



Policy costing

Expanding the mandate of the Parliamentary Budget Office (PBO)	
Party:	Australian Labor Party
Summary of proposal: This proposal involves expanding the mandate of the Parliamentary Budget Office (PBO). The PBO would: <ul style="list-style-type: none">• produce the five-yearly intergenerational report from 2020• prepare independent macroeconomic forecasts, from the 2021-22 Budget, that would underpin the estimates of revenue and expenditure published in the Government's economic and fiscal updates• join the Joint Economic Forecasting Group (JFIG).	

Costing overview

This proposal would be expected to decrease both the fiscal and underlying cash balances by \$26.6 million over the 2019-20 Budget forward estimates period. These impacts are entirely due to an increase in departmental expenses over this period.

A breakdown of the financial implications of this proposal over the 2019-20 Budget forward estimates period is included at [Attachment A](#). The proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period.

The proposal represents a substantial extension of, and change in, the mandate of the PBO and would require a significant increase in the size of the PBO, with an associated expansion in the PBO's skills base, information technology (IT) infrastructure and office accommodation.

The costing provides for the PBO to draw on subject-matter experts within and outside government in the development of the intergenerational report. It is anticipated that the PBO would have access to the Treasury's models that have been used in the course of preparing previous intergenerational reports.

The macroeconomic forecasting component of the costing is based on the approach to forecasting used by the Treasury. Macroeconomic forecasts would be published at least two times a year alongside the annual Budget and the Mid-year Economic and Fiscal Outlook report, with provisional updates to the macroeconomic forecasts being provided confidentially to government ahead of the budget process to inform budget decision making.

The costing anticipates that the PBO is provided access to the Treasury's forecasting models and frameworks, including the macroeconomic forecasting model that is under development, and that a memorandum of understanding would be agreed to enable the PBO to use this and other relevant Treasury models in the forecasting process.

The costing provides for the Parliamentary Budget Officer to appoint a three-person advisory panel of eminent macroeconomists. The panel would examine and provide guidance on the PBO’s economic forecasts. Panel members would be remunerated and the panel’s role would be an advisory one, with the Parliamentary Budget Officer having ultimate responsibility for the independent economic forecasts.

The costing provides for a business liaison program. Based on the Treasury program, this would require in excess of 100 face-to-face interviews per year involving quarterly meetings with companies across a range of critical sectors of the economy, and targeted contacts with specific sectors that are important to the forecasts.

A provision for consultancies to assist with model development, review and analysis has been included.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-6.5	-6.8	-6.6	-6.7	-26.6
Underlying cash balances	-6.5	-6.8	-6.6	-6.7	-26.6

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Legislation

- The required legislative amendments to the *Parliamentary Service Act 1999* and the *Charter of Budget Honesty Act 1998* are made to enable the PBO to assume the additional functions outlined in the proposal.

Modelling capability

- The PBO would have access to the Treasury’s macroeconomic forecasting and intergenerational report models.

Staffing levels

- Appropriately skilled and experienced staff could be recruited to carry out the expanded mandate. Given the small pool of qualified macroeconomic forecasting staff, this would likely require the secondment of staff from Treasury, and possibly the Reserve Bank of Australia, during a transition period.
 - The costing provides for a scaling up of PBO staff on the basis that the PBO would be fully staffed by 30 June 2020 in preparation for producing macroeconomic forecasts, and documents to support these forecasts, to underpin the 2021-22 Budget.
- Additional staff would be required to cover the additional administrative, publishing and corporate support activities commensurate with the increase in the PBO’s size and responsibilities.
- There is no change to the Treasury’s resourcing as a result of this proposal.

- While responsibility for preparing the macroeconomic forecasts that underpin budget updates would be transferred from the Treasury to the PBO, the Treasury would still be expected to need macroeconomic capabilities in order to advise government on: macroeconomic developments, the appropriate macroeconomic policy responses to developments in the economy, and the macroeconomic impact of policy proposals being considered by government.

Accommodation and infrastructure

- The PBO remains in Parliament House and would require a provision for fitout of office accommodation and additional IT infrastructure necessary for the increased staff and enhanced responsibilities.
- If the PBO were unable to remain in Parliament House, funding in addition to that presented in this costing would be required to rent and fitout alternative premises, establish the IT infrastructure to maintain the PBO's protected IT network, and move existing PBO staff and infrastructure to the new premises. The estimated additional expense would be in the order of \$1.6 million in 2019-20 and around \$1.0 million ongoing each year.

Methodology

Estimates of the number and composition of staff required to prepare the intergenerational report and independent economic forecasts are based on the Treasury's approach to macroeconomic forecasting set out in the *Review of Economic Modelling at the Treasury* report produced by Independent Economics in 2017.

Staffing and related infrastructure costs are estimated using the Department of Finance's standard departmental costing calculator, and advice from the Department of Parliamentary Services.

The estimated costs of the advisory panel of eminent macroeconomists are based on the Remuneration Tribunal's determination for sitting fees for similar panels.

Data sources

The Treasury, 2012. *Review of Treasury Macroeconomic and Revenue Forecasting*. [Online] Available at: <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/Forecasting-review> [Accessed April 2019].

Independent Economics, 2017. *Review of Economic Modelling at the Treasury*. [Online] Available at: <http://research.treasury.gov.au/external-paper/review-of-economic-modelling-at-the-treasury/> [Accessed April 2019].

Tease, W., 2016. *Forecasting in Treasury*, Address to CEDA's Economic and Political Overview Conference, Brisbane, 18 February 2016. [Online] Available at: <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Speeches/2016/Forecasting%20in%20Treasury/Downloads/PDF/Forecasting-in-Treasury-Warren-Tease.ashx> [Accessed April 2019].

Tease, W., 2015. *Review of Treasury's Macroeconomic Forecasting Capabilities*. [Online] Available at: <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Review%20of%20Macroeconomic%20Forecasting%20Capabilities/Downloads/PDF/Review-of-Macroeconomic-Forecasting-Capabilities.ashx> [Accessed April 2019].

The Department of Finance provided the Standard Department of Finance departmental costing calculator.

Attachment A – Expanding the mandate of the Parliamentary Budget Office (PBO) – financial implications

Table A1: Expanding the mandate of the PBO – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Expenses					
<i>Departmental</i>					
<i>PBO to produce intergenerational report from 2020</i>	-2.5	-1.4	-1.4	-1.4	-6.7
<i>PBO to prepare economic forecasts from 2021-22 Budget, and join the Joint Economic Forecasting Group</i>	-4.0	-5.4	-5.2	-5.3	-19.9
Total – departmental	-6.5	-6.8	-6.6	-6.7	-26.6
Total – expenses	-6.5	-6.8	-6.6	-6.7	-26.6

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.