2 business days. During the post-election reporting period the PBO completed 283 costings (85 caretaker costings and 198 other publicly announced costings). Of these 283 costings, 141 were for capped amounts, 124 were re-costings of previously costed policies (requiring updating for parameter changes and in some cases policy variations), and 18 were new costings. Many of the requests for capped amount costings were updates to previous PBO costings, and this enabled the PBO to more rapidly complete them. If the PBO had been faced with a

significant number of new costing requests during the caretaker period, for which it had no costing models or data, the same outcome would have been very challenging, if not impossible, to achieve.

## Levelling the playing field

**4.17** Among other things, the establishment of the PBO was expected to level the playing field for all parliamentarians by providing access to independent policy costings and support to scrutinise the budget. To assess the use of the PBO's services, the ANAO analysed the number of requests by category of parliamentarian from September 2012 to the end of the caretaker period in October 2013. The parliamentary parties requests are illustrated in Figure 4.2.

**Figure 4.2: Requests by parliamentary party, September 2012 to October 2013**



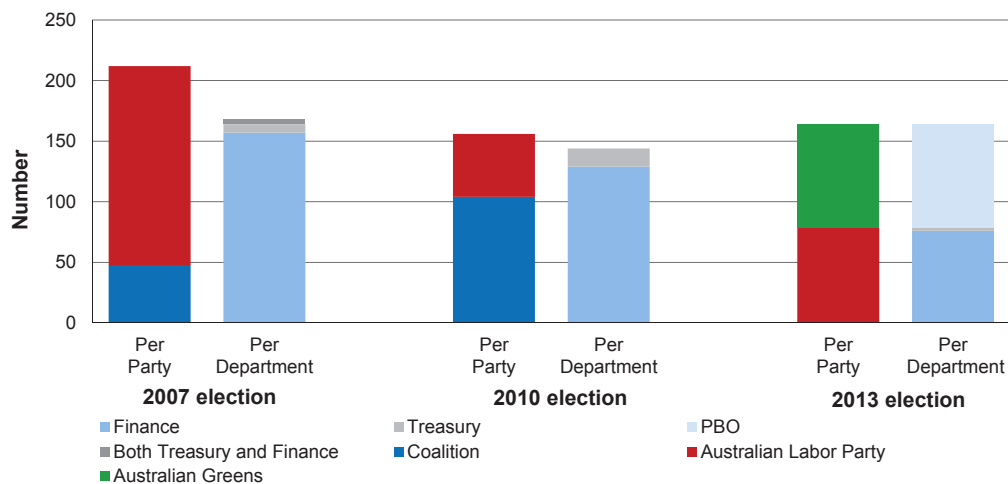
Source: ANAO analysis of PBO data.

**4.18** Figure 4.2 shows that there was a broad uptake of the PBO's services by the Coalition and the Australian Greens in the lead up to the election (500 and 404 requests respectively). There were also 12 requests made by individual parliamentarians in this period. Of the 80 withdrawn requests, 58 were made by the Australian Labor Party, and were not completed by the PBO as further information was required from the party and this was not received before the end of the caretaker period (when the costings were taken to have been withdrawn).

**4.19** All of the parliamentary stakeholders and four of the five peer group members consulted by the ANAO reported that the PBO had helped to level the playing field across the Parliament. This was attributed to previously unavailable costing and information services being provided to non-government parliamentarians and parties. One party representative also reported that the PBO costing process ensures the Opposition is now held to a higher standard. However, while acknowledging that the PBO has gone a long way to levelling the playing field, other representatives noted that as the government of the day has access to the public service, a totally level playing field may never be possible and that there is an inherent privilege of being in government.

**4.20** To assess changes in the caretaker costing workload between elections, the ANAO analysed the number of caretaker costings prepared by Treasury and Finance for the 2007 and 2010 elections and the PBO, Treasury and Finance for the 2013 election. The number of caretaker costings requested by different parliamentary parties was also assessed, and both are shown in Figure 4.3.

**Figure 4.3: Caretaker costing requests per parliamentary party and costings completed per department, 2007, 2010 and 2013**



Source: ANAO analysis of data from the <http://www.electioncostings.gov.au/> website for 2007, 2010 and 2013 and the PBO's website for 2013.

Note: There were also 43 costing requests made in 2007 and 12 in 2010 that were not completed, as they were submitted too late within the timeframe for Treasury and Finance to prepare.

**4.21** Figure 4.3 shows that the total number of costings prepared during the caretaker periods for the past three elections has remained fairly similar, but the distribution of workload, and its source, changed with the advent of the



PBO. The comparison of workload between departments that prepared caretaker period costings needs to be made with some caution, as prior to the caretaker period the Government may seek costings and advice from Treasury and Finance at any time. In addition, this does not reflect the total costing workload of the PBO at this time, as the PBO had 326 requests outstanding prior to the caretaker period (discussed in paragraph 4.16) along with 85 caretaker costings during the caretaker period. Notwithstanding this, the inclusion of the PBO in providing caretaker costings changed the balance of departmental workloads in 2013. Also in relation to levelling the playing field, 2013 was the first time that a minor party (the Australian Greens) was included in the caretaker costing process.

**4.22** Figure 4.3 also highlights that no Coalition costing requests were made during the caretaker period for the 2013 election. The Charter of Budget Honesty specifies that requests for policy costings made before polling day during the caretaker period for a general election must be made public as soon as possible.<sup>96</sup> In 2013, the Government's Economic Statement was released on 2 August 2013, two days before the start of the caretaker period (on 5 August 2013). As the Coalition's policies had previously been costed by the PBO in the lead up to the election, the Coalition was able to resubmit 161 costings to be updated using the new economic statement in this two day period. As these requests were not considered to be caretaker costings, the public release provision of the PS Act and the Charter of Budget Honesty did not apply, and such an approach was consistent with the provisions of both of these acts.

**4.23** In September 2012, the PBO sought advice from the Australian Government Solicitor about what the PS Act required in this circumstance. The advice made references to the lack of clarity in the PS Act in relation to how requests made outside the caretaker period must be treated by the PBO once the caretaker period commenced. The Australian Government Solicitor advised that there was a reasonable argument where a request for a confidential policy costing is made before the caretaker period commences, and the costing is not completed prior to that period, then the PBO could continue to prepare the costing confidentially before the general election was held.

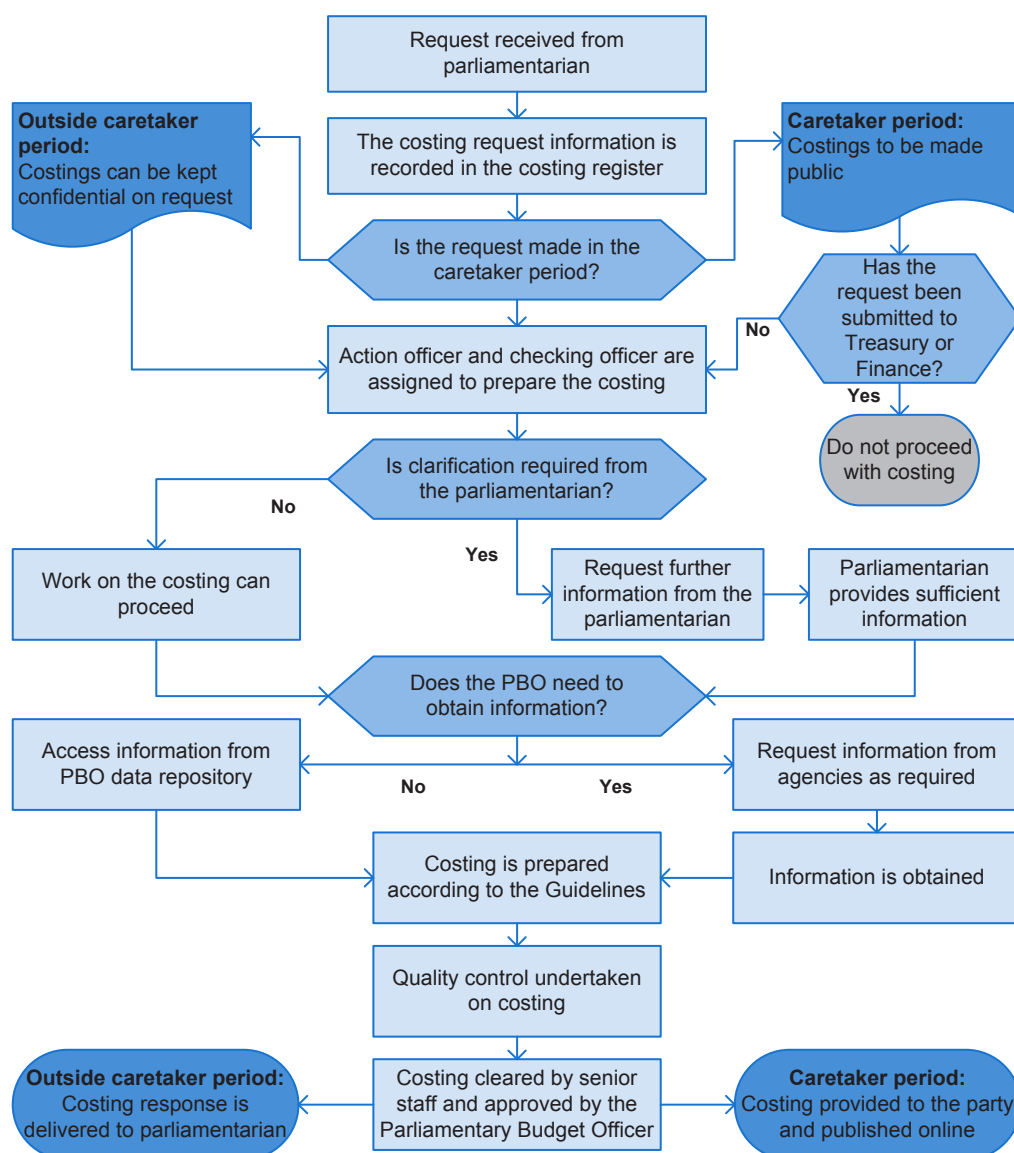
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96 Clause 31(1) of the *Charter of Budget Honesty Act 1998*.

**4.24** In the event, the Coalition released the costing details of 147 election policies on 5 September 2013, two days prior to polling day and after the election advertising blackout was in operation. Two stakeholders raised with the ANAO the matter of the late release of policy costings by the Coalition during the 2013 caretaker period. In their view, the late release of the Coalition's costings reduced the transparency of all political parties' election platforms. However, all five peer group members held that there would always be an element of 'gamesmanship' in election costing processes, such as parties seeking to cost each other's policies, and parties choosing to time the release of costings for best political effect. Notwithstanding these views, it was also noted that the 2013 election period saw political parties' policy platforms more completely costed than ever before.

## **The Parliamentary Budget Office's costing process**

**4.25** Policy costings are the responsibility of the PBO's Budget Analysis Division, although staff from the Fiscal Policy Analysis Division and contractors assisted during the election period. The PBO's Operations Manual contains detailed administrative and technical instructions for staff on the processes to be followed in conducting policy costings, both outside and during the caretaker period. This includes an explanation of the PBO's policy costing role; procedures for requesting information from agencies; timelines for the completion of costings; costing methodologies; confidentiality; and record keeping. Figure 4.4 illustrates the PBO's policy costing process.

**Figure 4.4: The PBO's process for preparing policy costings**

Source: ANAO analysis of PBO Operations Manual.

**4.26** The ANAO reviewed the PBO's Operations Manual to compare its procedures for costing policies with the relevant sections of the Charter Guidelines. The Operations Manual appropriately aligned with the Charter Guidelines, and replicated items such as proformas for requesting costings and

costing conventions.<sup>97</sup> The reliability ratings, used as an assessment of the risk that the actual costs will differ from those calculated, are also the same as those used by Treasury in the 2012 Tax Expenditures Statement and are based on the quality of the data sources and the predictability of the behaviour of the individuals or bodies to which the policy will apply.<sup>98</sup>

**4.27** The receipt and progress of costing requests is recorded in the PBO's Costing Register, a spreadsheet that also generates reports for the PBO Executive. The ANAO's examination of the PBO's Costing Register<sup>99</sup> identified 43 data fields, with not all fields consistently completed. There was also no differentiation made between a costing request or an information request from a parliamentarian (that is, a request other than a costing request). The register was necessarily work in progress for the PBO, and new fields and reports were added as different considerations of the workload arose over time. The PBO advised the ANAO that 11 fields were consistently populated (those essential for tracking and performance reporting). The PBO started a new simplified spreadsheet register in October 2013, which does differentiate between costing requests and information requests from parliamentarians. As discussed in Chapter 3, the PBO is also developing a purpose-built registration system that will replace the information request register and the costing register, and this is expected to be operational in early 2015.

## **ANAO review of PBO compliance with costing procedures**

**4.28** To assess whether the PBO's costings and information requests complied with its internal procedures, the ANAO reviewed an indicative sample of 240 records from the PBO's costing register.<sup>100</sup> The sample represented 18 per cent of the 1320 records from 12 September 2012 to 15 October 2013, and included work prepared outside and during the caretaker period, the Post-Election Report, as well as work prepared for all clients of the PBO, as shown in Table 4.3.

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97 The Charter Guidelines contain standard conventions for the preparation of fiscal costings, such as: costings will be on a current price basis; economic data and forecasts will be consistent with the most recent reports released under the Charter of Budget Honesty; costings will be on a June financial year basis, for the current year and the following three financial years; and assumptions used in costings will be based on the best professional judgment of the Secretaries of Treasury or Finance, or the Parliamentary Budget Officer.

98 At the time of preparing this report, the PBO was reviewing its reliability ratings.

99 Dated from September 2012 to October 2013.

100 Of the 240 records, 24 were information requests rather than costings.

**Table 4.3: ANAO sample**

Record type	Number of records	Number tested	Percentage tested
Outside caretaker	933	162	17
Caretaker	164	32	20
Post-Election Report	223	46	21
<b>Total</b>	<b>1320</b>	<b>240</b>	<b>18</b>

Source: ANAO extraction of sample records from the PBO's costing register.

**4.29** The costings were assessed against key procedural criteria set out in the PBO's Operations Manual. A summary of the ANAO's results is provided in Table 4.4.

**Table 4.4: Results of ANAO review of the PBO's request records**

Key procedural criteria	Met criteria	Failed criteria	Not applicable <sup>(1)</sup>	Met criteria (%) <sup>(2)</sup>
Sign-off checklist appropriately signed	142	15	83	90
Sign-off checklist saved	144	13	83	92
Reliability rating included in costing response	150	1	89	99
Parliamentary Budget Officer's approval saved	183	0	57	100
Parliamentarian's request template saved	193	0	47	100
Costing minute saved	178	0	62	100
PBO response letter saved	164	0	76	100
Assumptions, data sources and methodology documented and saved	164	0	76	100
Caretaker period only				
Parliamentarian's covering letter saved	21	0	219	100
Confirmation that costing was not a duplicate with Treasury/Finance	19	0	221	100

Source: ANAO review of PBO request records.

Note 1: Not applicable can apply in circumstances such as requests being withdrawn, a costing step not applying to an information request or a Post-Election Report costing, or a template not being in use at that time (some early work occurred before the sign-off checklist was developed).

Note 2: The not applicable records were excluded from the percentage calculation for 'met criteria'.

**4.30** Results from the ANAO's examination found general compliance with the PBO's established procedures for preparing individual costings and information responses. Requests and responses were found in all cases. Importantly, the assumptions, data and methodology used in preparing

responses were also always documented. There is however scope for the PBO to improve its compliance with internal procedures, particularly in relation to record keeping. For example, there were documents that were saved, but not on that request's file (most often for early requests and re-costings or costings that were part of a larger package of policies). There were also 17 documents not on the system, that the PBO subsequently electronically saved after the ANAO identified that they were not present.

**4.31** The PBO advised the ANAO that it relies on the expertise of its staff to navigate its records management system, and its staff should be able to locate relevant documents if needed. In particular, all staff receive training in the records management system and the Operations Manual contains guidance on filing conventions and processes. However, the lack of ready access to complete documentation relating to a particular costing or information request in that record's electronic file, creates the risk of loss of continuity of knowledge as costings are revisited or similar costings are prepared.

## **Advice to parliamentarians**

**4.32** Treasury and Finance provide policy advice to government outside of the caretaker period, including proposing and analysing policy options. In contrast, the PBO advised that it does not provide policy advice because its mandate is to provide independent and non-partisan analysis, and providing policy advice could bring the PBO's impartiality into question. This position is consistent with the costing obligations under the Charter Guidelines (see paragraph 4.7)

**4.33** The PBO's practice has been to prepare costings on the basis of the parameters provided by the requestor, and not to provide advice and feedback on the merits, or feasibility, of the policy or its parameters. The PBO advised that while policy parameters are taken as specified by the requestor, the PBO does make independent assumptions on which to base the costing if required, such as the behavioural responses expected from a policy change. The PBO also advised that the reasons for adoption of the assumptions are detailed in the formal costing minute provided to the requesting parliamentarian. In practice, where some caution has been required, the PBO has added a caveat such as in the case of costing a major savings initiative (the Coalition's election policy *Reduce Public Service headcount by 12,000 through natural attrition*), the PBO included the caveat:

A tight constraint on both the engagement of new ongoing staff and re-engagement of non-ongoing staff will be required for this policy to be implemented through natural attrition without recourse to additional redundancy payments.<sup>101</sup>

## Quality of the Parliamentary Budget Office costings

**4.34** General acceptance of the quality of the PBO's work is paramount in it gaining the trust of the Parliament as a valued source of budget and fiscal policy analysis.<sup>102</sup> To assess the quality of the PBO's policy costings, the ANAO examined the PBO's quality control process; compared election costings prepared for the 2007, 2010 and 2013 elections with relevant budget documents, and sought views from stakeholders who had used the PBO's costing services.

### PBO's quality control process

**4.35** The PBO has documented its quality control process in the PBO Operations Manual, and it involves an assigned 'checking officer' for each costing: questioning the costing methodology for conformance to the costing guidelines; verifying that data sources are relevant and up to date; checking the reasonableness and logic of assumptions; and proof reading costing documentation. The PBO advised the ANAO that the sign-off checklist and the version history of costing minutes are the cornerstones of this process. The ANAO confirmed that PBO executive staff also appropriately review costings prior to dissemination for accuracy and consistency, and their approval is recorded on the costing's sign-off checklist.

**4.36** While the ANAO found evidence of quality control for all applicable records, documentation supporting the quality control process could be improved. The results of the ANAO's examination of this aspect of the PBO's costing process are provided in Table 4.5.

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101 PBO, *Post-election report of election commitments—2013 general election*, Commonwealth of Australia, 18 October 2013, p. 198.

102 As discussed in paragraph 2.6, this was one of two key priorities in the PBO's first annual work plan.

**Table 4.5: Results of ANAO review of quality control**

Quality control rating	Met criteria	Percentage <sup>(1)</sup>
<b>Rating 1:</b> versions of costing minute and/or spreadsheet created by the costing officer.	38	18
<b>Rating 2:</b> versions of costing minute and/or spreadsheet, and a version created by any senior officer.	102	48
<b>Rating 3:</b> versions of costing minute and/or spreadsheet, and commentary from a senior officer detailing their considerations with respect to the draft costing.	72	34
Not applicable <sup>(2)</sup>	28	-
<b>Total</b>	<b>240</b>	<b>100</b>

Source: ANAO review of PBO request records.

Note 1: The not applicable records were excluded from the percentage calculation.

Note 2: Not applicable was recorded for requests that were withdrawn before finalisation, and for Post-Election Report costings where costing minutes were not required.

**4.37** Only 34 per cent of the records examined by the ANAO included direct evidence of the quality control reviewer's comments and considerations on the draft costing (such as through track changes, manager's emails, or file notes of advice given). The PBO advised that its focus has been on recording completion of the process, and who was responsible at each stage, rather than recording the reasons for any changes the the costings. The PBO also advised that the lack of comments could also reflect that a costing was unchanged throughout the checking and approval process. As part of its 'After Action Review' in late 2013, the PBO reviewed its quality control processes, and improvements are planned to: reinforce the accountability of the action and checking officers in ensuring the costing is correct; develop training modules for staff; and investigate the use of publication software to reduce the editing time for documents. Along with these improvements, the PBO is also considering incorporating a function to relate the version cleared with the user name of the officer that cleared that version. This would assist accountability and transparency.

## Comparison of election costings

**4.38** As discussed, policy costings are estimates prepared at a point in time based on available data and agreed parameters. In the Australian context, policy costings prepared for the successful party at an election (whether by the PBO, Treasury or Finance) will form the new Government's election platform. The policies forming this platform will be re-costed by government agencies during subsequent Budget preparations. The ANAO compared the difference



in amounts costed for election policies of the incoming government with the relevant budget documents for the 2007 and 2010 elections (the 2008 and 2011 budget, respectively). For the 2013 election, the ANAO sought the views of Treasury and Finance in relation to PBO policy costings that were subsequently prepared for the 2014 Budget process.

**4.39** As previously discussed, care needs to be taken in comparing the caretaker costing workload of departments. Similar care is needed in comparing the election commitments for the different years, as changes to costings may occur for a variety of reasons, including changed policy specifications, differences in methodology or changes in parameters such as growth rates. The differences between governments also needs to be considered, as: 2007 was the year that the Australian Labor Party won the election from the Coalition; 2010 was the year of the Australian Labor Party formed a minority Government; and 2013 was the year that the Coalition came into government. These changes had an effect on the final policies that went forward to respective Budgets, and some of their costs. The results of this comparison are provided in Table 4.6.

**Table 4.6: Comparison of election commitment costings data for 2007, 2010 and 2013**

Category	2007	2010	2013
Incoming Government party	Australian Labor Party	Australian Labor Party	Coalition
Number of election commitment costings completed for the incoming Government <sup>(1)</sup> (costings prepared by)	127 (Treasury/Finance)	93 (Treasury/Finance)	179 (PBO)
Number of the incoming Government's costings that were assessed by the ANAO <sup>(2)</sup>	118	86	113 <sup>(3)</sup>
Number of costings with no variance in the subsequent budget papers (percentage)	67 (57%)	60 (70%)	47 (42%)
Number of costings with a variance in the subsequent budget papers (percentage)	51 (43%)	26 (30%)	66 (58%)
Costings with a variance to subsequent Budget papers			
Average variance	54%	54%	24%
Range of variance	1% to 536%	1% to 307%	2% to 261%
Reasons for variance			
Policy change	47%	42%	42%
Other reason <sup>(4)</sup>	53%	58%	58%

Source: ANAO analysis of: [www.electioncostings.gov.au](http://www.electioncostings.gov.au) for 2007, 2010, and 2013; relevant MYEFO and Budget papers; and advice from Treasury and Finance relating to the 2014 Budget.

Note 1: The 2007 and 2010 costings were requested and prepared during caretaker periods. In 2013, the Coalition did not submit any policies for costing during the caretaker period in 2013. The 179 costings for the Coalition were included in the PBO's Post-Election Report.

Note 2: Not all of the election commitments could be identified in the subsequent budget papers, for reasons such as the commitments not becoming policy, or policy or portfolio changes making the policy difficult to identify.

Note 3: The Coalition's 2013 Paid Parental Leave Scheme (and the associated company tax rate changes) was not assessed, as provision for this policy was included in the Contingency Reserve of the 2014–15 Budget. Australian Government, *Budget Strategy and Outlook: Budget Paper No. 1, Statement 6: Expenses and Net Capital Investment: 2014–15*, 2014, p. 6-47.

Note 4: Other reasons for variance in costs includes differing assumptions, costing methodologies and modelling approaches, the use of more up-to-date data, departmental expenses or differences that were not possible for the ANAO to review using publically available documents.

**4.40** For 2007 and 2010, the average variance between election commitments and the cost given in the corresponding Budget papers was within the same order of magnitude (54 per cent respectively). For the 2013 policies, this variance is lower, at 24 per cent. While a smaller proportion of policy costings varied in 2007 and 2010 (43 per cent and 30 per cent respectively) compared to

the 2013 figure of 58 per cent, the range of the variances was lower in 2013 (2 to 261 per cent). These figures would suggest that policies costed during the 2013 election period were more comparable with Budget costings than the previous election period costings. The greater comparability may have been influenced by political parties' access to the PBO in the year leading up to the election, allowing for greater refinement of policies.

**4.41** Of the 2013 election commitments, Treasury and Finance provided advice about the costings that had major variances<sup>103</sup>, and the reasons for this variability. A summary of the primary reasons (as differences in some costings were attributed to more than one factor) for difference in the 26 PBO election costings is provided in Table 4.7.

**Table 4.7: Reasons attributed to 2013 election costing variances**

Reasons attributed to variance	Number of occurrences
Policy change or change in policy specifications	11
Different costing methodology or modelling approach used	6
Different assumptions were used for the effects of the policy	6
Unknown, as the PBO did not publish detailed assumptions	2
More up to date data was available for the MYEFO costing	1
Agency administrative expenses	-
<b>Total</b>	<b>26</b>

Source: ANAO analysis of advice provided by Treasury and Finance.

**4.42** In the ANAO's assessment, the explanation for the variance is reasonable for these costings, and appears to be a product of the nature of policy costings—estimates that are subject to change. On this topic, stakeholder's views about the variability of costing results included a peer group member stressing that costings are subject to many variables, and that differences in assumptions and exchange rates for example, will cause costings to change. Representatives from a parliamentary party concurred with this view, and noted that previous costings prepared by the PBO, Treasury and Finance are all subject to the same variables.

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<sup>103</sup> Of the 66 costings with a variance, 40 had a variance less than six per cent or a dollar value less than \$5 million. The ANAO asked Treasury and Finance to comment on the remaining 26 costings.

## Stakeholders' views about the PBO's service

**4.43** Of the parliamentary and peer group stakeholders who were consulted by the ANAO, eight reported that the PBO produced work of high quality, with:

- one party reporting that its capacity to produce costed policy had been greatly enhanced;
- three peer group stakeholders reporting that the PBO had helped to depoliticise the election costing process, with one advising that there was a lot more authority about the costing figures released than previously;
- the peer group unanimous in stating that Australia had been in need of an institution like the PBO; and
- one party reporting that there had been examples where the party had disagreed with some PBO costings, but that the PBO had always been professional in meeting and in talking through these issues. On some occasions the party then agreed with the PBO's approach, and several times the PBO had revised a costing that had been prepared based on a misunderstanding of the specifics of the policy proposal.

**4.44** The ANAO also asked these stakeholders for views about the PBO's stakeholder management, which all four parliamentary representatives reported was effective. The three party representatives reported that the PBO conducted itself in a professional cooperative manner with one stating that 'the party room is impressed with the PBO's professionalism and independence.'

**4.45** Stakeholders also reported that the opportunity to confidentially request policy costings and the flexibility to have them re-costed multiple times prior to an election period contributes to robust policy development. One parliamentary party reported that the PBO provided useful input into the policy development process and that the iterative process for finalising costing requests was beneficial and ensured that the costing product met its needs. In addition, one peer group member commented that along with the costing, the PBO provided useful commentary on what the policy involves, perhaps including things that the party had not considered.<sup>104</sup>

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<sup>104</sup> As discussed in paragraph 4.32, the PBO does not provide policy advice. The PBO can however meet with requestors to clarify aspects of the policy, and due to time constraints during the caretaker period, the PBO advised the ANAO that it had greater flexibility outside the caretaker period for such meetings.

## Conclusion

**4.46** The PBO has made a significant contribution to levelling the playing field for all parliamentarians, as for the first time all have access to independent policy costing and budget expertise during all periods of the Parliamentary cycle. Prior to the establishment of the PBO, only the Government had access to costing services (through Commonwealth departments) prior to the caretaker period before a federal election. Changes to the Charter of Budget Honesty now also allow access by the minor parties to costing services during the caretaker period, as previously only the government and the opposition could access the services.

**4.47** Parliamentary and peer group stakeholders were generally complimentary of the PBO's work, and agreed that: the PBO provides an invaluable costing service; the costings were of high quality; the PBO was professional to deal with; and the process gave greater integrity to policy development. The PBO advised that it does not provide policy advice and its practice has been to provide costings on the basis of the parameters of the requestor. Where the PBO has departed from this practice, such as using a different assumption to that of the requestor, the formal costing minute contains details of the reasons.

**4.48** While the ANAO's examination of 240 costing files found general adherence to internal procedures, the PBO's compliance with these procedures, and documentation supporting the PBO's quality control process, could be improved. The PBO has advised that it intends incorporating quality control improvements into its proposed workflow management system. The new system is expected to be operating by early 2015.

**4.49** The ANAO compared election commitment costings for the 2007, 2010 and 2013 Federal elections. While the frequency of variance was higher in 2013 than previously, the average variance and range of variance between election commitments and the cost given in the corresponding Budget papers was lower for 2013. Of the costings prepared by the PBO in 2013 for the incoming government, the explanations for the costings with the greatest variances was reasonable, and primarily involved policy changes, different methodologies and assumptions.

## 5. The Post-Election Report and Other Functions

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*This chapter examines the PBO's approach to preparing the Post-Election Report of Election Commitments, the self-initiated research prepared by the agency, and the PBO's lessons learnt after the 2013 election. Stakeholders' views about the PBO's contribution to transparency of fiscal and budgetary frameworks are also discussed.*

### Introduction

**5.1** On its establishment, the PBO was expected to improve the transparency of Australia's fiscal and budgetary frameworks and help level the playing field by giving all parliamentarians access to independent policy costings and budgetary advice. Prior to the 2013 election, the PBO's two policy costing functions (prepare policy costings outside the caretaker period, and during the caretaker period) had been the most time consuming. However, the functions primarily contributing to increased transparency are the last two of the PBO's six functions, to prepare the *Post-Election Report of Election Commitments* (the Post-Election Report), and to conduct self-initiated research on the budget and fiscal policy settings.

**5.2** To assess the PBO's contribution to increased transparency, the ANAO reviewed the PBO's processes for preparing the Post-Election Report and its self-initiated research as well as seeking views on the PBO's contribution to improved transparency. The ANAO also examined the PBO's process to improve its own administration, through the 'After Action Review' conducted after the election period.

### Post-Election Report

**5.3** The PBO is required to prepare a post-election report on the election commitments of designated parliamentary parties within 30 days after the end of the caretaker period for a general election. The report incorporates estimates of the policies taken to an election by designated parliamentary parties, and the total combined impact of those policies on the Budget. The post-election report function was not included in the original PBO legislation but resulted

from a legislative amendment in 2013, and was intended to enhance transparency in fiscal policy debate in Australia.<sup>105</sup>

**5.4** In the Bill's passage through Parliament, Members from the Government and the Opposition advocated for the need to limit the ability of parties to avoid electoral scrutiny of their election commitments. Previously, scrutiny could be avoided by failing to submit—or failing to submit in a timely manner—policies to be costed by Treasury or Finance during the caretaker period. During this debate, the then Parliamentary Secretary to the Prime Minister stated that the amendment would:

... place the role of a post-election audit in the hands of the Parliamentary Budget Office' and that '[it] is an important reassurance to the Australian people, that if a party attempts to circumvent the Charter of Budget Honesty they will be caught in the noose of the Parliamentary Budget Office's post-election audit. It is a guarantee to the Australian people that they should have costed policies put in front of them.'<sup>106</sup>

## **The process for preparing the Post-Election Report**

**5.5** Preparing the 2013 Post-Election Report was the responsibility of the Fiscal Policy Analysis Division, and involved identifying the publicly announced policies of designated parliamentary parties that required costing and the impact those policies would have on the budget. Policies that did not require costing include those that involve no funding, those that would not have a material impact on the Commonwealth budget estimates, and those that were aspirational rather than commitments.

**5.6** A designated parliamentary party is defined as a political party if at least five members were members of Parliament immediately before the caretaker period. For the 2013 election, the designated parliamentary parties were the Australian Labor Party, the Coalition<sup>107</sup> and the Australian Greens.

**5.7** While internal administrative processes for preparing the report are contained in the PBO's Operations Manual, the PS Act sets out the mandated steps and timeframes involved, and these are summarised in Figure 5.1

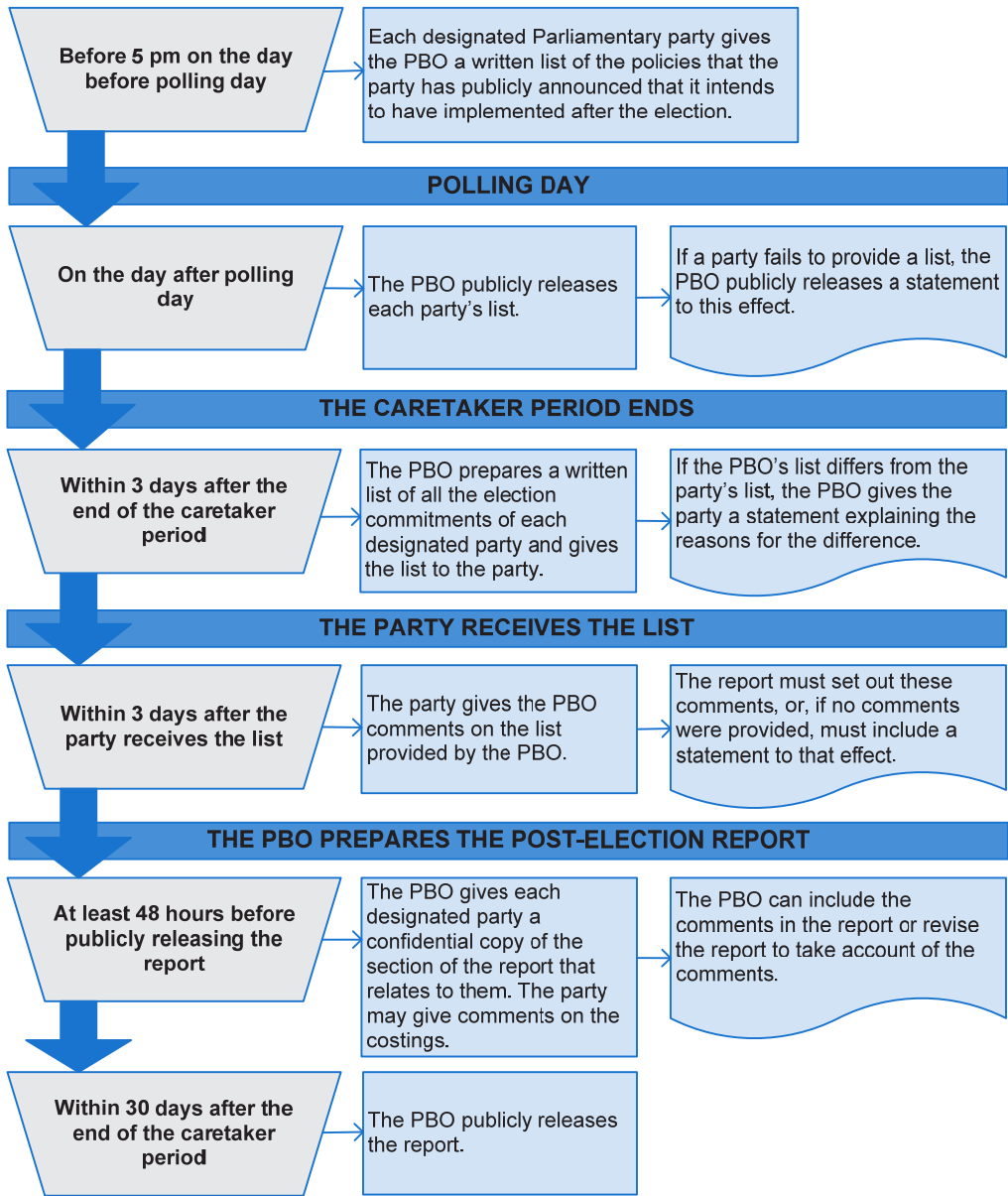
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<sup>105</sup> Commonwealth, *Explanatory Memorandum, Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2013*, paragraph 1.4.

<sup>106</sup> Commonwealth, *Parliamentary Debates*, House of Representatives, 28 May 2013, A Leigh MP, p. 4046.

<sup>107</sup> Pursuant to section 64MA(2) of the PS Act, the Liberal Party of Australia and the National Party of Australia requested to be treated as a single Parliamentary party (the Coalition).

**Figure 5.1: The process for preparing the Post-Election Report**



Source: ANAO interpretation of sections 64MA and 64MC of the PS Act.

**5.8** Work in preparation for the Post-Election Report was undertaken well prior to the 30 day period. In preparing for the election, the PBO began compiling a workbook of publicly announced policies from the designated parties in March 2013, nine months before the latest date the election could be held. The PBO conducted systematic sweeps of interviews, press releases and



social media to populate the workbook, and these announced policies formed the first list of policies for consideration in the Post-Election Report. Preparatory work also included the creation of a 'mock-up' of the report with a view to identifying the key tasks and challenges that would be faced in preparing the report. This preparatory work occurred at a time when the PBO was also under peak costing demand in the caretaker period, and the period immediately prior to the caretaker period. As discussed previously (paragraph 2.27), the PBO had strategies for sharing staff between divisions and employing contractors to assist with this workload peak. The PBO released the Post-Election Report on 18 October 2013, 30 days after the end of the caretaker period.

## **Contents of the report**

**5.9** The Post-Election Report contains costings of all the publicly announced election commitments of each designated Parliamentary party that the PBO considers would have a material impact on the Commonwealth budget estimates for the current financial year and the following three financial years, along with the total combined impact of those election commitments on the budget. In some election years, not all of the publicly announced policies would appear in the report, as the associated financial commitments would not begin until beyond the three year forward estimates period. The PBO advised that this did not eventuate for the 2013 Post-Election Report, as, for example, the proposal to construct a high speed railway on the east coast was included as it had a cost in the forward estimates, and mention was made of the significant budgetary cost beyond the forward estimates years. Where publicly announced policies had significantly different financial impacts beyond the forward estimates, the Parliamentary Budget Officer made a statement in the report about the financial impact of the proposal extending beyond the forward estimates period.

**5.10** As well as costings prepared by the PBO, the Post-Election Report included the caretaker costings prepared by Treasury and Finance, and any other policies that had been announced, but not publicly costed during the caretaker period. Table 5.1 shows the number of costings included in the Post-Election Report, and their origin.

**Table 5.1: Number and type of costings in the Post-Election Report**

PBO costings of caretaker requests	Treasury/Finance costings of caretaker requests	PBO costings of publicly announced policies	Total number of items in the Post-Election Report
85	79	198	<b>434<sup>(1)</sup></b>

Source: ANAO analysis of the Post-Election Report and the PBO Costing Register.

Note 1: The number of costings and the total number of items do not align. This is discussed in paragraph 5.11.

**5.11** The Post-Election Report distinguishes between costings and other items. The PBO reported that the number of items in the Post-Election Report and the number of costings completed do not correspond with each other, as some costings included estimates for a number of election policy line items and some line items were for fixed dollar commitments for which a PBO costing was not required.

**5.12** After the caretaker period, Treasury and Finance provided the PBO with the 79 costings they prepared. The PBO reviewed the costings prepared by Treasury and Finance to determine that the costings were sound and appropriate for inclusion in the report. In compiling the report, the Parliamentary Budget Officer exercised his discretion to prepare new costing documentation for only one of these 79 costings—a Finance costing of the former Government’s *Medical Research Innovation Fund* policy. The reason for this was to illustrate the headline cash balance impact of this election commitment. Finance and the PBO both determined that there would be no financial implications for the underlying cash balance or the fiscal balance over the forward estimates. The PBO, however, did consider that the proposal would have an ongoing impact on the headline cash balance outside the forward estimates period of \$101 million from 2017–18 to 2028–29.

**5.13** Of the 85 costings in the Post-Election Report that had been costed by the PBO as caretaker requests, three were revised for publication.<sup>108</sup> The Post-Election Report costings for two of these policies had variations of 13.9 per cent and 9.8 per cent in the underlying cash balance respectively. In both cases, these changes resulted in greater outlays. The third revised costing—*Safer pathways for refugees*—is discussed in paragraph 3.20. In the first case, the difference was reported to be due to a revision to costing

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108 All three costings were for policies of the Australian Greens: *A Better Paid Parental Leave Scheme*; *Increase Research and Development Investment*; and *Safer pathways for refugees*.

assumptions. The difference in the second case was because an associated commitment reduced the effect on the headline cash balance, and because of timing implications of a related component of the policy. In the third case, the difference was due to an update in costing methodology. The party concerned advised the ANAO that these changes were frustrating, but that the PBO had communicated the reasons for the changes and the party was given the opportunity to discuss the manner in which these costings were reported in the Post-Election Report.

**5.14** A parliamentary stakeholder reported that the production of the Post-Election Report involved considerable work for designated parties in preparing their list of election commitments, reconciling the list with that produced by the PBO, conducting meetings to provide clarification and, prior to the release of the Post-Election Report, providing comments on the PBO's draft report. The PBO noted that these steps were particularly difficult given that the 2013 election resulted in a change of government. This caused difficulty contacting representatives of the outgoing Government as many parliamentary staff took leave, and contact phone numbers and email addresses were redundant soon after the election.

**5.15** The completion of the Post-Election Report was a major achievement, and represents the first time that the cost of all parties' policies taken to a Federal election has been publicly released. Despite this achievement, questions have been raised about the limited attention the report received from the media. One peer group stakeholder reported to the ANAO that there was little publicity given to the Post-Election Report and cited a lack of public interest in such matters after an election. An academic source held that the Post-Election failed to 'make a significant splash in the media' but felt that it may prove a useful reference for politicians and the media in the present parliamentary term.<sup>109</sup> The PBO advised that prior to the report's release there were numerous requests for information from the media, but media interest waned due to the non-controversial nature of the report once released.

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109 Miranda Stewart and Holly Jager, 'The Australian Parliamentary Budget Office: Shedding light on the dark arts of budgeting', (2013) 24 *Public Law Review* 267, p. 286.

## Self-initiated research

**5.16** Research work on the budget and fiscal policy settings is the primary responsibility of the PBO's Fiscal Policy Analysis Division. The PBO makes its research publicly available on the internet, with the intent of helping to improve budget transparency and promote a better understanding of the Budget and fiscal policy.

**5.17** During the first year of the PBO's operation, most of its resources were allocated to responding to requests from parliamentarians. Consequently, the Fiscal Policy Analysis Division only became operational in January 2013. Despite this, the Parliamentary Budget Officer had early discussions about potential research topics. Consideration was given to the views of Parliamentarians, and the 2012–13 PBO work plan encouraged Senators and Members to make suggestions for inclusion in the PBO's 2012–13 and future work programs.

**5.18** Two topics for potential research were discussed internally; work on the underlying structure of the budget, and factors that could affect the sustainability of the budget over the medium to longer term. The structural budget balance research was selected as the first study to be published, as it was felt that this could be completed within the resource constraints of the available staff, data was readily available, and there was a demand from Parliamentarians to update a similar report produced by the Treasury in 2010.<sup>110</sup>

**5.19** Topics for future research were discussed in the PBO's 2013–14 work plan. The work plan gives broad areas of future research (whilst acknowledging the dynamic nature of topic selection) such as: trends in government expenditure and revenue; analysis of the sensitivity of expenditure and revenue estimates; national fiscal trends between the Commonwealth and the States and Territories; examination of the current practice of costing policy proposals and alternative approaches; and best practice in budget reporting. In an address in November 2013, the

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<sup>110</sup> T McDonald, Y H Yan, B Ford, D Stephan, Treasury Economic Roundup Issue 3, *Estimating the structural budget balance of the Australian Government*, 2 October 2010. The paper was written by staff of the Treasury, and has the disclaimer, 'The views in this article are those of the authors and not necessarily those of the Australian Treasury'.

Parliamentary Budget Officer said that, with the election over, he expected the PBO could now devote more resources to the research program.<sup>111</sup>

## **PBO's structural budget balance report**

**5.20** On 22 May 2013, the PBO released the report: *Estimates of the structural budget balance of the Australian Government: 2001–02 to 2016–17*, intended to help explain how underlying budgetary trends and discretionary fiscal policy decisions impact on the Government's fiscal position. Structural budget balance is defined by the PBO as:

... a partial measure of the sustainability of the Budget. It shows the underlying position of the Budget after adjusting the actual budget balance for the impacts of major cyclical and temporary factors. The structural budget balance reflects the impacts of underlying budgetary trends and discretionary fiscal policy decisions.<sup>112</sup>

**5.21** Such estimates can be used, in conjunction with other information such as estimates of the underlying cash balance, to provide broad guidance on whether current fiscal policy settings are sustainable over a longer term. The PBO's report stated that regular estimation of the structural budget balance could help inform the likelihood of governments being able to achieve their long-term fiscal objectives. In recent years, similar estimates have been conducted by the OECD and the IMF, amongst others, but the only Commonwealth body to do so was the Treasury in 2010 and 2013.

**5.22** The PBO's report reviewed estimation methodologies from international literature and applied these to Australia, and presented estimates of the structural budget balance within a range. As with any analysis that involves estimation, professional judgement is necessary. To verify the analysis, the PBO had its research peer reviewed by four external referees that had experience and expertise with the economic and fiscal data and methodologies used to construct structural budget balance estimates.

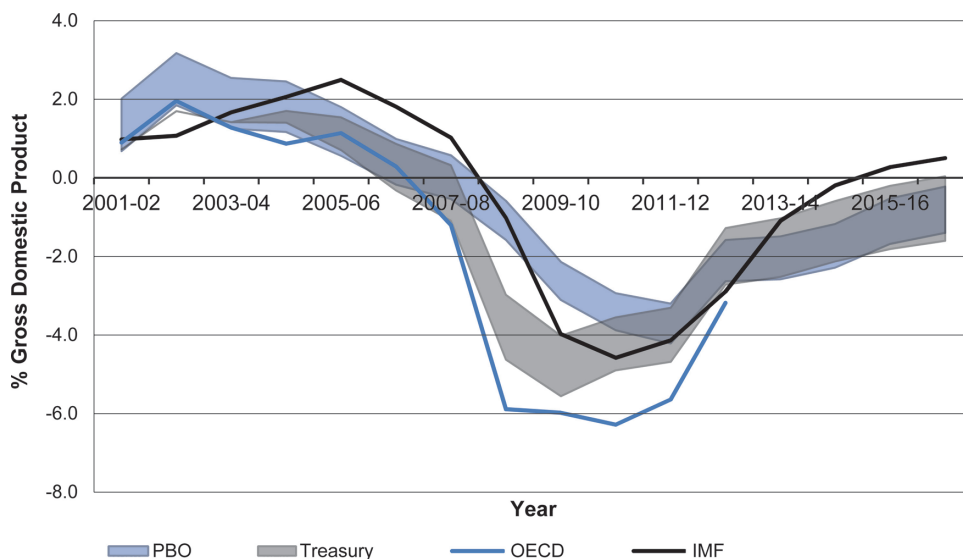
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111 P Bowen, *Maintaining a Focus on fiscal discipline and budget transparency: the role of the Parliamentary Budget Office*, Address to the Carnegie Mellon Forum, Adelaide, 29 November 2013, p. 8.

112 PBO, *Estimates of the structural budget balance of the Australian Government 2001–02 to 2016–17*, May 2013, p. 1.

**5.23** The PBO's report also compares the structural budget balance estimates as calculated by the PBO, the IMF and the OECD (the IMF and OECD's estimates were prepared before the release of the 2013–14 Budget). All show a similar profile, as do two later estimates, produced by Treasury in May 2013<sup>113</sup> and the Grattan Institute in July 2013.<sup>114</sup> The estimates of the PBO, IMF, OECD and Treasury are compared in Figure 5.2.

**Figure 5.2: Comparison of structural budget balance estimates**



Source: ANAO analysis, based on data provided by the PBO.

**5.24** In comparing the PBO's and Treasury's structural budget balance estimates, the PBO included historical and forecast estimates from 2001–02 to 2016–17, whereas the Treasury included 2000–01 to 2021–22 estimates. The PBO is bound by the Charter of Budget Honesty to use Treasury and Finance's economic forecasts and fiscal estimates that, also in accordance with the Charter of Budget Honesty, are for the current year and the following three years. Within this context, it should be noted that by its legislation the PBO is specifically precluded from preparing economic forecasts. The PBO advised the ANAO that its estimates had broadly similar findings to Treasury's

113 N Win, S Duggan, P Garton, S Premetis, B Li, *Estimating the structural budget balance of the Australian Government: an update*, May 2013. The paper was written by staff of the Treasury, and has the disclaimer, 'The views expressed in this article are those of the authors and do not necessarily reflect those of the Australian Government.'

114 J Minifie, Grattan Institute, *The Mining Boom: impacts and prospects*, July 2013, Figure 4.8, p. 40.

estimates. The difference in estimates between 2008–09 and 2009–10 largely reflects the removal of the then Government’s temporary fiscal stimulus (but not the impact on public debt interest) from the PBO’s estimates to gain a better understanding of the underlying trend in the structural budget balance estimates.

**5.25** In October 2012, the PBO published its intent to conduct work on the underlying structure of the budget and the factors that could affect the sustainability of the budget over the medium to longer term in its 2012–13 work plan. At this time no Government estimates of the structural budget balance had been released since 2010. Given Treasury’s past experience with such estimates, the PBO met with Treasury a number of times in 2013 to discuss methodologies. At the same time as the PBO, Treasury was also preparing an estimate of the structural budget balance, and its working paper was released later on the same day as the PBO’s report. Treasury has subsequently published updated estimates in the 2013 Pre-Election Fiscal Outlook, the 2013 MYEFO and the 2014–15 Budget.

**5.26** This almost concurrent release of the PBO’s and Treasury’s analyses of the structural budget balance was viewed by one parliamentary stakeholder consulted by the ANAO as a duplication of work, and minimising such duplication was a topic considered by the Joint Select Committee. Several media articles at the time were also critical of the apparent duplication of work by the PBO and Treasury. The ANAO was advised that the PBO’s research may have been the impetus for Treasury to publicly release its analysis, as Treasury had not prepared similar work since 2010. The Parliamentary Budget Officer has advised that he does not consider there to be a need for the PBO to do further work on this subject as long as the structural budget balance estimates are regularly updated as part of the Budget papers.

## **Expenditure trends analysis**

**5.27** During 2013, the PBO started a project to investigate and report on detailed historical and projected Australian Government expenditure trends to contribute to an understanding of budget and fiscal policy settings. The report was in two parts, and on 10 December 2013, *Australian Government Spending Part 1: Historical trends from 2002–03 to 2012–13* was released. The second part will examine forecast and projected expenditure trends over the 2013–14 Budget forward estimates period. At the time of preparing this audit report the second part had not been released.



**5.28** The historic trends report was intended to provide an insight into the key drivers of government spending over the past decade and their expected impact over the medium term. The project was challenging, as the Government does not currently maintain consistent expenditure data at the function or program level. This created significant data gaps, as there was a lack of readily available consistent time series data on government spending at the program level, which is crucial for analysis of expenditure trends. The PBO expended considerable effort recording data from public documents and liaising with agencies to assist in filling in the data gaps, to ensure consistency of its reporting of functional and program spending over time.

**5.29** The PBO compiled a database using these details on which to base future analysis. In November 2013, the Parliamentary Budget Officer stated his intent, whenever possible, to make publicly available the datasets and models from PBO published work.<sup>115</sup> This is important for the transparency of the PBO's research, but it also provides a basis for others to undertake their own analysis. The PBO has made the expenditure report data available online.

**5.30** In July 2013, the PBO raised the issue of consistent time series data in a meeting with Treasury and Finance, and the Secretary of Finance agreed to work with the PBO after the election. Work commenced in February 2014, and aims to develop an approach that will maintain the consistent time series of expenditure data at the program level. Where possible, the use of existing processes is being considered to minimise resourcing requirements.

**5.31** The two papers examined by the ANAO constitute substantial contributions to public research into Australia's fiscal and budget policy environment and should prove useful reference documents in the longer term. Stakeholders consulted by the ANAO broadly supported this view.

**5.32** On 15 April 2014, the PBO released a third research paper: *Trends in Australian Government receipts: 1982–83 to 2012–13*, intended to examine the current fiscal position of the Australian Government and improve understanding of fiscal sustainability over time. Reflecting its time of release, this paper was not examined for the preparation of this audit report.

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<sup>115</sup> P Bowen, *Maintaining a Focus on Fiscal Discipline and Budget Transparency: the Role of the Parliamentary Budget Office*, Address to the Carnegie Mellon Forum, Adelaide, 29 November 2013, p. 8.



## Increased transparency—fiscal and budget frameworks

**5.33** Increased transparency is seen as a method for enhancing the access of the legislature and the public to budget evaluation, and in turn to increase the accountability of fiscal decision making.<sup>116</sup> Supporting this is the need for effective communication, with both the IMF and the OECD commenting on the importance of IFIs having effective communication strategies in place. The OECD goes on to explain that:

... media coverage of [IFI's] work assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.<sup>117</sup>

**5.34** While the PBO's primary clients are parliamentarians, it was also expected that the PBO would improve the transparency of Australia's fiscal and budgetary frameworks for the public. Further, the Parliamentary Budget Officer regards the PBO's mandate as helping to inform the public debate on the budget and fiscal policy issues.<sup>118</sup>

**5.35** The PBO does not have a documented communications strategy to guide self-publicity of its work, although its current approach includes the Parliamentary Budget Officer providing factual briefing to journalists on request. The PBO also advises (by email and twitter) the media and interested parties of new publications, and posts these on its website. The PBO monitors the media for articles on its research, functions and performance, but has no formal process for analysing the trends in this coverage. In the absence of any such information, the ANAO searched the public domain (Australian mainstream press, transcripts of interviews, political party press releases and the internet) for articles involving the PBO's work.

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116 M Stewart and H Jager, The Australian Parliamentary Budget Office: Shedding light on the dark arts of budgeting, *Public Law Review*, 2013 (24) p. 271.

117 OECD, *Recommendation of the Council on Principles for Independent Fiscal Institutions*, 13 February 2014.

118 P Bowen, Parliamentary Budget Officer, *Maintaining a Focus on Fiscal Discipline and Budget Transparency—the Role of the Parliamentary Budget Office*, Address to the Carnegie Mellon Forum, Adelaide, 29 November 2013, p. 2.

**5.36** The PBO's structural budget balance report and its expenditure trend analysis both generated media interest upon release<sup>119</sup> and the PBO's work, including policy costings and self-initiated research, has received a modest but continuous, citation in media articles and scholarly publications. From April 2013 to April 2014, the ANAO has counted 209 articles on topics involving the PBO, policy costings and the PBO's research reports. Within these articles, there were, as would be expected, a mix of views, from very positive ('the PBO is a whistleblower'), factual reporting, to negative (questioning the validity of the analysis). In relation to the PBO's historic government spending report there were very positive views about the PBO's achievement in drawing this information together.

**5.37** Parliamentary and peer group stakeholders consulted by the ANAO provided mixed commentary as to whether the PBO's activities have, to date, provided improved transparency for the public on Australia's fiscal and budget framework. For example:

- peer group stakeholders felt that transparency had been improved (with one not providing a view) whereas two parliamentary stakeholders felt that transparency had not improved;
- peer group stakeholders reported that the PBO has helped to inform the media, with one commenting that, during the 2013 election period, journalists were able to facilitate a more informed discussion about the costs of policies and, through this, the public was better informed. Peer group members also felt that the PBO could do more in this regard and that opportunities existed for the PBO to take on an educative role and better engage the public and the media.<sup>120</sup> However, two stakeholders also observed that care would need to be taken to avoid the risk of the Parliamentary Budget Officer being accused of partisanship; and
- one parliamentary stakeholder felt that improved transparency for the public comes through a better informed Parliament, and the PBO has helped to achieve this. However, one peer group member felt that further work could be done by the PBO in this regard.

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119 As previously mentioned, the ANAO did not examine the impact of the PBO's trends in Australian Government receipts report.

120 For the period April 2013 to April 2014, the PBO issued four press releases and 36 online 'tweets'.

**5.38** The independent parliamentarian with whom the ANAO consulted had not had the opportunity to use the PBO's costing service. However, the parliamentarian was of the view that the PBO had contributed to greater knowledge for the Parliament. Representatives of two parliamentary parties concurred with this view. A representative of one party stated that it sees 'the institution as making an important and ongoing contribution to the Parliament' and another held that 'without a doubt, Parliament is better informed.'

## Lessons learnt

**5.39** Following the completion of the Post-Election Report, the PBO commenced an 'After Action Review' of its operations related to the 2013 election. This review addressed the PBO's activities at each stage of the election and Post-Election Report processes, and identified what worked well and what could be done better. The review made 21 recommendations, all of which were agreed to by the PBO executive.

**5.40** The first recommendation was for the development of a new purpose-built registration system to replace the current spreadsheet costing and information request registers (previously discussed in Chapters 3 and 4 of this audit report). This is intended to:

- provide a more reliable and user friendly workflow management system to store and report on data relating to the PBO's interactions with parliamentarians and government departments;
- reduce duplication and human error in data entries; and
- allow multiple users to access and update the data at any one time.

**5.41** In January 2014, the PBO had prepared a project plan and schedule for the Department of Parliamentary Services to progress the proposal. The PBO anticipates that a new system will be implemented by early 2015.

**5.42** The implementation of a workflow management system should also enable the PBO to address several issues raised in this audit report:

- better managing workload, in particular, multiple requests for information being made on the same day to the same agency (discussed in paragraph 3.35);

- improving compliance with internal procedures for conducting costings (discussed in paragraph 4.30); and
- improving the recording of quality control decisions (discussed in paragraph 4.36).

**5.43** Other recommendations focused on its client service delivery for parliamentarians. These include:

- continuing with practices to cater for periods of peak workloads by having a pre-trained and already security cleared pool of consultants, seconding staff from agencies, and ensuring that staff from the Fiscal Policy Analysis Division are involved in costing work on an ongoing basis;
- continuing to develop the data repository and costing models, to assist with costing turnaround times, and also for staff development purposes, broadening their experience of conducting different type of costings;
- reviewing and maintaining the Operations Manual, and improving internal procedures, document templates and developing a PBO style guide to assist with producing reports in busy periods; and
- maintaining working relationships with parliamentarians through establishing a single contact person at the PBO for each designated party, and making responses and advice to parliamentarians.

## Conclusion

**5.44** While the principal activity of the PBO has been to prepare policy costings and respond to requests for information from parliamentarians, the PBO has established an effective capability to deliver on its important role in contributing to the transparency of Australia's fiscal and budgetary framework. In particular, the agency has produced:

- the Post-Election Report—a major achievement and the first time the cost of all parties' election platform policies had been publicly released; and

- several research papers—on the structural budget balance, historic government spending trends, and the trends in Australian Government receipts. The first two papers examined by the ANAO were well received and stakeholders interviewed by the ANAO considered that they made an authoritative contribution to public transparency.

Several peer group stakeholders also commented that there is an opportunity for the PBO to take on a greater educative role of Parliament and the media on fiscal and budget matters. Overall, the work of the PBO has contributed to greater transparency about the fiscal and budgetary framework, and has the potential to further increase this transparency over time.

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Ian McPhee

Auditor-General

Canberra ACT

5 June 2014



# Appendices





## Appendix 1: Agency Responses



Parliament of Australia  
Parliamentary Budget Office

Phil Bowen PSM FCPA  
Parliamentary Budget Officer

Mr Ian McPhee PSM  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

22/5

Dear Mr McPhee *Jan*

I refer to Ms Barbara Cass's letter of 8 May 2014 seeking my response to the proposed audit report on the administration of the Parliamentary Budget Office (PBO).

On behalf of the management and staff of the PBO I wish to record our appreciation of the cooperative and thoughtful approach adopted by your officers in conducting the first performance audit of the PBO.

The comprehensive nature of the audit and the thoroughness with which it was undertaken provide me with a high level of assurance that our governance arrangements and processes are sound and that the PBO is meeting its obligations to the Australian Parliament. I appreciate the constructive suggestions in the report for further improving the PBO's processes.

I agree with the recommendation that the PBO include in all costings, estimates of administrative expenses, where significant. This will improve transparency by separately identifying significant administrative expenses in costings of policies that are specified as capped amounts. This is consistent with the approach that we take to separately identifying significant administrative expenses in costings of other policies.

I would appreciate having these brief comments included verbatim in the report summary.

Yours sincerely

Phil Bowen

22 May 2014



**Australian Government**  
**The Treasury**

680  
27 MAY 2014  
9:30

22 May, 2014

*621 21/5/2014*  
Barbara Cass  
Group Executive Director, Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Cass

**ANAO Draft Report: Administration of the Parliamentary Budget Office**

Thank you for your letter of 8 May 2014 to the Secretary, covering an extract of your proposed report on the Administration of the Parliamentary Budget Office.

The Treasury has no comments on your proposed report.

Yours sincerely

Luise McCulloch  
General Manager  
Budget Policy Division



**Australian Government**  
**Department of Finance**

Our Ref: SEC0010208

Ms Barbara Cass  
Group Executive Director  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

*23/5/2014*

Dear Ms Cass

Thank you for your letter of 8 May 2014 to the Secretary, Mr David Tune PSM, who has asked that I respond on his behalf. We appreciate the opportunity to provide comment on the extract of the proposed report on the Administration of the Parliamentary Budget Office.

I can advise that the Department of Finance has no comment on the extract provided.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rosemary Huxtable'.

Rosemary Huxtable PSM  
Deputy Secretary  
Budget Group  
19 May 2014

## Appendix 2: Roles and Responsibilities of Independent Fiscal Institutions in OECD Countries (2013)

Country	Institution name (year)	Budget	Staff	Role in forecasts of macroeconomic assumptions	Analysis of long-term fiscal sustainability	Role in monitoring fiscal rule compliance	Role in policy costing	Role in costing election platforms
Australia	Parliamentary Budget Office (2012)	AUD 29.4M over four years	35	No role	✓	✗	✓	✓
Austria	Government Debt Committee (1970)	Data not available	15 Committee members, 3 secretariat	Assess forecasts only	✓	✓	✗	✗
Belgium	High Council of Finance (1936)	Data not available	27 Council members, 14 secretariat	Assess forecasts only	✓	✓	✗	✗
Canada	Parliamentary Budget Officer (2008)	CAD 2.8M	15	Prepare alternative forecasts	✓	✗	✓	✗
Denmark	Economic Council (1962)	DKK 23.5M	25 Council members, 30 secretariat	Prepare alternative forecasts	✓	✓	✗	✗
Finland	Fiscal Policy Audit of Executive Office (2013)	EUR 1.4M	7 (plus support staff)	Assess forecasts only	✓	✓	✗	✗
France	High Council for Public Finances (2013)	EUR 782,000 (FY 2013)	10 Council members, 5 ongoing staff	Assess forecasts only	✗	✓	✗	✗
Ireland	Fiscal Advisory Council (2011)	EUR 800,000 (FY 2013)	5 Council members, 3 secretariat	Assess forecasts only	✗	✓	✗	✗

Country	Institution name (year)	Budget	Staff	Role in forecasts of macroeconomic assumptions	Analysis of long-term fiscal sustainability	Role in monitoring fiscal rule compliance	Role in policy costing	Role in costing election platforms
Korea	National Assembly Budget Office (2003)	USD 12.7M	125	Prepare alternative forecasts	✓	✗	✓	✗
Mexico	Centro de Estudios de las Finanzas Públicas (1998)	MXN 50.9M (FY 2009)	59	Prepare alternative forecasts	✓	✗	✓	✗
Netherlands	Bureau for Economic Policy Analysis (1945)	EUR 13.5M	117	Prepare official forecasts	✓	✗	✓	✓
Portugal	Conselho das Finanças Públicas (2011)	EUR 2.65M (FY 2013)	5 Council members, 20 staff	Assess forecasts only	✓	✓	✗	✗
Slovak Republic	Council for Budget Responsibility (2012)	EUR 2M (FY 2013)	3 Council members, 20 staff	No role	✓	✓	✓	✗
Slovenia	Fiscal Council (2009)	EUR 100,000 (FY 2012)	7 Council members	Assess forecasts only	✓	✓	✗	✗
Sweden	Fiscal Policy Council (2007)	SEK 7.55M	6 Council members, 5 secretariat	Assess forecasts only	✓	✓	✗	✗

Country	Institution name (year)	Budget	Staff	Role in forecasts of macroeconomic assumptions	Analysis of long-term fiscal sustainability	Role in monitoring fiscal rule compliance	Role in policy costing	Role in costing election platforms
United Kingdom	Office for Budget Responsibility (2010)	GBP 1.75M	3 Committee members, 2 non-executive members, 17 secretariat	Prepare official forecasts	✓	✓	✓	✗
United States	Congressional Budget Office (1974)	USD 45.2M	250	Prepare alternative forecasts	✓	✗	✓	✗

Source: Adapted from OECD, Independent Fiscal Institutions in *Government at a Glance 2013*, OECD Publishing, p. 99.

## Appendix 3: Stakeholders Consulted by the ANAO

1. **Commonwealth agencies:** Australian Bureau of Statistics; Australian Customs and Border Protection Service; Australian Taxation Office; Attorney-General's Department and the Departments of: Agriculture; Communications; Defence; Education and Employment (interviewed together as Machinery of Government changes had not yet occurred); the Environment; Finance; Foreign Affairs and Trade; Health; Human Services; Immigration and Border Protection; Industry; Infrastructure and Regional Development; Prime Minister and Cabinet; the Treasury; Social Services; and Veterans' Affairs.
2. **Parliamentarians:** Australian Greens, Australian Labor Party, the Coalition, and Mr Andrew Wilkie MP, Independent Member for Denison.
3. **Peer Group:** Mr Geoff Carmody, Mr John Daley, Mr Chris Richardson, Mr Len Scanlan, and Prof. Peter Shergold AC.

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