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SPEAKER

Mr Shane Rattenbury MLA
Chair
Standing Committee on Administration and Procedure
Legislative Assembly for the Australian Capital Territory
Civic Square, London Circuit
CANBERRA ACT 2601

A.C.T. LEGISLATIVE ASSEMBLY COMMITTEE OFFICE
SUBMISSION NUMBER 5
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Dear Mr Rattenbury

INQUIRY INTO THE MERIT OF APPOINTING A PARLIAMENTARY BUDGET OFFICER FOR THE LEGISLATIVE ASSEMBLY

Thank you for the opportunity to make a submission to the above Committee's Inquiry.

The Audit Office's submission is attached.

If you would like further information on our submission, I can be contacted on 6207 0833.

Yours sincerely

T. Pham

Tu Pham
Auditor-General

1 June 2009

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ACT AUDITOR-GENERAL'S OFFICE

SUBMISSION BY THE ACT AUDITOR-GENERAL'S OFFICE TO THE STANDING COMMITTEE ON ADMINISTRATION AND PROCEDURE

Inquiry into the merit of appointing a Parliamentary Budget Officer for the Legislative Assembly

Introduction

This submission is provided to the Standing Committee on Administration and Procedure in response to its inquiry into the merit of appointing a Parliamentary Budget Officer for the Legislative Assembly. The Committee's terms of reference are to:

> inquire into, and report on, the merit of appointing a Parliamentary Budget Officer to strengthen the capacity of the Assembly to better hold government to account by increasing transparency in its fiscal planning framework and improving scrutiny of the estimates process.

The budget is one of the government's key policy documents. The budget explains the government's policy objectives and key priorities for its revenue and expenditure. It also provides important information on the planned financial and non-financial performance of the government and its agencies. This information is used by the Legislative Assembly in deciding whether to support the Appropriation Bills needed for the government of the day to spend public monies in the provision of government services.

Most government revenue is raised through the compulsory raising of revenue from its citizens. For many public services, citizens have no real option other than to pay charges levied by the government and to use the services provided by the government. It is therefore essential that members of the Legislative Assembly have sufficient and appropriate information to scrutinise and hold the government accountable for its planned use of public money by scrutinising the:

- planned performance of the government agencies in providing public services;
- revenue raising measures used to fund public services; and
- planned expenditure on those services.

Better practices for budget transparency

Transparency is a key element of good governance. Budget transparency may be defined as the full disclosure of all relevant information in a timely and systematic manner.[1]

Leading organisations such as the Organisation for Economic Co-operation and Development (OECD)[2], International Monetary Fund[3] and the International Budget Project[4] provide guidance to Parliaments on better budgetary practices that hold the government of the day accountable. The key budgetary best practices for legislatures include:[5]

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- Parliament needs timely information in an analysable format.
- Parliament needs timely and accurate information on how departmental expenditures comply with relevant legislation and policies.
- The impact of any other government decisions or other circumstances that may have a material effect on the budget should be disclosed.

Parliaments require relevant, reliable and unbiased information to be able to effectively scrutinise the government's budget. Some research indicates that executives will rarely improve accountability on their own without some kind of external influence encouraging them to do so, and that increasing the Parliament's involvement in the budget process has been cited as a source of this external influence.[6]

In a 2007 survey of 30 OECD and eight non-OECD countries on budget practices and procedures, the OECD reported that 16 of the participating countries responded that they have either a specialised unit attached to the legislature or some kind of capacity to conduct an analysis of the budget. These 16 European Union (EU) countries included Belgium, Finland, Italy, Netherland, Poland, Portugal and the United Kingdom.[7] In addition, several non-EU countries also have independent budget offices, including the United States of America, Mexico, Korea, Brazil, and Canada.

Appendices A, B, C and D provide some background information on parliamentary budget units used in the United States, Canada, United Kingdom and South Korea.

Potential benefits of an independent budget officer

The Audit Office believes there are potential benefits in having an independent Parliamentary Budget Officer (PBO) located in the Parliament to assist the Parliament to scrutinise the budget. An independent PBO or research unit can provide information to put other members of the Parliament on a more equal footing with the executive. This information is critical if the Parliament is to play a real role in budget scrutiny, and this is critical in promoting accountability.

Additional benefits of an independent budget unit include:[8]

- Simplifying complexity – Budget information is frequently not made available by the executive's budget office, but even when it is, it may be so complex that the Parliament has difficulty understanding it. An independent unit must have the expertise to be able to make complex budget information understandable by the parliaments, as well as the media, academia, and the public.
- Promoting transparency – The knowledge and expertise of an independent budget unit can encourage budgetary clarity and promote transparency.
- Enhancing credibility – By encouraging simplification and transparency, an independent unit also has the effect of making budget forecasts more credible.
- Improving the budget process – The combination of a more simple, transparent, credible, and accountable budget can promote a budget process that is more straightforward and easier to understand and follow.
- Serving both the majority and minority parties – A nonpartisan and independent budgetary unit should provide information to all parties of the parliaments.

- Providing rapid responses – The unit should be capable of providing more timely responses to budget inquiries from the parliaments than may be provided by the executive's budget office.

Characteristics of an effective Parliamentary Budget Office

The essential characteristics of an effective Parliamentary Budget Office include:[9]

- Non-partisan – A unit that is nonpartisan would not present its analysis from a political perspective. Information should be provided to both majority and minority parties. The Office should serve majority and minority parties, principally serving committees and subcommittees rather than individual members;
- Independent and objective – The Office should be independent and objective. The mandate and core functions of the Office should be legislated so that they cannot be easily changed for political purposes;
- Transparent and understandable – The outputs of the Office, including advice, and reports and the methods by which the outputs are prepared, should be transparent, understandable, and available to the broader community; and
- Technically competent – The Office needs to have sufficient technical expertise and knowledge of the budget process to be able to meet the research and analysis needs of the Parliament.

The role and functions of the Audit Office and a Parliamentary Budget Officer (PBO)

In comparing the role and functions of the Auditor-General and a PBO, the similarities would be in both serving the Parliament with independence and impartiality.

Subject to the legislative mandate, a PBO is required to focus on budgetary and legislative issues. The Auditor-General has a broader mandate in undertaking audits (financial, performance and other statutory reviews and investigations). In the ACT, the Audit Office has the power to audit the ACT's budget process and the budget information using its performance audit powers, but has not done so previously.

The Audit Office is aware of one audit jurisdiction in Australia that is required by legislation to examine the information included in the budget papers. The Victorian Auditor-General's Office (the VAGO) has a mandate under Part 3A of the *Audit Act 1994 (Victoria)* to review and report to the Parliament of Victoria on the estimated financial statements. In May each year, the VAGO issues an independent review report on estimated financial statements for the next budget year. This review primarily focuses on whether the estimated financial statements for the current financial year and the next three financial years have been prepared in accordance with the Australian Bureau of Statistics Manual on *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*. The review undertaken by VAGO is limited, and only serves part of the services that would be expected from a PBO. An independent budget unit, as discussed before, has a much broader functions.

In the ACT, the functions of a PBO would not conflict or overlap with, and could complement those of the Auditor-General.

Conclusion

To enhance accountability and transparency in the budget process, the Audit Office considers there is merit in appointing a Parliamentary Budget Officer (PBO) in the Legislative Assembly. A PBO could provide independent, reliable, objective, analytical budget information to all Members of the Legislative Assembly.

However, the effectiveness of a PBO is dependent on whether the PBO is provided adequate resources to perform the expected functions. Information available from overseas parliamentary Offices indicates that these Offices require significant resources, and this reflects the sizes of the parliaments they serve.

Notwithstanding the potential benefits, it would not be financially feasible to resource such an office in a small Legislative Assembly. It would be also difficult for one Parliamentary Budget Officer to possess all the relevant expertise to effectively conduct the complex and technical tasks envisaged for this position, without supplementary support from external sources.

Accordingly, the core functions and activities for an ACT Assembly Budgetary Officer should be well defined and targeted to suit the needs of a small Assembly, and thus limiting the role of the PBO in the ACT, compared to the broader role that a PBO and his and her Office might have in a larger jurisdiction.

It is recommended that the Committee may wish to consider other options, for example establishing a small independent budget unit in the Committees' office with seconded officers from departments and agencies, and access to external specialists in undertaking independent budget analysis and economic forecast, as required.

ACT Auditor-General's Office
1 June 2009

References

[1] *Best Practices for Budget Transparency, OECD Journal on Budgeting*, Vol. 1, No. 3, 2002.
[2] *Report on budget best practices*, OECD (2001).
[3] International Monetary Fund – Code *of good practices on fiscal transparency*, 2007.
[4] *Legislatures and budget oversight best practices* – Warren Krafchik, International Budget Project and Joachim Wehner, London School of Economics.
[5] Parliamentary Budget Officer of Canada, *Stakeholder Consultative Summary*, Ottawa, Canada.
[6] Barry Anderson (Head of the Budgeting and Public Expenditures Division at the OECD), keynote speech titled *International Symposium on the Changing Role of Parliament in the Budget Process* in Turkey on 8-9 October 2008.
[7] OECD, 2007. *OECD Budget Practices and Procedures Database.* http://webnet4.oecd.org.budgeting?Budgeting;aspx
[8] Refer 7 above.
[9] Refer 7 above.

Country

- United States of America (USA)

Name of Parliamentary Budget Authority

- Congressional Budget Office (the CBO)

History of Establishment

- The CBO was founded on 12 July 1974 with the enactment of the *Congressional Budget and Impoundment Control Act 1974.*[1]

Appointment of the Statutory Officer

- Title II of the *Congressional Budget Act 1974* specifies the procedures for appointing the CBO's Director and staff and authorises the CBO's annual appropriations.[2]
- The Speaker of the House of Representatives and the President of the Senate jointly appoint the CBO Director, after considering recommendations from the two budget committees. The term of the office is four years, with no limit on the number of the terms a Director may serve. Either House of Congress, however, may remove the Director by resolution.[3]

Role and Responsibilities

- The CBO is required to provide the Congress with the objective, timely non-partisan analysis needed for economic and budget decisions and the information and estimates required for the Congressional budget process. The CBO's reports contain no policy recommendations.[4]
- The CBO's primarily role, under the *Budget Act 1974*, is to provide budget-related information to the House and Senate Budget Committees. The CBO prepares reports that provide budget and economic projections, an analysis of the President's budgetary proposals, and alternative spending and revenue options for lawmakers to consider. The CBO Director typically is asked to testify about the outlook for the budget and the economy as well as related issues.
- Other statutory responsibilities of the CBO include:[5]
  - o reviewing estimates of the budgetary costs of legislation and tracking progress of spending and revenue legislation in a 'scorekeeping' system (which keeps track of all bills affecting the budget from the time they are reported out of the committee to the time they are enacted into law);
  - o the provision of supports to various committees (Appropriations, Ways and Means and Finance Committees, other Congressional committees) and individual Members to the extent practicable;
  - o preparation of reports at Congressional request that analyse specific policy and program issues that are significant for the budget; and
  - o preparation of periodic budget options and monthly budget reviews.

Resources

- Annual budget funding – the CBO received US $37.3 million (A$50.4 million at A$1=US$0.74) in 2008. The largest share of the CBO's total annual expenditure is allotted to personnel.[6]
- Staffing – the CBO employed more than 230 employees and most of them are economists and public policy analysts. For the purpose of pay and benefits, all staff are treated as employees of the House of Representatives.[7]

Publications

- The CBO's publications fall into two main categories:[8]
  - Cost estimates and mandate statements. These are provided for every bill when it is reported by a Congressional committee, and, upon request, for bills at other stages of the legislative process.
  - Other publications, including:
    - reports needed for the budget process, such as The Budget and Economic Outlook, An Analysis of the President Budget, and other annual, biannual, and semi-annual reports;
    - analytical studies, which explore economic and budgetary issues;
    - briefs, which provide a short analysis of policy issues;
    - the Monthly Budget Review, which summarises the fiscal activity of the government during the previous month; and
    - background papers and related documents, which describe the assumptions and technical methods underlying various aspects of the CBO's analysis.

The CBO Website

- http://www.cbo.gov

References

1. US Congressional Budget Office, *An Introduction to the Congressional Budget Office February 2009* (http;//www.cbo.gov/aboutcbo/introCBO.pdf)
2. The CBO Fact Sheet (refer http://www.cbo.gov/aboutcbo/factsheet.shtml).
3. Staffing and Organisation (refer http://www.cbo.gov/aboutcbo/orgnaisation/)
4. The CBO's Role in the Budget Process (refer http://www.cbo.gov/aboutcbo/budgetprocess.shtml)
5. Refer item 1 above and CBO website - Preparing and Distributing Estimates and Analysis (refer http://www.cbo.gov/aboutcbo/policies.shtml
6. The CBO Fact Sheet (refer http://www.cbo.gov/aboutcbo/factsheet.shtml).
7. Refer item 3 above.
8. The CBO website – What CBO Publishes (refer http://www.cbo.gov/aboutcbo/publishes.shtml).

Appendix B

Country

- Canada

Name of Parliamentary Budget Authority

- Office of the Parliamentary Budget Officer (the PBO)

History of Establishment[1]

- The Government of Canada has responded to a growing demand for greater transparency and accountability in its fiscal forecasting and budget planning process. It views this as a fundamental step to making the government more accountable to Parliament and to Canadians. The government believes that parliamentary committees should have access to independent, objective analysis and advice on economic and fiscal issues, supported by the timely provision of accurate information from departments and agencies.
- In December 2006, the Federal Accountability Act created the PBO by amendments to the Parliament of Canada Act.

Appointment of the Statutory Officer

- Section 79.1 of the Parliament of Canada Act, as amended in 2006, establishes the position of the PBO, who is an officer of the Library of Parliament.[2]
- The appointment of the PBO is made by the Governor in Council for a renewable term of not more than five years (section 79.1(2) of the Act). The PBO's remuneration and expenses are set by the Governor in Council.
- In March 2008, Mr Kevin Page was appointed as Canada's first Parliamentary Budget Officer.

Role and Responsibilities

- The mandate of the PBO as set out under section 79.2 of the Parliament of Canada Act (the Act) is to:[3]
    - provide independent analysis to the Senate and to the House of Commons about the state of nation's finances, the estimates of the government and trends in the national economy;
    - when requested to do so and by any of the committees (the Standing Committee on National Finance of the Senate, Standing Committee of the House of Commons and Standing Committee on Public Accounts of the House of Commons or any appropriate committees), undertake research for that committee into the nation's finances and economy;
    - when requested to do so by a committee of the Senate or of the House of Commons, or a committee of both Houses, that is mandated to consider the estimates of the government, undertake research for that committee into those estimates; and

- when requested to do so by a member of either House or by a committee of the Senate or of the House of Commons, or a committee of both Houses, estimate the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction.

- The Act (section 79.3) also allows the PBO to have free and timely access to any financial or economic data in the procession of the department that are required for the performance of his or her mandate. The only exception being information related to the personal information of an individual or information that is contained in a confidence of the Queen's Privy Council of Canada. The legislation allows for reasonable assurances to government departments of confidentiality of sensitive financial or economic data. If the PBO is denied to the requested information – or alternatively, when there is an unreasonable delay in providing the requested information, which effectively amounts to a denial of access, the PBO will report the matter to Parliament.[4]
- The PBO is entitled under the Act, in the performance of his or her mandate, to enter into contract or other arrangements, and engage on a temporary basis the services of persons having technical or specialised knowledge.

Resources[5]

- Budget - As outlined in its Operating Plan (December 2008), the BPO has been allocated Canadian $1.8 million (A$2.1 million at Canadian $1=A$0.85) in 2008-09 and Canadian $2.8 million (A$ 3.3 million) in 2009-10.
- Staffing – Currently, the BPO is still in the start-up phase. The PBO has two divisions: Economic and Fiscal Analysis and Expenditure and Revenue Analysis. Each division is led by an Assistant Parliamentary Budget Officer. A total of 17 to 20 people will be recruited, with support from graduate level university students on a part-time basis. The specificity of the financial and economic analysis the PBO undertakes requires that the PBO's staff must hold advanced degrees (MA, MSc, MBA or PhD) and designations (CA, CGA, CFA) in economics, econometrics, accounting, finance, and financial analysis with relevant experience either in public or private sectors, or both.

Publications

- The PBO adopts a fully transparent open publishing model to ensure that the analysis is authoritative, objective and non-partisan. All products are published on the PBO's public website.
- In its early stage, the BPO has issued the following briefs and in-depth analysis:
  - Economic and fiscal Situation and Outlook;
  - Post Budget (and Update) Assessment;
  - Cyclical and Structural Budget Balances;
  - Deflation;
  - Forecasting Practices; and
  - Reports requested by committees (e.g. Costing of the Afghanistan Mission and Automobile Loans).[6]

CBO Website

- http://www.parl.gc.ca/pbo-dpb

References

1 Guy A Beaumier, *The Accountability Act and The Parliamentary Budget Officer,* Canadian Parliamentary Information and Research Service, 29 June 2006.
2 Refer http://laws.justice/gc.ca/en/showdoc/cs/P-1//en?page=1
3 Refer above.
4 Office of the PBO, *Information Protocol*, December 2008 (refer http://www2.parl.gc.ca/sites/PBO-DPB/documents/information%20protocol.pdf)
5 Office of the PBO, *Operational Plan*, December 2008.
6 OBP website http://www2.parl.gc.ca/Sites/PBO-DPB/Reportsaspx?Language=E
7 BPO *Stakeholder Consultation Summary August 2008,* (refer http://www2.parl.gc.ca/sites/PBO-DPB/documentsPBO-stakeholder-consultation.pdf.
8 BPO Presentation *OECD Parliamentary Budget Official: The Canadian Experience*, Rome, Italy, February 26-27, 2009. (refer http://www2.parl.gc.ca/sites/PBO-DPB/documents/OECD_Parliamentaty_Budget_Officials_EN.pdf).

Appendix C

Country

- United Kingdom

Name of Parliamentary Budget Authority

- Committee Office Scrutiny Unit under the House of Commons

History of Establishment

- In 2000, the Liaison Committee (which made up of the Chairmen of all the select committees) recommended the Committee Office to establish a unit specialising public expenditure and pre-legislative scrutiny. The Scrutiny Unit was established in November 2002.[1]

Appointment of the Statutory Officer

- No statutory officer was appointed.

Role and Responsibilities

- The Scrutiny Unit provides specialist assistance to select committees in the scrutiny of the Government's financial and performance reporting and of draft bills. In particular:
  - it supports selected committees and others with the House, mainly but not exclusively in the areas of government expenditure, performance reporting and pre-legislative scrutiny
  - it provides staff for joint committees of both Houses on draft bills
  - it supports the evidence-taking functions of Public Bill Committees.[2]

Resources

- Annual budget funding – Not available.
- Staffing – The Scrutiny Unit has 18 staff. The core team includes Head of the Unit, assisted by two Deputy Heads (Finance and Legislation) and six support staff. The Unit includes two legal specialists, a statistician on secondment from the House of Common Library, four financial analysts (two from the National Audit Office), an economist and a Home Affairs/Public Policy Specialist.[3]

Publications

- Most of the Scrutiny Unit's work involve producing analysis and briefing for committees and is generally not published. Examples of the Unit's published outputs are:[4]
  - 'Alignment Project' – to bring the financial data in the Estimates, Spending Review Budgets and Resource Accounts closer together, as well as rationalising the number of financial reporting documents Government

presents to the House over the course of the year. This assists Members better placed to understand and scrutinise departments' finances.

- o Briefing Notes on Private Finance Initiative, Public Sector Pensions, Post-legislative scrutiny.
- o Scrutiny of regulatory impact assessments.

Website

- http://www.parliament.uk/scrutiny

References

1. *The Scrutiny Unit: A Guide to its Work - November 2008* (http;//www.parliament.uk/parliamentary_committee/scrutinyunit.cfm)
2. The Work of the Scrutiny Unit in 2007-08, Liaison Committee Annual Report, Session 2008-09 (refer www.publications.parliament.uk/pa/cm200809/cmselect/cmliaisn/291/29116.htm).
3. Refer 1 above.
4. Refer 2 above.

Appendix D

Country

- South Korea

Name of Parliamentary Budget Authority

- National Assembly Budget Office (NABO)

History of Establishment

- In 2000, the Budgetary Policy Bureau was established and became the foundation for the NABO.
- In July 2003, the National Assembly Budget Office was created by the National Assembly Budget Office Act 1948 (NABO Act) independent of the Secretariat.[1]

Appointment of the Statutory Officer

- The position of the Chief of the National Assembly Budget Office is legislated in the NABO Act (Article 4) and the Chief is appointed by the National Speaker, based on the recommendation from the 'Recommendation Committee' (Article 5).

Role and Responsibilities

- The NABO is a non-partisan legislative support agency focusing on budget and fiscal policies with the enactment of the NABO Act. Its role and responsibilities are to:
  - support the National Assembly by analysing and evaluating issues related to the national budget, fund and fiscal operations;
  - scrutinise the Administration;
  - provide two kinds of products and services:
    - Studies and Reports (such as analysis of the budget proposal presented by the Administration, preparation of reports on the fiscal issue and economic outlook, and national program evaluation and medium-long term spending analysis); and
    - Customs Reports (such as cost estimates for bills requiring budget at the initial stage of legislative action, and confidential information and analysis services on specific policy and program issues at the request of committees and individual members).[2]

Resources[3]

- Annual budget funding – US $10.3 million (A$13.9 million at A$1=US $0.74).
- Staffing –NABO has 135 staff. It has four Divisions, namely Planning and

Management, Budget Analysis, Economic analysis and Program Evaluation. Most staff (70 per cent) are experts or specialists with advanced degrees in disciplines including fiscal policies, economics public administration, statistics, accounting, law and public policy.

- NABO also engages Panel of Advisors (external consultants) to provide processional advice to NABO. The Panel comprises of 15 outside scholars in the areas of public finance and economics who serve two-year terms. Each Division also engages its own advisory composed of external experts.

Publications

- In 2008, NABO issued 84 publications, including:[4]
  - National Finance in Korea 2008
  - Analysis of 2009 Executive Budget Proposals
  - Reports on 2007 Spending Settlement
  - Economic Outlook 2009-05-22 Analysis of National Debt Management Plan 2009
  - Assessment of Regulation Impact 2007
  - Evaluation of Government Performance Implementation Plan 2008
  - Study on Major projects for 2008 Parliamentary Inspection.

Website

- http://www.korea.nabo.go.kr

References

1. Speech by the Chief of the NABO, Duck-Weon Suh, in a Meeting of OECD Parliamentary Budget Officials in Rome on 26-27 February 2009 (http://www.korea.nabo.go.kr/file/notice/profileofnabo.pdf)
2. Refer http://www.korea,nabo.go.kr/abo/Int_viw.jsp
3. Refer 1 above.
4. Refer 1 above.