



Legislative Assembly of New South Wales

Public Accounts Committee

Report 2/57 – November 2019

Report on the Parliamentary Budget Office 2019 Post-Election Report



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The motto of the coat of arms for the state of New South Wales is “Orta recens quam pura nites”. It is written in Latin and means “newly risen, how brightly you shine”.

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Membership

Chair	Mr Greg Piper MP, Member for Lake Macquarie
Deputy Chair	Mrs Tanya Davies MP, Member for Mulgoa
Members	Mr Adam Crouch MP, Member for Terrigal Mr Lee Evans MP, Member for Heathcote Mr Ryan Park MP, Member for Keira Ms Felicity Wilson MP, Member for North Shore
Contact details	Public Accounts Committee Parliament of New South Wales Macquarie Street SYDNEY NSW 2000
Telephone	(02) 9230 2843
E-mail	pac@parliament.nsw.gov.au
URL	www.parliament.nsw.gov.au/publicaccounts

Chair's foreword

This report contains the Post-election Report of the Parliamentary Budget Office furnished to the Public Accounts Committee under the provisions of section 15(3) of the *Parliamentary Budget Officer Act 2010*. It follows prior reports provided to the Committee following the general elections in 2011 and 2015.

It is noteworthy that New South Wales was the first Australian jurisdiction to appoint a Parliamentary Budget Officer (PBO), specifically to provide independent costings and advice on election policies in response to requests by Parliamentary leaders. It marks a significant advance in Parliamentary scrutiny and accountability and has become an integral part of NSW elections, providing another level of assurance to voters.

The PBO is also of considerable assistance to the major parties in providing independent advice, by working closely with key NSW government agencies to enable timely and accurate costings of policies.

Mr Stephen Bartos, appointed PBO for the 2015 election, was reappointed for the 2019 election, thereby building on his earlier experience to further improve and enhance the operational efficiency and administration of the Parliamentary Budget Office.

In order to ensure that the PBO Report is made generally available and that the Government provides a formal response to its recommendations, the Committee has instigated the practice of publishing the Report, together with its own additional comments and recommendations to highlight significant issues.

The Committee notes that the PBO Report recommends consideration of the permanent establishment of the Parliamentary Budget Office to enable a more comprehensive analysis of policy proposals leading up to an election. While not endorsing this recommendation, the Committee supports extending the operational life of the PBO to assist in the efficient appointment of staff and the establishment of office infrastructure.

A longer timeframe for the PBO will also provide an opportunity in the first six months of its operation to enable all Members to have policy costings provided and the Committee has recommended that this functionality be added to its remit. This would demonstrate a commitment to policy integrity, transparency, enhanced independent advice and scrutiny and allow for more orderly, thorough and comprehensive policy costings.

In addition to making additional recommendations in relation to confidentiality and delegation provisions, the Committee fully endorses all other recommendations in the PBO Report and thanks Mr Bartos and the staff of the Parliamentary Budget Office for their excellent work and dedication.



Greg Piper MP
Chair

Findings and recommendations

Recommendation 1 _____ **3**

The Committee recommends that the New South Wales Government implements each of the recommendations made by the Parliamentary Budget Officer 2019 Post-election Report, with the exception of Recommendation 17.

Recommendation 2 _____ **4**

The Committee recommends that the New South Wales Government reviews in detail the options for addressing confidentiality in the PBO costing process, set out in Table 6 of the PBO Report, with a view to strengthening the safeguards to prevent unauthorised disclosure of costing information to opposing political parties.

Recommendation 3 _____ **4**

The Committee recommends that any provision to delegate the functions of the head of a Government agency to a nominee, for the purposes of the Parliamentary Budget Officer Act, be delegated to a senior executive officer of that agency.

Recommendation 4 _____ **6**

The Committee recommends that section 6(1) of the *Parliamentary Budget Officer Act 2010* be amended to enable the appointment of a Parliamentary Budget Officer 12 months before each State general election.

Recommendation 5 _____ **6**

The Committee further recommends that for the initial six month period after the establishment of the Parliamentary Budget Office, election policy costings be provided for all Members of the New South Wales Parliament and that for the six month period immediately prior to the election, such costings be provided only to the parliamentary leaders of the Government and the Opposition.

Chapter One – Background

Appointment of the Parliamentary Budget Officer

- 1.1 NSW was the first Australian jurisdiction to introduce a Parliamentary Budget Officer (PBO), with the first PBO appointment being made prior to the 2011 NSW General Election. Since then, the NSW Parliament passed the *Parliamentary Budget Officer Amendment Act 2013*, which made changes to the length of tenure of the PBO and its operational charter.¹
- 1.2 Under the Parliamentary Budget Officer Act 2010 (the PBO Act), the Presiding Officers of the NSW Parliament are required to appoint a PBO for each state general election.² The appointment to the position is to take effect as soon as practicable after 1 September, immediately before a general election is due to be held and for a period of around nine months.
- 1.3 Mr Stephen Bartos was initially appointed as the PBO for the 2015 NSW general election. More recently, Mr Bartos was reappointed as the PBO for the duration of the 2019 NSW general election.

Role and responsibilities of the Parliamentary Budget Officer

- 1.4 The Parliamentary Budget Officer provides costings of election policies in response to requests by Parliamentary leaders, together with budget impact statements for all costed policies. The PBO is supported by a small team of professionals, including Parliamentary staff and, where necessary, consultants.
- 1.5 The PBO is accountable to Parliament, and not to the Executive Government, to serve in an apolitical role, requiring adherence to the strictest levels of impartiality, confidentiality and sensitivity.³

Role and responsibilities of the Public Accounts Committee

- 1.6 The PBO is accountable to the NSW Parliament through the Public Accounts Committee (PAC). Section 15 of the PBO Act provides that PAC may monitor and review the operations of the PBO and report to Parliament on any matter relating to that Officer.
- 1.7 It also requires the PBO to report to the PAC as soon as practicable after the state general election. The report may include recommendations on operational arrangements and PBO activities to assist in the conduct of future general elections.⁴

¹ Parliamentary Budget Officer Amendment Act 2013.

² Parliamentary Budget Officer Act 2010, section 6.

³ Parliamentary Budget Officer Act 2010.

⁴ Parliamentary Budget Officer Act 2010, section 15.

Post-election Report

- 1.8 The PBO provided the Parliamentary Budget Office 2019 Post-election Report (the Report) to the PAC on 27 June 2019. At a PAC deliberative meeting, on 1 August 2019, the Committee resolved to table the Report in the Legislative Assembly, together with Committee comments on the Report and its recommendations.⁵ The Report is attached at Appendix Two.
- 1.9 The Committee notes that in the executive summary of the Report, reference is made to overall highly positive experience of the PBO in conducting the costings.⁶ This includes the timely production of the Budget Impact Statements, as well as the productive and cooperative nature of professional dealings with agency staff and leader's offices. This observation is made in the context of a significant increase in the number and level of complexity in conducting costings and is a testament to the robustness of the process.

⁵ Minutes of Meeting No 2, 1 August 2019.

⁶ Parliamentary Budget Office, 2019 Post-election Report, June 2019, p2.

Chapter Two – Committee Conclusions and Recommendations

- 2.1 As previously stated, there is a legislative requirement to furnish the Committee with a report as soon as practicable on the conduct of the PBO for the particular election just concluded.⁷ This requirement does not, however, provide a specific accountability process for the NSW Government to consider or respond to the Report's conclusions and recommendations.
- 2.2 In order to remedy this deficiency and ensure that the work of the PBO is given due consideration, the Committee has instigated a process whereby the Report is presented to Parliament, thus triggering a Standing Orders requirement that the Government respond to the Report within six months of tabling.
- 2.3 The Report's recommendations, findings and observations warrant detailed consideration by the NSW Government, including an examination of how the role and operation of the PBO can be strengthened for future NSW general elections. It also enables the NSW Government to address each recommendation and detail its rationale for adopting or rejecting its implementation.
- 2.4 The Committee endorses the recommendations of the PBO and calls for the NSW Government to implement all, except Recommendation 17, in full. The Committee also notes the other findings and observations of the PBO, whose implementation would result in policy decisions and administrative changes designed to aid and improve the capacity of the PBO to fulfil his or her role.

Recommendation 1

The Committee recommends that the New South Wales Government implements each of the recommendations made by the Parliamentary Budget Officer 2019 Post-election Report, with the exception of Recommendation 17.

- 2.5 In addition to supporting the majority of the PBO's recommendations, the Committee would like to strengthen the Report by making additional comments on selected aspects of the issues identified and anchor these with supplementary recommendations to further the work of the Parliamentary Budget Office.

Confidentiality provisions

- 2.6 The Report makes reference to the need for complete confidentiality in the provision of costings in order to safeguard the integrity of the PBO process. The Report notes that political leaders have an expectation that all policy details be kept completely confidential until an election policy is released.⁸ In addition, the Report makes the observation that the leaking of classified information is a cultural

⁷ Parliamentary Budget Officer Act 2010, section 15(3).

⁸ Parliamentary Budget Office, 2019 Post-election Report, June 2019, p44-45.

problem which is best addressed by a combination of deterrence and the accentuation of the reputational benefits of fostering probity within organisations.

- 2.7 The Committee strongly supports additional measures to bolster confidence in the work of the PBO by safeguarding the integrity of the information provided to enable independent costing of policy proposals. The advantages and disadvantages of various options for addressing the preservation of confidentiality in the costing process is set out in Table 6 in the PBO Report.⁹
- 2.8 Recommendation 7 in the PBO Report addresses current shortcomings in the PBO Act governing the security of information requests and attempts to minimise risks of Opposition costings being leaked to Ministers' offices. The Committee supports the recommendation, with the following addendum:

Recommendation 2

The Committee recommends that the New South Wales Government reviews in detail the options for addressing confidentiality in the PBO costing process, set out in Table 6 of the PBO Report, with a view to strengthening the safeguards to prevent unauthorised disclosure of costing information to opposing political parties.

Functional delegation

- 2.9 Another issue raised in the Report concerns the ability of agency heads to delegate their functions under the PBO Act. Feedback received by the PBO after the election indicates that inconsistent approaches were taken to a requirement that agency heads are the first point of contact for all information requests. In practical terms, a strict interpretation of this requirement was said to have resulted in unnecessary work for some agency heads and delayed the provision of costings.
- 2.10 The Committee sees merit in streamlining internal signing off processes by removing the ambiguity concerning the delegations function of agency heads and supports the Report's recommendation 1, with the following qualification:

Recommendation 3

The Committee recommends that any provision to delegate the functions of the head of a Government agency to a nominee, for the purposes of the Parliamentary Budget Officer Act, be delegated to a senior executive officer of that agency.

Parliamentary Budget Office permanency

- 2.11 Recommendation 17 of the PBO Report asks the Committee to consider whether the PBO should be permanently established to enable a more comprehensive and detailed analysis of policy proposals leading up to an election. Arguments cited in the Report in favour of a standing PBO include:

⁹ Parliamentary Budget Office, 2019 Post-election Report, June 2019, pp42.

- a more thorough testing of models and complex assessment of policy costs to take account of risks
 - overcoming current concerns about timelines for the provision of costings
 - the ability to review policy revisions over time
 - standardised procedures for engagement with agencies
 - development of purpose-built IT infrastructure to support specialised PBO functions¹⁰
- 2.12 Additional justification cited for a permanently established PBO include: the potential expansion of its role to include providing assistance to Parliamentary committee inquiries; costing policies for minor parties and independents; and providing independent budgetary and economic advice and reports to parliamentarians and the wider public.
- 2.13 The cost of a permanent PBO was estimated in the range of \$1.6m per annum, which is stated to be less than half the cost of the Victorian PBO.¹¹ According to the Report, staffing its establishment would require eight full-time equivalent positions, which would have to be supplemented during the election year.
- 2.14 In order to explore the proposal in more detail, the Committee invited Mr Stephen Bartos to brief the Committee on the rationale for the permanent establishment of the PBO. Mr Bartos reinforced the advantages of permanency in terms of efficiency and effectiveness and the value of a longer iterative costing process.
- 2.15 In the Committee's view, there is not sufficient justification for the cost of a permanent PBO and associated staffing establishment for a four year period. The Committee does not believe that such an office would be fully engaged in policy costings during the course of a full parliamentary term.
- 2.16 On the other hand, the Committee considers there to be merit in increasing the time available for the PBO to carry out its work. As well as time foregone in the initial setting up of the office and recruitment of staff, the accumulation of costing proposals delivered as soon as the office becomes operational places enormous constraints on available resources.
- 2.17 A longer lead time would assist in staggering this workload and promote greater consistency. It would also provide the opportunity to extend the PBO remit to allow for the costing of policy proposals for all Members, at least in the initial phase of operations. For this reason, the Committee considers that the PBO should be established 12 months in advance of the general election.
- 2.18 The Committee further considers there is scope for the PBO to provide costings for all Members in the first six months of operation and to parliamentary leaders of

¹⁰ Parliamentary Budget Office, 2019 Post-election Report, June 2019, pp76.

¹¹ Parliamentary Budget Office, 2019 Post-election Report, June 2019, pp76.

the Government and Opposition exclusively in the six months prior to the election, in line with current practice.

- 2.19 The Committee sees great value in extending the work of the Parliamentary Budget Office to provide continuing high level support and advice on policy costings and related matters. Its longer duration would demonstrate a commitment to policy integrity and transparency, independent advice and scrutiny, and allow for more orderly, thorough and comprehensive policy costings.
- 2.20 An increased remit to 12 months would also assist with the recruitment of a suitable PBO and staff, and reflect common practice in relation to short term employment placements. This will assist in strengthening confidence and trust in the provision of public policy information prior to a general election and complement other accountability mechanisms in the parliamentary process.

Recommendation 4

The Committee recommends that section 6(1) of the *Parliamentary Budget Officer Act 2010* be amended to enable the appointment of a Parliamentary Budget Officer 12 months before each State general election.

Recommendation 5

The Committee further recommends that for the initial six month period after the establishment of the Parliamentary Budget Office, election policy costings be provided for all Members of the New South Wales Parliament and that for the six month period immediately prior to the election, such costings be provided only to the parliamentary leaders of the Government and the Opposition.

Appendix One – Extracts from Minutes

MINUTES OF MEETING No 2

9:04am, Thursday 1 August 2019

Room 1254, Parliament House

Members present

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Adam Crouch, Mr Lee Evans, Ms Felicity Wilson

Apologies

Mr Ryan Park

Officers in attendance

Catherine Watson, Bjarne Nordin, Caroline Hopley, Cheryl Samuels, Derya Sekmen, Ze Nan Ma

1. Minutes of Meeting No. 1

Resolved, on the motion of Mr Crouch, seconded by Mr Evans:

That the draft minutes of deliberative meeting No. 1 of 20 June 2019, be confirmed.

2. ****

3. Parliamentary Budget Office 2019 Post-election Report

Resolved, on the motion of Mr Evans, seconded by Mr Crouch:

That the Committee receives and considers the Parliamentary Budget Office 2019 Post-election Report, and publishes the Report, together with Committee commentary on its conclusions and recommendations.

4. ****

5. ****

6. ****

7. ****

8. Next meeting

The next meeting is scheduled for 9:00am, 22 August 2019 in Room 1254

The Committee adjourned at 9:55am.

MINUTES OF MEETING No 3

9:00am, Thursday 22 August 2019

Room 1254, Parliament House

Members present

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Adam Crouch, Mr Lee Evans, Ms Felicity Wilson

Officers in attendance

Bjarne Nordin, Jacqueline Linnane, Cheryl Samuels, Derya Sekmen

Apologies

Mr Ryan Park

1. Minutes of Meeting No. 2

Resolved, on the motion of Mr Evans, seconded by Mrs Davies:
That the draft minutes of deliberative meeting No. 2 of 1 August 2019, be confirmed.

2. ****

3. Parliamentary Budget Office 2019 Post-election Report

The Chair moved that the Committee consider the Chair's draft report as circulated

Debate ensued.

Resolved, on the motion of Ms Wilson, seconded by Mrs Davies:
That consideration of the draft report be deferred until the next meeting, and Mr Stephen Bartos, former Parliamentary Budget Officer, be invited to brief the Committee on the Parliamentary Budget Office 2019 Post-election report.

The Committee agreed that the secretariat would prepare a comparative summary of PBO operations in other Australian jurisdictions for circulation prior to the next meeting.

4. ****

5. ****

6. Next meeting

The next meeting is scheduled for 9:15am, 23 September 2019 in the Jubilee Room.

The Committee adjourned at 10:02am.

MINUTES OF MEETING No 5

9:00am, Thursday 26 September 2019

Room 1254, Parliament House

Members present

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Adam Crouch, Mr Lee Evans, Ms Felicity Wilson

Officers in attendance

Bjarne Nordin, Jacqueline Linnane, Cheryl Samuels, Derya Sekmen

1. Apologies

Mr Ryan Park

2. Minutes of Meetings No. 3 and No.4

Resolved, on the motion of Mr Crouch, seconded by Mr Evans:

That the draft minutes of deliberative meetings No. 3 of 22 August 2019 and No. 4 of 23 September 2019, be confirmed.

3. ****

4. ****

5. Parliamentary Budget Office report

The Committee discussed the Parliamentary Budget Office report recommendations.

Resolved, on the motion of Mr Crouch:

That recommendations be added to the PBO report to extend the operational life of the Parliamentary Budget Office to 12 months before the election and to enable all Members to seek policy costings in the first six months after its establishment.

6. ****

7. ****

8. Next meeting

The next meeting is scheduled for 9:00am, 24 October 2019 in the Room 1254.

The Committee adjourned at 9:40 am.

MINUTES OF MEETING No 6

9:00am, Thursday, 24 October 2019

Room 1254, Parliament House

Members present

Mr Greg Piper (Chair), Mrs Tanya Davies (Deputy Chair), Mr Adam Crouch, Mr Lee Evans, Ms Felicity Wilson, Mr Ryan Park

Officers in attendance

Elaine Schofield, Bjarne Nordin, Jacqueline Linnane, Caroline Hopley, Cheryl Samuels, Ze Nan Ma

1. Minutes of Meeting No 5

Resolved, on the motion of Ms Wilson, seconded by Mrs Davies:

That the minutes of Meeting No 5 of 26 September 2019, be confirmed.

2. ***

3. ***

4. Parliamentary Budget Office 2019 Post-election Report – Consideration of the Chair's Draft Report

The Committee considered the amended Chair's draft report on the Parliamentary Budget Office 2019 Post-election Report.

Discussion ensued.

The Committee noted Mr Park's support for the establishment of a permanent Parliamentary Budget Office.

Resolved, on the motion of Ms Wilson, seconded by Mr Evans:

- That the Committee considers the Chair's amended draft report as circulated.
- That the Committee adopts the draft report as amended and signed by the Chair for presentation to the House, and authorises Committee staff to make appropriate final editing and stylistic changes as required.
- That once tabled, the report be published to the Committee's webpage.

5. ***

6. ***

7. Next meeting

The next meeting is scheduled at 10:00am, 21 November 2019 in Room 1254.

The Committee adjourned at 9:30am.

Appendix Two – Parliamentary Budget Office 2019 Post-election Report



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Parliamentary Budget Office

2019 Post-election Report

June 2019

Preface

This is a report on the work of the NSW Parliamentary Budget Officer in 2018-19. Pursuant to section 15(3) of the *Parliamentary Budget Officer Act 2010 (PBO Act)*, the report is provided to the Public Accounts Committee (PAC). It contains recommendations on operational arrangements and activities of the Parliamentary Budget Officer in respect of future general elections.

A key message from this report is that the New South Wales Parliamentary Budget Office remains among the most effective independent fiscal oversight institutions both domestically and internationally in terms of promoting sound public sector budgeting and finances.

Both Government and Opposition had most of their policies costed and reported on in Budget Impact Statements. NSW voters were able to see the budget impact of almost all proposed policies.

Equally important, both Government and Opposition put forward a suite of feasible and fiscally responsible policies, signed off by an independent Parliamentary Budget Officer. Irrespective of the election outcome, NSW was assured of sustainable public sector finances following the election.

This positive result was achieved through the work of many people: staff in the PBO, in the Parliament, in NSW public sector agencies, and in the offices of the Premier and the Leader of the Opposition. The Presiding Officers of the Parliament provided unfailing support and encouragement for the work of the PBO.

Stephen Bartos

Parliamentary Budget Officer

June 2019

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Executive Summary and Recommendations

Executive Summary

This report to the Public Accounts Committee has two purposes:

1. Accountability, providing a full report on PBO operations in 2018-19
2. Documenting lessons learned, so as to assist PBO activities in the future

New South Wales (NSW) was the first Australian jurisdiction to establish a Parliamentary Budget Officer. There have now been three NSW general elections where a PBO has costed proposed election policies. Each of these has been very different, and raised unique challenges.

In many respects, the 2018-19 experience was an improvement over 2014-15, following passage of amendments to the *Parliamentary Budget Officer Act 2010 (PBO Act)* and implementation of other recommendations from the 2014-15 PBO Post-election Report. Particularly notable were:

- Earlier recruitment of the Parliamentary Budget Officer, who started in September 2018.
- A large accommodation space which allowed co-location of all PBO staff for the duration of the office.
- A shorter turnaround time for agency heads to provide information following the start of the caretaker period.
- A simpler and clearer set of financial measures reported in the Budget Impact Statements (BIS).
- Removal of the requirement for a Statement of Uncommitted Funds, and instead introduction of a requirement for NSW Treasury to prepare a Pre-Election Budget Update (PEBU).
 - Although there was some criticism of the PEBU by the Opposition, and a continuing desire on their part to understand the extent of uncommitted funds.

Overall the experience in 2018-19 was highly positive: accurate costings, timely publication of the BIS, productive relationships with agency staff, and very competent and professional staff dealing with costings in both leader's offices. There were, however, areas where operations could be improved for the future, outlined in this report.

The PBO costed a much larger number of policies, for both Government and Opposition, than in 2014-15. Feedback gathered for this report indicated that proposed policies submitted for costing were also more complex, and covered a much wider range of activity, than in 2014-15.

Policy costings were accurate and reliable. In one notable case, however, there was a significant difference in approach between the PBO and NSW Treasury relating to the feasibility of an accounting treatment of a policy. That difference surfaced only five days before the election: a key lesson is that it would be preferable to have processes to identify and resolve differences earlier.

Relations between the PBO and Government agencies were friendly, professional and constructive. On average agencies' turnaround times for requests for information were the same in 2018-19 as in 2014-15. Despite this, some instances of long delays early in the costings process were a concern to

one of the leader's offices; a message for agencies is that rapid turnaround of simple requests helps manage perceptions of slowness.

Confidentiality was not as well observed in 2018-19 as in 2014-15, with reported cases of staff in NSW agencies providing information about Opposition costings to Ministers' offices¹. An assurance that every policy will be kept completely confidential is fundamental to the operations of the PBO. This report provides recommendations to strengthen confidentiality in future.

Both the Government and the Opposition had almost all of their policies costed and published in the BIS five days before the election. There were, however, some exceptions². In the final week of the election campaign the PBO observed a level of acrimony between the parties about the details of policy costs not seen in 2014-15. With late announcements, there were decisions by both sides either not to release policy costings or not to have policies costed. Both made vigorous claims that the other side had misrepresented the PBO. These claims were equally strongly denied when put to the relevant leaders' offices. One of the contributing factors was the heightened level of rhetoric and contestation in the final week of the election campaign. One possible approach is earlier publication of the BIS. Arguably five days before an election is too late to resolve any differences or conflicts.

A further reason to bring forward the release of the BIS is the increasing tendency for voters to vote early; by the time the BIS were released more than 20% of the NSW electorate had already voted. This trend is being observed across Australia, in all elections. There is no reason to assume it will reverse before the 2023 NSW Election.

Both the Government and Opposition made use of PBO costings during the campaign without authorising publication of the costing. Parts of costings were released to media without their supporting assumptions, caveats, risks, or qualifications. There were instances where slight differences in assumptions led to very different costs for apparently similar policies. Without publication of the assumptions it was not possible for the media or public to understand the differences between the policies concerned. The PBO recommends if public reference is made to a PBO costing and the Parliamentary Budget Officer considers the public is misinformed, the Parliamentary Budget Officer would have a discretion to publicly release the costing, or a part of the costing, as necessary, to correct the misunderstanding. The Parliamentary Budget Officer would consult with the relevant leader before exercising this discretion.

Finally, a fundamental benefit of the institution of the PBO is that it encourages Government and Opposition to develop fiscally responsible policies. The knowledge that policies will be independently costed, and their total budget impact will be calculated and published, provides an important discipline. That proved to be the case for the 2019 Election: both sides provided the

¹ inadvertently in one case; the circumstances of the other are still under investigation

² Section 16 of the PBO Act obliges leaders to submit all proposed policies for costing. An *Election Commitments* paper released with the 2019-20 NSW Budget listed all the policies which had been submitted, which is good practice. It also however included a number which appeared at first glance not to have been submitted. Following an inquiry from the PBO to the Premier, the head of her department indicated these were either funded from existing resources and therefore did not require costing by the PBO as they do not have an impact on the forward estimates, or were components of broader commitments submitted for costing.

electorate with policies which had a sustainable impact on the budget. While they might well have done so without the scrutiny of an independent PBO, the existence of an independent oversight body provides the public with an assurance that costings are genuine, and a reminder to parties about the importance of disclosing the cost of their policies to voters.

The NSW PBO is one of several independent bodies which collectively provide the institutional framework for accountability and transparency for the State. Such institutions are demonstrably linked to better social and economic outcomes³.

Any independent fiscal advisory body will be less effective if its advice is misrepresented or misused⁴, or if its confidentiality requirements are not met. Both Government and Opposition in NSW are encouraged to support the PBO in both the letter and the spirit of the *PBO Act*:

- Have costed all policies proposed to be implemented if the party is elected to Government.
- Only seek to cost policies genuinely proposed by that party.
- Notify the Parliamentary Budget Officer of the public announcement of policies (and in a timely way, to allow the PBO to make the costings public as early as practicable).

³ See for example Kaufmann et. al. (1999) *Governance Matters* World Bank, Washington; Wilkinson, J (2018) *Fiscal Transparency and the Parliamentary Budget Office*, PBO Canberra.

⁴ Notably, while it is inevitable that costings will be used during an election campaign for political advantage, a disturbing trend observed in 2018-19 was use of information derived from costings to attack the other side's policies: which the provisions of the *PBO Act* were intended to prevent.

Recommendations and Findings

Recommendations for Public Accounts Committee and Parliament

Recommendation 1

The PBO recommends two changes to the *PBO Act* to clarify the roles of agency heads and improve their ability to provide information to assist with costings:

1. A provision be included in the *PBO Act* allowing the head of a Government agency to delegate his or her function to a nominee.
2. A provision be included allowing officers of an agency (that is, the head of agency or nominee) to consult with other agencies if required to obtain information to respond to a PBO request for information. This provision should be drafted so a person who seeks further information solely in order to prepare an information return does not by so doing risk breaching confidentiality provisions of the *PBO Act*.

Recommendation 2

The PBO recommends that section 16(2) of the *PBO Act* be amended to make it clear that the statutory time limit for agency responses to PBO requests for information to assist with costings is not a deadline but a limit. A suggested change to this effect (words in bold below) could be:

*(2) The head of the Government agency must respond to the request **as soon as possible, and in any case** within:*

- (a) 10 business days, if the request is made before the commencement of the caretaker period, or*
- (b) 6 business days, if the request is made on or after that commencement, or*
- (c) any other period that is agreed between the head of the agency and the Parliamentary Budget Officer.*

Alternatively, the *PBO Act* could be amended to require the head of a Government agency to respond to requests for information within six business days in the election year, and within three business days during caretaker period, or such other timeframe as is agreed between the head of the agency and the PBO.

Recommendation 6

The *PBO Act* be amended to require the PBO, in consultation with NSW Treasury and Government agencies, to publish an information paper on uncommitted funds in December 2022. An updated paper would be published as soon as practicable after the commencement of the caretaker period.

Recommendation 7

Confidentiality around PBO requests to agencies for information to assist in costings be strengthened in the following ways:

1. The *PBO Act* be amended to increase penalties for unauthorised disclosure of information,
or
A better enforcement mechanism for breaches of confidentiality be added to the *PBO Act*.
2. Agencies should apply the same principles of confidentiality to PBO information requests as given to Cabinet documents.
3. The next PBO provide an increased level of briefings to agencies on the importance of confidentiality.

Recommendation 8

The *PBO Act* be amended to require parliamentary leaders to provide the PBO with a list of election policies for inclusion in the draft BIS **at least 18 days** prior to the election.

Recommendation 10

An additional Section 22(4) be added to the *PBO Act* that allows the Parliamentary Budget Officer to release an election policy costing request and election policy costing, or part thereof, if:

1. it has been referred to publicly, and
2. the Parliamentary Budget Officer considers the public is misinformed.

The Parliamentary Budget Officer must consult with the relevant leader before deciding whether to release the costing or a part of it.

Recommendation 11

An additional section 18(7) should be added to the *PBO Act* that provides:

“The Parliamentary Budget Officer may, under this Part, ask a parliamentary leader to make an election costing request for a policy that has been publicly announced by the party.”

Recommendation 15

The PBO recommends that section 23 of the *PBO Act* be amended to require that:

- i) Parliamentary leaders notify the PBO of their final list of policies for inclusion in the Budget Impact Statement on the eleventh last day before the election.
- ii) The PBO publish the Budget Impact Statements on the eighth last day prior to the election.

Recommendation 17

The PAC consider whether the NSW Parliamentary Budget Office should be permanent.

Recommendations for Future Parliamentary Budget Officers

Recommendation 3

Each agency should appoint an executive level staff member to be responsible for liaison with the PBO during the costings period. This officer should be present at initial meetings between the PBO and agency head, be responsible for coordination of the agency's responses to requests for information to assist with costings, and be at a senior enough level to be able to resolve problems which might arise with delays, lack of information, need for clarification of policy and similar matters.

Recommendation 4

The future PBO should provide agencies with advice on prioritisation of information requests. The process could be as follows:

1. At the start of each week the PBO provides a list of the information requests outstanding, when they were notified, and those that are a priority.
2. The relevant agency could respond on the same day with an indicative timeline for when the priority information requests are expected to be completed.

Recommendation 5

The PBO Operational Plan should specify costings are final once published in the BIS.

Recommendation 9

The next PBO Operational Plan should require the final list of election policies be provided by parliamentary leaders to the PBO **at least three days** prior to the publication of the BIS, with no amendments to those policies to be accepted by the PBO for the purposes of publishing the BIS following that date.

Recommendation 12

The next PBO should use a ten year costing timeframe for policies with long lead times, large capital spends or significant revenues or expenses occurring beyond the forward estimates. The BIS should include a separate section that reports on the individual and aggregate impacts over ten years of policies that have significant effects beyond the forward estimates.

Recommendation 16

A Chief Accountant be employed in the future PBO.

Recommendation 13

NSW Treasury publish accounting policies in relation to key budget items; in particular, develop and publish a policy on treatment of asset sales in the budget.

Recommendation 14

The Half-Yearly Review and PEBU should provide a list of any significant changes in transactions between the GGS and the PNFC/PFC sectors, showing the impacts on financial indicators for the sectors (revenue, expenses, capital expenditure, and net lending/borrowing).

Introduction

The Public Accounts Committee (PAC) of the NSW Legislative Assembly may “*monitor and review the operations of the Parliamentary Budget Officer*” (*PBO Act* section 15(1)). An associated requirement for the PBO is to “*...furnish a report to the Public Accounts Committee as soon as practicable after the holding of the State general election for which he or she was appointed. The report may include recommendations on operational arrangements and activities of the Parliamentary Budget Officer in respect of future general elections*” (*PBO Act* section 15(3)).

In preparing this report for the PAC the PBO has consulted widely on a draft, and obtained comments from the offices of both parliamentary leaders (as defined in the *PBO Act*, the Premier and the Leader of the Opposition), the NSW Treasury, and a number of NSW Government agencies. All comments have been considered and where possible feedback has been incorporated in this report.

It has not always been possible to reconcile comments from different perspectives. There is a wide range of views about desirable future PBO operational arrangements. Some of these views are not compatible. Where such instances have arisen, this report has attempted to summarise the various arguments and reach a preferred position based on a judgement on whether new arrangements would improve transparency and disclosure, be practical to implement, and assist NSW parliamentarians.

The PBO wishes to record its thanks to all those who provided comments on the draft of this report, and is pleased to report to the PAC that all the feedback received was constructive and well informed.

The report is set out as follows:

Part 1 covers the establishment of the office and its Operational Plan for 2018-19. It makes recommendations in relation to some aspects of the *PBO Act* which made PBO operations slower and more difficult (and are unlikely to have been intended to have this impact).

Part 2 covers the processes whereby the PBO costed policies. This is the primary role for the NSW PBO, and consequently this is the longest section of the report.

Part 3 covers the publication of BIS prior to the election; it recommends a slightly earlier publication of the BIS than at present.

Parts 4 to 7 cover media engagement, resourcing, budgeting, IT and accommodation.

Part 8 canvasses whether the PBO should be made permanent.

The report includes a number of appendices; notably, a summary of lessons learned from an OECD meeting of independent fiscal institutions. It also attaches legal advice received by the PBO.

Part 1 - Establishment of the Office and Operational Plan

Background

As the 2019 Election was the third in NSW with a PBO in place, there is a robust framework for establishing the office and preparing the PBO's Operational Plan. Following his appointment, the focus of the Parliamentary Budget Officer was the drafting of the Operational Plan. It was drafted following extensive consultation, and included a new section relating to misrepresentation of the PBO. This provided guidance to PBO staff and to the nominees of the parliamentary leaders as examples emerged in the media of misleading references to PBO costings.

Establishment of the Office

The procedure for appointing the Parliamentary Budget Officer is set out in section 6 of the *PBO Act*.

In accordance with the *PBO Act*, Stephen Bartos was appointed Parliamentary Budget Officer by the Presiding Officers for the period of 6 September 2018 to 28 June 2019. The selection processes started around a month earlier, and the Parliamentary Budget Officer was appointed two weeks earlier, than in 2014-15 as a result of feedback (see the 2015 Post-election Report).

Upon commencing appointment, the first priorities of the Parliamentary Budget Officer were:

- a) To establish the PBO, comprising staff to assist in carrying out the functions of the PBO.
- b) To prepare an Operational Plan outlining the proposed objectives, strategies and activities of the PBO.

Further details about the staff of the PBO are outlined in the Resource Management part of this report, while details about the Operational Plan are below.

Operational Plan

Introduction

The Operational Plan sets out; the objectives of the Parliamentary Budget Officer in exercising his or her function; an outline of strategies to achieve those objectives; and a schedule of activities that the Parliamentary Budget Officer proposes to undertake.

The Operational Plan must be prepared no later than one month after the appointment of the Parliamentary Budget Officer (section 14(3) of the *PBO Act*). The Parliamentary Budget Officer is to provide a draft of the plan to the Presiding Officers of the Parliament for their approval. Once approved by the Presiding Officers, the Operational Plan is to be tabled in both Houses of Parliament.

Purpose of the Operational Plan

The core purpose of the Operational Plan is to support the PBO to be an independent assurance instrument for costing election policies proposed by Government and Opposition. The Operational Plan includes the objectives proposed by the Parliamentary Budget Officer in exercising his functions. The objectives set are specific, measurable goals against which the Parliamentary Budget Officer and his staff can be held to account for the performance of their functions. The

Parliamentary Budget Officer's objectives and strategies promote accountability and transparency of the PBO and the major political parties for the costings of their policies.

A comprehensive Operational Plan was key during the 2019 Election. The inclusion of an indicative list of misrepresentations was vital as in the week prior to the election, both the Coalition and NSW Australian Labor Party (ALP) approached the PBO strongly asserting the other had misrepresented the PBO. The Operational Plan provided guidance in dealing with the misrepresentation allegations.

Approval of the Operational Plan

After establishing the office, the Parliamentary Budget Officer prepared a draft Operational Plan for the Presiding Officers, as required under section 14 of the *PBO Act*. On the 13 September 2018, the Parliamentary Budget Officer wrote to the Premier, the Leader of the Opposition, the Chair and Secretary of the PAC and NSW Treasury seeking feedback before finalising the Operational Plan. These stakeholders were satisfied overall with the draft Operational Plan and provided only minor feedback. All feedback was taken on board and the plan updated accordingly.

The Operational Plan was subsequently approved by the Presiding Officers and tabled in both Houses of Parliament on 27 September 2018. The tabling of the Operational Plan is significant for the PBO's operations, as it is the date from which the PBO can begin accepting costing requests from parliamentary leaders.

Amendment of Approved Operational Plan

The approved Operational Plan was amended as a result of the *Parliamentary Budget Officers Amendment Bill 2018*, which passed in the Legislative Assembly on 25 September 2018 and in the Legislative Council on 26 September 2018. The details of the amendments can be found in Appendix H of this report.

Operational Plan Enhancements

Based on the PBO's 2015 Election experience, the following additional items were added to the 2018 Operational Plan:

- *Public misrepresentations* - Circumstances under which the Parliamentary Budget Officer would make comment on costings that have been publicly misrepresented. The list was intended to be indicative and not exhaustive.
- *Running total of the costs of completed policy costings* – A running total would be provided to the relevant parliamentary leader at the end of each month before 31 January 2019, and every two weeks in the period between 1 February and the NSW Election date of 23 March 2019. This was done.
- *Spending and savings measures tables in the BIS* - The BIS would include separate tables, showing totals, for spending and savings measures, in addition to the tables published for the 2015 Election.
- *Agreed timing of policies* - The Parliamentary Budget Officer agreed with each parliamentary leader that the majority of policies to be submitted to the PBO would be provided before 6 March 2019.

Reports to the Presiding Officers

As foreshadowed in the Operational Plan, the PBO prepared regular operational reports to the Presiding Officers. From October 2018 to March 2019, four reports were provided to the Presiding Officers.

The reports focused on operational matters, such as, resourcing and staffing, allocated budget expenditure tracking, and were regularly used to seek the Presiding Officers' approval to appoint new staff. These operational reports did not include any information about the costing requests received by the PBO or activities related to the costing function of the PBO. The Presiding Officers and their offices were impeccably professional and at all times maintained and supported the independent role of the PBO.

Legal Issues

Nominee May Act for Head of a Government Agency

Feedback received following the election highlighted that there were inconsistent views as to whether a head of a Government agency could delegate his or her functions under the *PBO Act*. In some agencies, a strict interpretation of the *PBO Act* resulted in agency heads being the first point of call for all information requests. Agency feedback suggested that this resulted in an unnecessary workload for some agency heads and often slowed down the costing process.

It would be desirable to amend the *PBO Act* to remove ambiguity as to whether a head of a Government agency can delegate his or her functions under the *PBO Act*. This recommendation may also assist agencies streamlining internal sign off processes.

Agencies Needing to Talk about Information Requests

As the PBO started operations, an officer in a NSW Government agency raised a query in relation to section 16(4) of the *PBO Act*, which prohibits the head of a Government agency or any member of staff of that agency disclosing "any information or document" relating to a PBO request for information, except "to a member of staff or head of the agency". The query was whether this section prevented staff in one agency consulting with staff in another about a request for information to help with a costing.

The PBO sought legal advice on this issue. The advice (see Appendix E) indicated that the section 16(4) did indeed prevent agencies consulting with each other. The work around solution which the PBO developed, in line with the advice from the NSW Crown Solicitor, was to send information requests in parallel to the heads of agencies who needed to talk about an information request, to enable their staff to work in parallel on responding.

Although cumbersome, and initially a source of concern among agencies about duplication, this work around arrangement was a necessary response to the practicalities involved. In order to respond to a PBO request for information it is often essential for two or more agencies to talk with each other.

This has come to the fore in particular since the move by the NSW Government to "cluster" arrangements where a number of similar agencies are clustered together with a lead department. Often the lead department has the budget and financial information, but may not necessarily have a

full picture of the policy details around a policy which the PBO has been asked to cost. Conversely, an agency in the cluster may be fully across the policy but not necessarily all the budget and financial details. Both have to be involved in responding to a PBO request for information.

Similarly, it was often helpful for an agency to be able to talk with NSW Treasury to confirm information.

It is likely the prohibition on agencies talking with each other was an unintended consequence of the confidentiality provisions. Confidentiality is of utmost importance (see later in this report). Nonetheless, it should be possible for agencies to share information to the extent needed to provide complete information to help cost a policy. The PBO recommends the *PBO Act* be amended to this effect.

Recommendation 1

The PBO recommends two changes to the *PBO Act* to clarify the roles of agency heads and improve their ability to provide information to assist with costings:

1. A provision be included in the *PBO Act* allowing the head of a Government agency to delegate his or her function to a nominee.
2. A provision be included allowing officers of an agency (that is, the head of agency or nominee) to consult with other agencies if required to obtain information to respond to a PBO request for information. This provision should be drafted so a person who seeks further information solely in order to prepare an information return does not by so doing risk breaching confidentiality provisions of the *PBO Act*.

Part 2 - Costings

Introduction

This part discusses the requests for policy costings received by the PBO and the time taken to complete the costings. It also covers requests sent to agencies for information, how they responded, the relationship between the PBO and agencies, and where processes and relationships with agencies could be improved.

We compare the 2019 Election with the PBO experience in the 2015 Election to draw insights. Overall, there were 21% more costing requests for the 2019 Election; they were submitted earlier, with 29% of total costing requests received by the end of November. Typically they required more detailed information to be provided and were more complex to cost.

The final published costings were comprehensive, accurate and mostly completed in a timely manner. For the next PBO, there is scope for improvement in completion times, especially during the earlier periods such as October.

This part is set out as follows:

- Costing requests – numbers, completion times and publishing.
- Information requests sent to agencies, including agency response times and PBO completion times where information requests were sent.
- Building strong working relationships with agencies, with suggestions for improvements.
- Confidentiality, with suggestions for improvements to ensure confidentiality is better observed for the 2023 Election and the lead-up period in 2022.

Key lessons for 2022-23 are:

1. The PBO should be better resourced from September onwards, in the event a large number of costing requests are received early.
2. There needs to be a greater awareness amongst agencies that the ten day timeframe to complete information requests under the *PBO Act* is a maximum; most information returns should be completed earlier.
3. Agencies could take advantage of the provision in the *PBO Act* for them to liaise with the PBO for a longer deadline for provision of information related to complex costings, especially early in the process.
4. There is scope for the PBO and some agencies to provide better two-way flows of information in relation to information requests received, and timing for completion by the agencies.
5. Agencies should have sufficient staffing available to work on information requests in early January 2023, noting that January in an election year is typically a busy time for costing work.
6. Agency confidentiality procedures should be strengthened, including applying the same principles of confidentiality as used for Cabinet documents.

Costing Requests - Numbers, Completion Times and Publishing

Costing Requests Received and Time to Complete by the PBO

For the 2019 Election, 576 costing requests were received. Of these 227, or 39%, were published by the PBO. The remaining 349 costings were not published due to the PBO not receiving notification by the relevant parliamentary leader that the policy had been announced.⁵

Figure 1 below provides a monthly total of the costing requests received and the costings completed by the PBO. The peak period for completing costings was February and March 2019, where 53% of the total costings were completed.

Figure 1: Number of Costing Requests Received and Costings Completed by Month

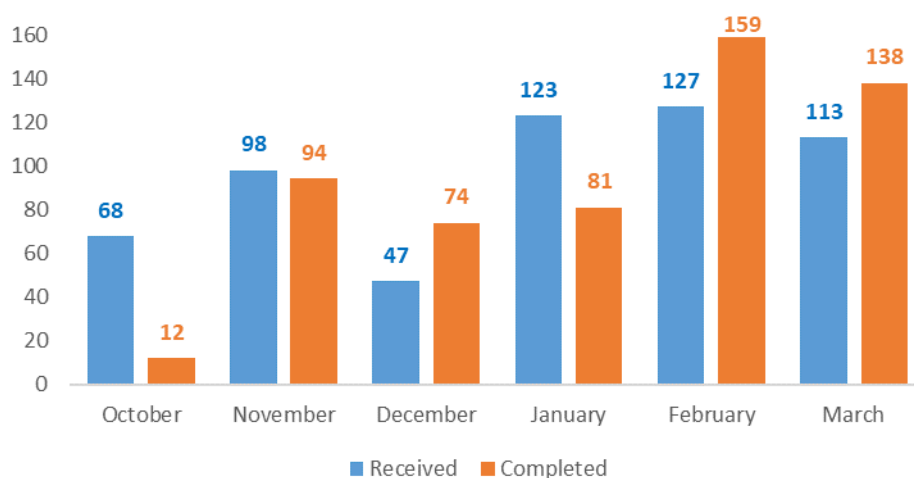


Table 1 shows the average number of business days taken to complete costings by the PBO and provide the completed costing to the relevant parliamentary leader.⁶ On average, the PBO completed costing requests in 8.7 days. This varied with completion time averaging 10.4 days in the pre- caretaker period (pre 1 March 2019) and 1.3 days during caretaker period.

Table 1: Completion Times for Costings

Average days to complete costings – all costings	8.7 days
Average days to complete costings – received before 1 March 2019	10.4 days
Average days to complete costings – received on or after 1 March 2019	1.3 days

Submitting Costing Requests to Allow the PBO Sufficient Time to Complete Costings

Section 19(1) of the *PBO Act* requires both parties to submit their requests ‘in sufficient time’ for the PBO to complete the costing for the BIS. Except for two, the PBO received all policies in sufficient time for publication in the BIS. In addition, both parties submitted their policies considerably earlier when compared to 2014-15, allowing the PBO more time to complete its work.

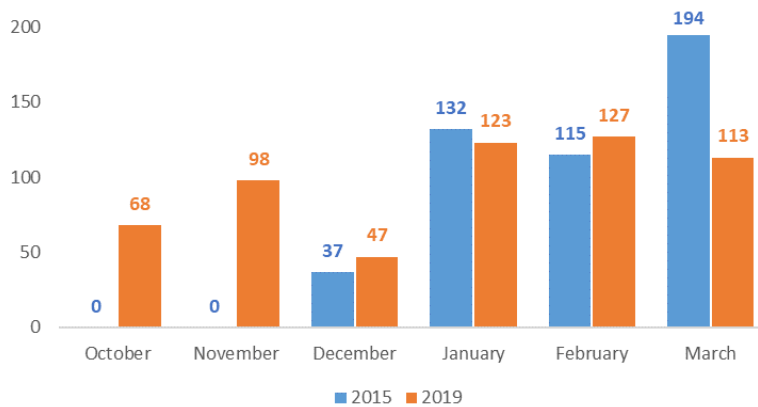
⁵ Under Section 23(4) and 23(5) of the *PBO Act*, the PBO only publishes costing for policies notified by the parliamentary leader as having been announced.

⁶ Business days exclude public holidays and the NSW public service shutdown period between 24 December 2018 and 4 January 2019. Costing requests received after 5pm were recorded the next business day.

In an attempt to improve timeliness, the PBO agreed with each parliamentary leader’s office that the majority of costings would be submitted before 6 March 2019 (see 2018 Operational Plan, p.5) and both parliamentary leaders adhered to this agreement. There were significant changes to some policies and additional costing requests received after that date, as expected in any election campaign, but as the data in Table 1 shows, costings were able to be completed rapidly during March 2019 because most costing requests were submitted early. The PBO suggests a similar approach be taken for the next election.

Figure 2 below compares the costing requests received by month in 2014-15 and 2018-19. In 2018-19, 21% more costing requests were received (576 compared to 478), and 29% of the total costing requests for 2018-19 were received in October and November (166). By contrast, for the 2015 Election, the first costing requests were not received until December 2014. Receiving costing requests later during the 2015 Election resulted in a peak in March 2015. While having parties send their costing requests earlier to the PBO for the 2019 Election was a healthy development, the PBO had not anticipated the large volumes that were received in October and November 2018.

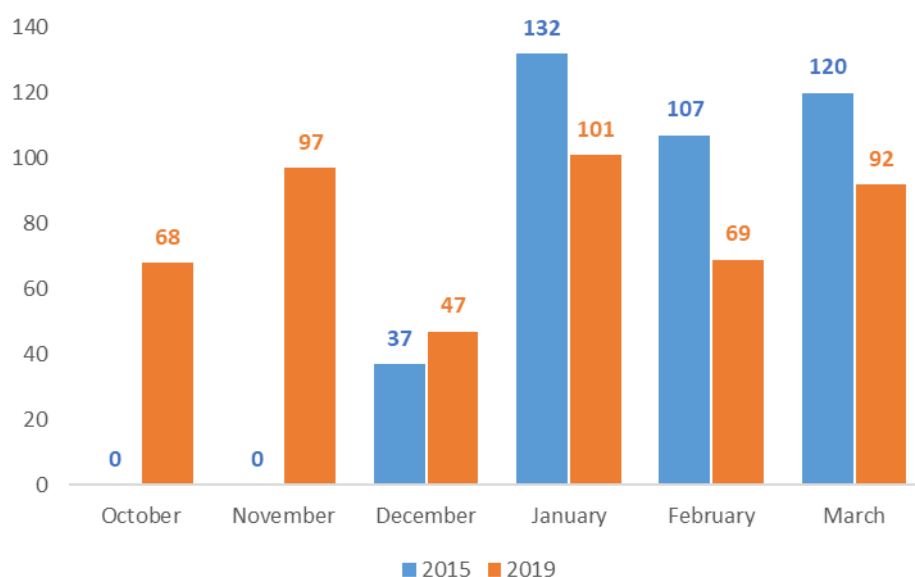
Figure 2: Costing Requests Received in 2014-15 versus 2018-19



Opposition Policies Submitted to the PBO

In comparison to the 2014-15 period, in general the Opposition submitted their costing requests earlier to the PBO in 2018-19, as shown in Figure 3 (over page).

Figure 3: Policies Submitted by the Opposition in 2018-19 Compared to 2014-15

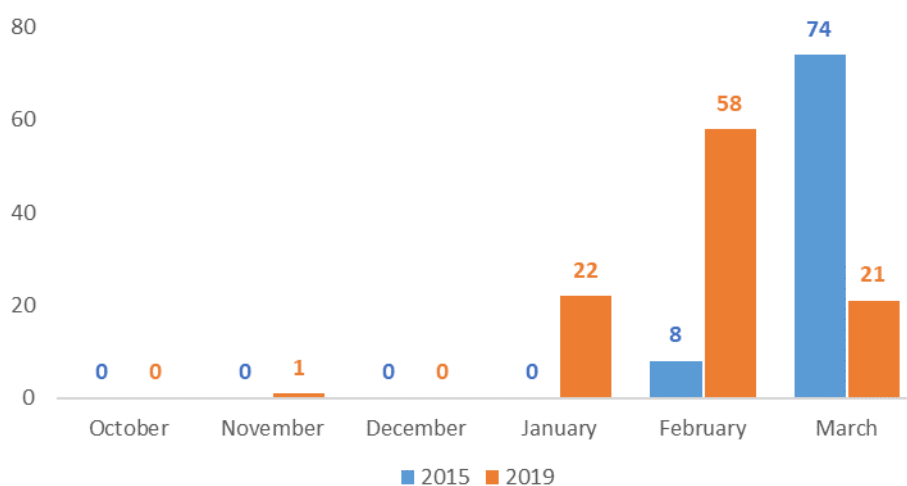


Most of the Opposition election policies submitted for costing in March 2019 were variations on previously costed policies, which allowed costings to be completed rapidly.

Government Policies Submitted to the PBO

For the 2019 Election, the Government submitted most of its policies to the PBO earlier in comparison to the 2015 Election. It submitted 22 requests in January, with the remainder received in February and early March. This was a welcome improvement. Figure 4 compares the number of policies submitted by the Government for the 2015 and 2019 Elections.

Figure 4: Policies Submitted by the Government in 2018-19 Compared to 2014-15



Similar to the 2011 and 2015 Elections, the Government chose to submit many of their costing requests to NSW Treasury and other agencies in the first instance, before submitting policies to the PBO for independent costing. This meant agencies were generally aware of the Government's proposals, and therefore could respond to the PBO's questions and information requests quickly.

NSW Treasury and agency costing advice was generally provided to the PBO with the Government's policies. This was used for information, but was not accepted without question. The PBO is required to independently cost all policies submitted by the Government or Opposition. As such, the PBO costed all Government policies using the same method and process as used for the Opposition. It tested results from its independent work against NSW Treasury and agency advice.

On some occasions the assumptions differed between the agency costing and the Government policy submission (for example, in cases where the Government took a different view to the agency about how quickly a capital project could be completed). In these instances, the PBO independently assessed the government policy assumptions; for example, determining whether it was feasible to complete a major project within the policy's proposed expenditure profile.

It is likely the Government will follow a similar procedure for the 2023 Election, first submitting its proposed policies to agencies for costing and refinement prior to submitting them to the PBO. The PBO considers this is a sensible practice in saving time and not duplicating communications and costing requests sent to agencies. The main issues for the next PBO are to ensure:

- The Government submits its policies in sufficient time to allow independent and rigorous scrutiny and analysis by the PBO.
- Where a costing has been completed by an agency for the Government, the Government should submit this work to the PBO at the same time⁷ as the costing request is sent to the PBO, including whether it had been agreed with or seen by NSW Treasury.
- When a costing request has been pre-costed by an agency and this pre-costed information differs from the Government's policy (e.g. capital expenditure timing as mentioned above), the Government should clearly outline where their assumptions differ from the agency information.

Future Timing Improvements

It would be desirable for the Operational Plan to request parties to agree that complex new policies requiring detailed modelling to be submitted prior to mid-February of the election year. Such a request would be consistent with Section 19 of the *PBO Act* requiring parties to submit policies in sufficient time for them to be costed by the PBO. The PBO would also accept modifications to policies in March requiring small changes to existing models, or policies specifying a defined level of funding such as a grants program.

Information Requests, Including Agency Response Times

Initial Observations

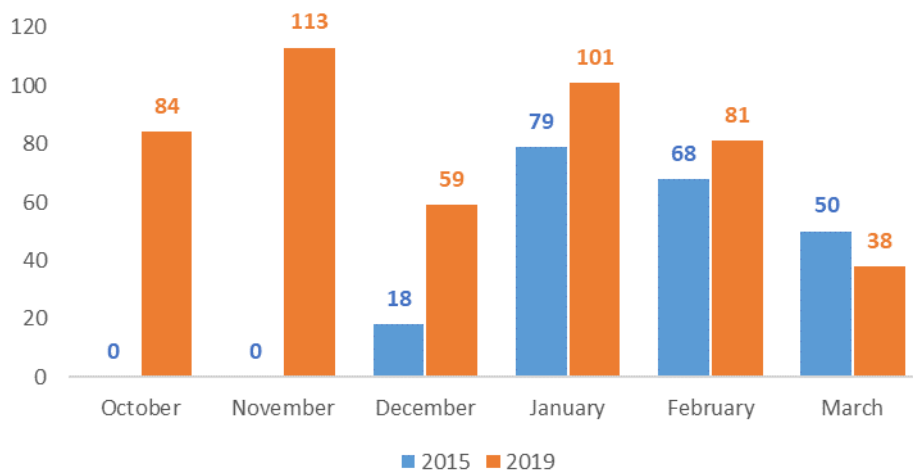
The PBO observed the information returns completed by agencies were generally of a high standard. Agency staff often went above and beyond what was required to be helpful, and there was considerable innovative work and high quality data analysis completed by agencies.

⁷ For the 2019 Election it took some time for this process to develop. This had been the standard operating practice for the 2015 and 2011 Elections, but due to changes in staffing the Premier's nominee was initially not aware of this practice. In hindsight, provision by the PBO of a more thorough briefing for the nominee would have been helpful.

Information Requests Sent to Agencies

A direct result of receiving costing requests earlier from the Opposition was that information requests were also sent earlier to agencies. Figure 5 shows the information requests sent to agencies by month in 2018-19 with a comparison to 2014-15. In total, 476 information requests were sent in 2018-19. This is a 121% increase when compared to 2014-15 (215 information requests sent in 2014-15). This was largely driven by the higher complexity of policies submitted for costing in 2018-19, requiring more information from agencies. There were 197 information requests sent to agencies in October and November or 41% of the total. In the 2015 Election, the first information requests were sent in December.

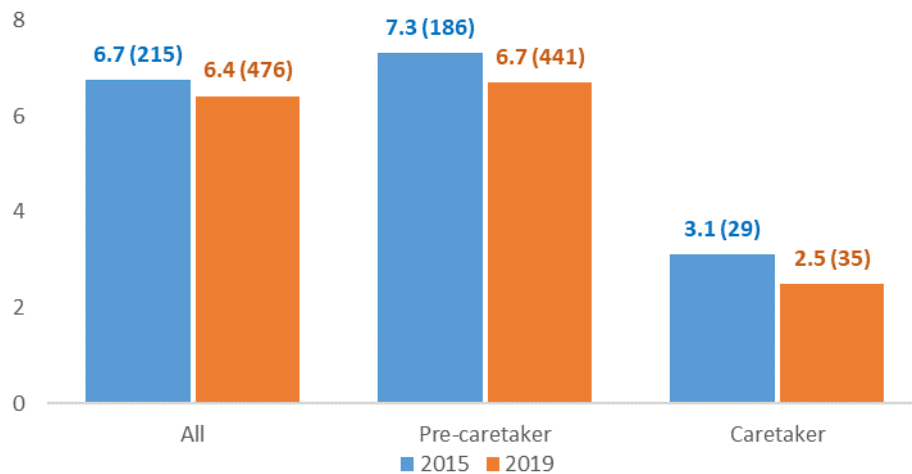
Figure 5: Information Requests Sent to Agencies



Agency Response Times in 2018-19 Compared to 2014-15

Figure 6 shows the average agency response time was 6.4 days, a small improvement on the 6.7 day average turnaround for the 2015 Election. The overall improvement compared to 2014-15 is noteworthy especially given the 121% increase in information requests sent and the greater complexity involved in information requests. The average response time can be distorted by outliers, such as returning simple requests within one day or returning complex requests outside the specified timeframe. The average response time by agencies does mask a trend that during the 2019 Election, some agencies were working to the ten day timeframe. This is discussed further in “Agencies Taking the Full Ten Days to Respond to Information Requests”.

Figure 6: Response Times in 2018-19 Compared to 2014-15



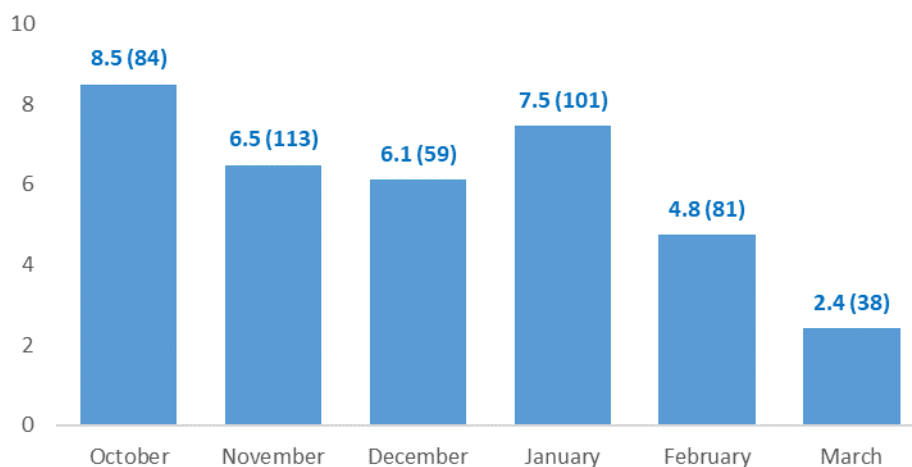
The average turnaround time reduced to 2.5 days during caretaker period, a good improvement on the 3.1 day turnaround in 2014-15.

The faster completion times during caretaker period followed the same trend observed in 2014-15. It is generally related to agencies refining small variations on previous costed policies, which is easier and faster to do than providing information returns on a new policy. Agencies also appreciated the need for speedier responses as the election approached. The change to the *PBO Act* requiring agencies to complete information returns in six days during caretaker period may also have assisted in improving response times in March.

Completion Times by Month for Completed Information Requests

Figure 7 provides the agency completion times for information requests by month. There was a strong improvement in average completion times over the period, other than January 2019 (discussed over the page).

Figure 7: Agency Completion Times for Information Requests



Average turnaround times improved from 8.5 days in October, to 4.8 days in February, and 2.4 days in March, suggesting agencies did appreciate the need to supply information more quickly as the election approached.

Over the course of the election, agencies developed better internal sign off processes, and were able to speed up their responses as they became more familiar and comfortable with the PBO processes. The majority of agencies completed information returns to a good standard and within a timely manner.

Given the 2018-19 experiences, agencies should be better prepared to respond more quickly to PBO information requests in 2022-23.

Staff Absences during the Christmas Shutdown Period and January May Be Causing Delays with Costings

It is now a standard practice in NSW for all non-essential public service activity to shut down for two weeks over the Christmas period. The Christmas closedown period for agencies in 2018-19 was from Monday, 24 December 2018 to Friday, 4 January 2019. The PBO also shut down over the period. The Parliamentary Budget Officer made himself available to answer questions from the parties over the shutdown, although there were none.

The business days in the shutdown period are not counted in the “days to complete” data in Figure 7. Given the steady trend of a reduction in response times, other than January, the data does suggest the shutdown and the tendency of staff to take further annual leave following the shutdown may have partly contributed to the slower completion times in January 2019. January 2019 had a 7.5 day average turnaround time, which was the highest of all months other than October. A major contributor, observed by PBO staff, was numerous key agency staff with information essential for completing costing work were on annual leave at this time. It appeared many agencies did not factor the workload pressures of an election year into their leave approvals.

Costing Completion Timings for the PBO

Figure 8 shows PBO times to complete costings by month received where information requests were sent to agencies. It also shows the time taken for agencies to respond to these requests. PBO completion times improved from November 2018 onwards.

The data in Figure 8 suggests the slower times to complete costings in October was mainly attributable to the PBO taking more time to complete the costings after receiving the relevant information response from the agencies.⁸ The longer completion times were primarily caused by:

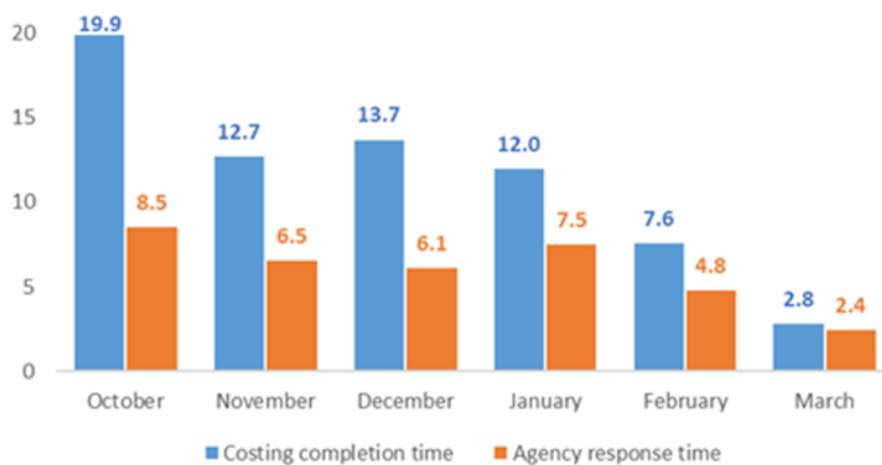
- The PBO building up its staffing resources over the October period.
- The relevant PBO staff skilling up, developing agency relationships, and familiarising themselves with the processes to complete costings.
- Greater complexity in policies submitted for costing early in the process, requiring significantly more analysis and modelling.
- PBO staff acquiring an understanding of the, often quite detailed, modelling data provided

⁸ The slower completion times for October requests was also, in part, attributable to agencies taking longer to respond to PBO information requests. Of the 64 policies received in October where information requests were sent to agencies, only five required the PBO to follow up with further written information requests.

by the agencies, and then refining the models to more accurately cost the proposed policy. The data suggests, in hindsight, the PBO could have benefited from a higher level of resourcing in October 2018. Staffing a PBO is always difficult; staff are required to have a good understanding of government budgeting and finance, excellent interpersonal skills, political awareness coupled with political neutrality, strong analytical skills, ability to cope with ambiguity, and an ability to work quickly under pressure. A key source of staff with those skills is NSW Treasury. One option would be for NSW Treasury to identify three or four suitable candidates for secondment to the PBO early (well before the recruitment of the PBO, so the identified staff can be available to start work in the PBO Office as soon as the Parliamentary Budget Officer is appointed).

Alternatively, as discussed in Part 8, a permanent PBO would address the problem.

Figure 8: PBO Time to Complete Costings by Month Where Requests Sent



Agencies Taking Longer Than 10 Days to Respond to PBO Requests

Although on average agencies responded to requests for information quickly, a few outliers early in the costings process involving long delays (including long delays for simple information) led to an Opposition perception of slowness. Agencies should be aware of the need to manage perceptions and avoid long delays where possible – and if not possible, provide early warning of the reasons for potential delays and negotiate an extended timetable rather than submitting late information without explanation.

There were 34 costing requests where agencies took longer than ten days to respond. Of these, 21 did not receive PBO agreement for an extended response time resulting in a breach of the *PBO Act*. This delay was especially problematic in instances where agencies responded after ten days or longer with a response that was unhelpful.

Table 2: Agencies Taking Longer Than 10 Days to Respond without Prior Agreement

Agency	Number exceeding 10 days
Department of Justice	2
Department of Planning and Environment	9 ⁹
NSW Treasury	2 ¹⁰
Sydney Cricket Ground Trust	1 ¹¹
Transport for NSW	7

The *PBO Act* does not contain any penalties for agencies breaching the ten day time limit. Amendments to the *PBO Act* should be considered to establish better mechanisms to enforce the ten day limit.

A stakeholder has suggested if an agency fails to meet the ten day limit, the PBO could be required to publicly notify the breach (with the agreement of the parliamentary leader concerned).

Importantly, the next PBO and agencies should make better use of provisions to agree longer timeframes where needed for complex costings. Such agreements may be particularly useful earlier in the process in October and November. Then in complex policy areas, it is more important for relevant data sets and high quality models to be developed and provided to the PBO which can later on be used to refine policies.

Agencies Taking the Full 10 Days to Respond to Information Requests

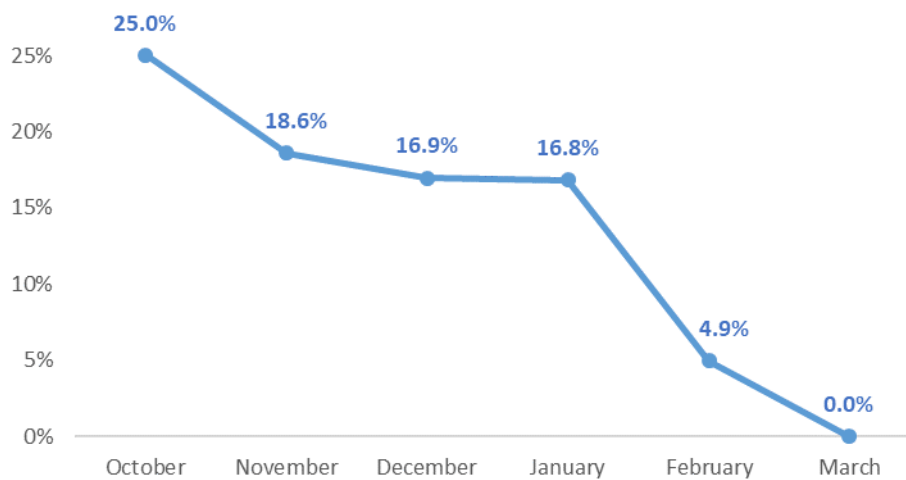
The PBO noticed at the start of the costing process in October that some agencies were providing completed information rigidly according to the ten day time limit specified in the *PBO Act*. This contributed to an Opposition perception that the agencies concerned were seeking to impede the costing process. The percentage of responses taking a full ten days decreased from November onwards as shown in Figure 9; this could have been because the PBO passed on concerns to the relevant agencies; alternatively, the agencies may have become faster as they became more familiar with the costing process.

⁹ Department of Planning and Environment (DPE) recorded nine breaches mainly due to: 1. Substantial correspondence, clarification and follow-up questions between DPE and the PBO. 2. DPE assumed that the clock had been reset or the PBO would provide an extension due to substantial clarifications required on what the proposed policy involved. This highlights the importance of avoiding miscommunication by confirming an extension in writing. 3. Technical breaches involved three information returns due the day before shutdown, received on the first working day after the end of shutdown.

¹⁰ One breach for NSW Treasury was due to an internal approval process. Approval for the information return was signed off internally in NSW Treasury within the timeframe, but the PBO received the information a day late.

¹¹ While the Sydney Cricket Ground Trust did not receive formal approval to exceed the ten day timeframe, there was apparently an informal understanding between the PBO Senior Budget Analyst and the Sydney Cricket Ground Trust liaison that the information could be provided one day late. The PBO could not find this documented. It is important for compliance and accountability reasons that an agreement to vary the legislated set time limit be documented.

Figure 9: Percentage of Requests Taking 10 Days to Respond by Month Sent



The legislated timeframe did not work well where an agency used the full ten days to either provide a nil response, provide an unhelpful or inadequate response,¹² request more information, or suggest another agency was better placed to cost the policy.

From the stakeholders' perspectives:

- For an agency, costing a complex policy in ten days can be far too short a time period to provide accurate information and appropriate quality assurance.
- For a party that is developing and estimating the costs of a large number of policies over a busy election period, ten working days can be a lifetime, far too long to obtain the required cost inputs and information to refine policies.

The next PBO needs to establish early with agencies that ten days is a maximum, and it expects most costings, other than complex ones, to be completed within two to five days.

¹² In such instances, the PBO would then have to further develop its own modelling and data sets to complete the costing, or obtain information about assumptions from the parliamentary leader concerned. Earlier receipt of the "No response" from an agency would have better facilitated the PBO more rapidly using other methods to complete the costing.

Figure 10: Number of Agency Responses Received by the PBO, Days to Respond

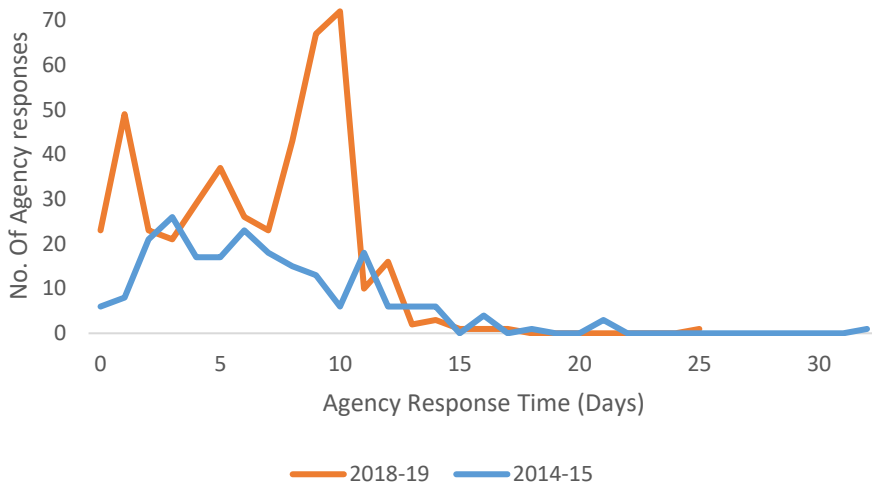


Figure 10 shows the frequency distribution of agency response times for information requests (measured in days to respond on the horizontal axis); 73 responses, or 16% of the total, took ten days for agencies to complete for the 2019 Election. The distribution shows a significant peak at this ten day limit with the orange line dropping sharply from 11 days onwards. By contrast for the 2015 Election there is no peak at the ten day limit with only six requests or 3% of the total completed in ten days.

The data suggests a trend for the 2019 Election, where some agencies may have worked to a “10 day rule”. They completed information returns by the ten day time limit regardless of whether they were simple or more complex. Completing simpler requests quicker, and requesting more time to complete more complex requests to a higher standard may have produced better outcomes.

Figure 11: Number of Agency Responses by Political Party Received by the PBO in 2018-19, Days to Respond

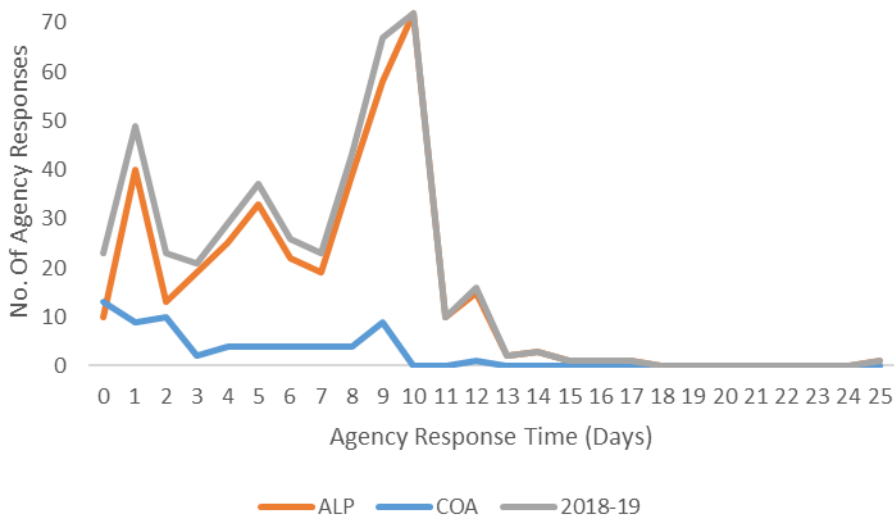


Figure 11 shows that agencies returned information requests quicker for the Coalition than the ALP. Agencies provided 131 responses, or 34% of the ALP total, for ALP policies on either day nine or ten. By contrast, agencies provided nine responses, or 14% of the Coalition total, for Coalition policies on either day nine or ten. This difference is due to two factors:

1. The Coalition frequently asked agencies to pre-cost its policies prior to submitting them to the PBO (which the party in government will generally do). This meant agencies already had completed costings and existing work papers on record and therefore could return information requests quickly to the PBO.
2. The Coalition submitted its policies from mid-January onwards. By this time agencies had developed better internal processes and sign off procedures allowing them to respond to PBO information requests quicker.

The PBO identified two main problems with agency turnaround times: agencies working to a “10 day rule”, and agencies taking too long to respond to some requests. There are various options for dealing with these problems discussed in Table 3:

Table 3: Options for Dealing with Identified Issues in Turnaround Times

Option	Advantages	Disadvantages
1. Status quo	Minimal change Leaves discretion on response time with agencies (an advantage for agencies, not the PBO or political parties)	Not likely to be sufficient to address the level of concern raised with the PBO by the leaders' offices Does not address January problem Lengthy delays make costings more difficult, increase risk of errors
2. Amend legislation to require a shorter response time in the election year, six days in the year of the election, and three days during caretaker	Focuses on rapid turnaround closer to an election A progressive shortening of timeframes (from ten days in the prior year to six days between January and 1 March, then three days in caretaker) Addresses January problem. (Not unreasonable to expect expert costing staff to refrain from taking leave other than shutdown for one in every four years) Balances workload on agencies with responsiveness to costing deadlines during election period Agencies averaged 2.4 days during caretaker, so three days seems acceptable	Would be difficult for agencies to meet shorter deadlines during January, when many staff are away, and cause undue friction in relationships with PBO Many agencies find even ten days is highly challenging for information required on complex policies Agencies consulted on the draft of this report considered that a shorter timeframe would make costing much more difficult
3. Amend legislation to address the agency misconception that the time limits in the <i>PBO Act</i> are deadlines	Leaves it up to agencies to respond quickly. May reduce number of technical breaches of legislation. Easy to implement. Reinforces the message that timely returns are helpful	May not address timeliness concerns

There are of course numerous variations. On balance, the PBO favours option 3, combined with encouragement to agencies to address the January delay problem.

The current words in the *PBO Act* “or such other period as is agreed between the head of the agency and the Parliamentary Budget Officer” (section 16(2)) should be retained to allow more time to complete more complex information requests if necessary. Agencies should be encouraged to make better use of requesting extensions where needed under section 16(2) of the *PBO Act*. The PBO should also better communicate the opportunity for agencies to negotiate such extensions.

In practice, most policies submitted during caretaker are small refinements of existing policies, or have already been costed by agencies in the case of policies submitted by the government. Most information requests during caretaker should be able to be completed within 3 days; 2.4 days was the average turnaround during the 2019 caretaker period. If Option 3 is pursued, agencies should still be encouraged to provide information within one or two days when requests are received during the caretaker period.

Recommendation 2

The PBO recommends that section 16(2) of the *PBO Act* be amended to make it clear that the statutory time limit for agency responses to PBO requests for information to assist with costings is not a deadline but a limit. A suggested change to this effect (words in bold below) could be

*(2) The head of the Government agency must respond to the request **as soon as possible, and in any case** within:*

(a) 10 business days, if the request is made before the commencement of the caretaker period, or

(b) 6 business days, if the request is made on or after that commencement, or

(c) any other period that is agreed between the head of the agency and the Parliamentary Budget Officer.

Alternatively, the *PBO Act* could be amended to require the head of a Government agency to respond to requests for information within six business days in the election year, and within three business days during caretaker period, or such other timeframe as is agreed between the head of the agency and the PBO.

Some agencies have suggested with the ten day time limit the clock should stop and be reset where agencies seek clarification on the request, or the request is modified to enable the information return to be completed. The PBO does not support such a change. It could result in agencies which are running close to their time limits artificially submitting requests for clarification late, such as at day eight or nine, causing the overall timeframe for completing costings to lengthen. The current framework provides good incentives for the PBO and agencies to clarify information requests as quickly as possible when received. If clarification means an agency needs additional time to complete the information return, it is always possible to negotiate an extension of time (as discussed above, agencies made little use of current provisions in the *PBO Act* enabling alternative timetables to be negotiated).

Building Strong Working Relationships with Agencies

Overall, agency feedback was that PBO staff were professional, courteous, and responsive to questions or concerns that agencies had. An effective strategy used by some PBO staff was to prioritise information requests for agencies and provide weekly updates on changes to priorities. This strategy could be adopted for all agencies in future elections. The PBO was also assisted by agencies that outlined expected timeframes for completion upon receipt of an information request. The PBO should encourage all agencies to make this a standard operating practice for the next election.

Where the PBO and agencies had invested in productive working relationships and assigned key contacts, completed information requests were generally of a higher quality and returned more quickly.

Initial Meeting in October and Setting Timing Expectations

The PBO met with cluster heads and staff in October 2018 to introduce key contacts and outline expectations for timeframes for responses to information request. The PBO indicated two to five days would be a reasonable timeframe to respond for most requests, other than complex costings.

The two to five day timeframe may have been a useful tool. Some agencies on receipt of an information request would quickly respond to the PBO with indicative processes and expected timeframes when the information return would be completed. This was helpful and should be the normal operating practice for all agencies for the next PBO.

Feedback from some agencies was the usefulness of these initial meetings could be improved. In several cases agency representatives at these meetings had limited involvement in the PBO costing process thereafter. By contrast, when the key personnel involved in costings were also at the initial meetings the agency found the costings process easier to manage and prepared faster and higher quality information to assist the PBO.

Several agencies established a designated contact to coordinate all PBO requests which proved to be helpful with, among other matters:

- Ensuring information requests were completed in a timely manner.
- Keeping the PBO informed on when requests were expected to be completed.
- Quickly providing the PBO with the correct person to speak to in the agency in relation to a request or where follow-up information is required.
- Providing the PBO with other sources and avenues for information where it was difficult to fully respond to an information request.
- Generally making the agency more aware and accountable when responding to PBO requests.

Recommendation 3

Each agency should appoint an executive level staff member to be responsible for liaison with the PBO during the costings period. This officer should be present at initial meetings between the PBO and agency head, be responsible for coordination of the agency's responses to requests for information to assist with costings, and be at a senior enough level to be able to resolve problems which might arise with delays, lack of information, need for clarification of policy and similar matters.

Prioritising Information Requests

In order to manage internal and external workloads, some PBO staff established an informal process for prioritising information requests sent to agencies. The prioritising involved liaising with the parliamentary leaders' nominees to understand the importance of each information request. The NSW Treasury was one agency that benefited from this practice. Each Monday morning, the PBO would send a list of all outstanding information requests together with those that were a priority to NSW Treasury. This process proved very useful for both NSW Treasury and the PBO in prioritising resources and knowing when to expect work to be completed.

Recommendation 4

The future PBO should provide agencies with advice on prioritisation of information requests. The process could be as follows:

1. At the start of each week the PBO provides a list of the information requests outstanding, when they were notified, and those that are a priority.
2. The relevant agency could respond on the same day with an indicative timeline for when the priority information requests are expected to be completed.

The above process should be reasonably straight forward for both the PBO and agencies. Such information would also help the PBO in setting expectations with parties on when costings are expected to be completed.

Building Relationships between Agencies and the PBO through Secondees

Secondments from key agencies provided benefits both to the PBO and the agencies themselves.

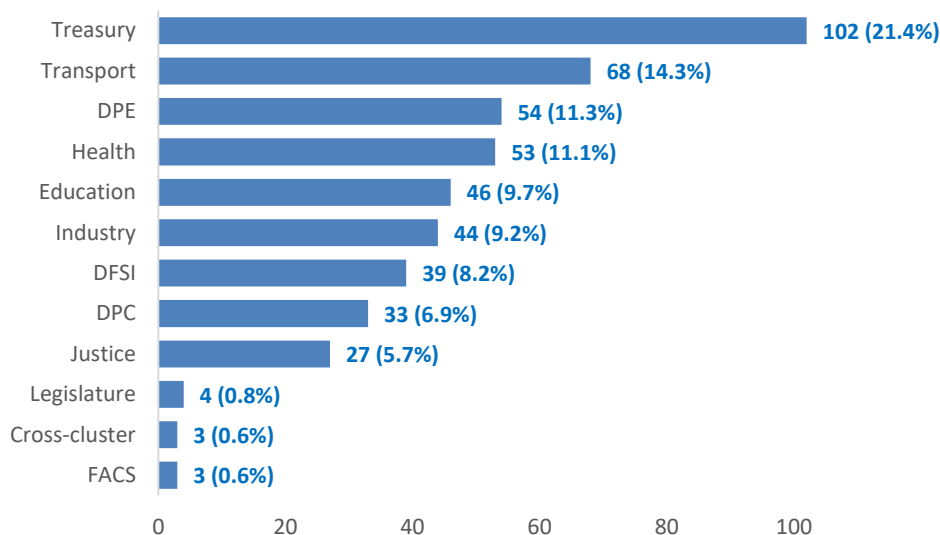
Benefits included:

- Enhanced relationships with agencies.
- Helping the PBO better understand the type of information that is, and is not, likely to be available within the agency.
- Simplifying PBO information requests so they could be more easily understood and answered by the agency.
- Enabling the PBO to know who to contact within the agency to obtain relevant information.

Figure 12 shows the information requests by agency. Based on the 2014-15 and 2018-19 experiences, the 2022-23 PBO should expect a large number of policies concerning NSW Treasury,

Health, Education, Transport, Planning and Industry, and ideally should have secondees from each of these agencies.

Figure 12: Information Requests by Agency



Agency Sign off Processes

The PBO observed that in some instances an agency’s internal sign off processes were cumbersome, resulting in delays in the PBO receiving information. The PBO understands one agency had nine levels of sign off before information was provided. Others came close. This is a concern not only for timeliness but also for confidentiality (increasing the number of staff with access to the information).

As a work around, on some occasions PBO staff and costing analysts at agencies agreed informal processes where draft information was supplied to the PBO, still subject to final sign off. This enabled PBO staff to work on completing costings without unnecessary delay. Importantly, it also allowed a dialogue to begin earlier between PBO staff and agencies on the further data inputs required to complete the costing.

A future PBO should agree with agencies that internal sign offs should only take a day; where internal sign offs take longer, draft responses should be supplied to the PBO whilst agency sign off is progressed

Access to Agency Models and Systems

Where a complex model was used by an agency to cost a policy, the PBO staff typically requested and received the relevant model from the agency. Examples include: TAFE course enrolment models for TAFE policies, Transport traffic forecast models, Planning and Environment models for energy forecasts, and NSW Treasury revenue models for tax policies.

These models proved especially useful for the PBO as policies were refined. PBO staff were able to use the original agency model to complete the new costings, and check it off with the agency – which sped up the costing process. It improved the transparency, independence and rigor of the costing process. It also allowed more costings to be done efficiently in-house by the PBO over time and in the final stages of the election process, not wasting agency resources.

This increased capability of the PBO up to the election is borne out by the data in Figure 13. It shows the proportion of costings completed in-house compared to those that were completed with the assistance of agencies. In October, 68 requests were received, of which, only four were completed in-house (6% of the total), with 64 requiring agency assistance. In March, 113 requests were received, of which 74, or 65%, were completed in-house.

Figure 13: The Number and Proportion of Policies Costed In-House

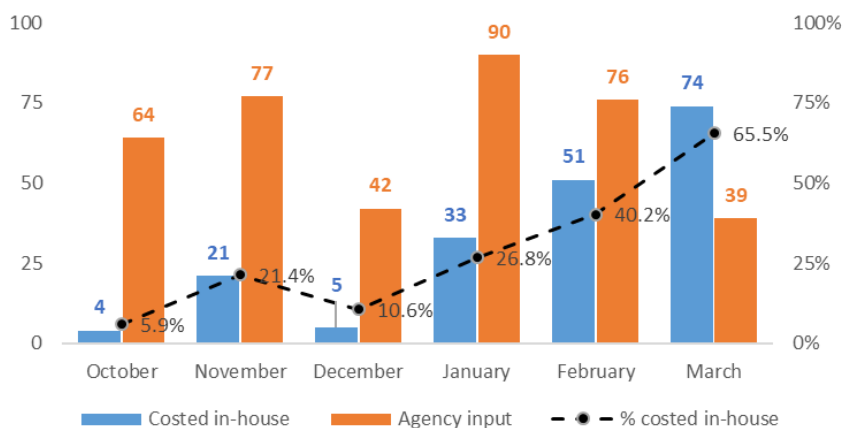
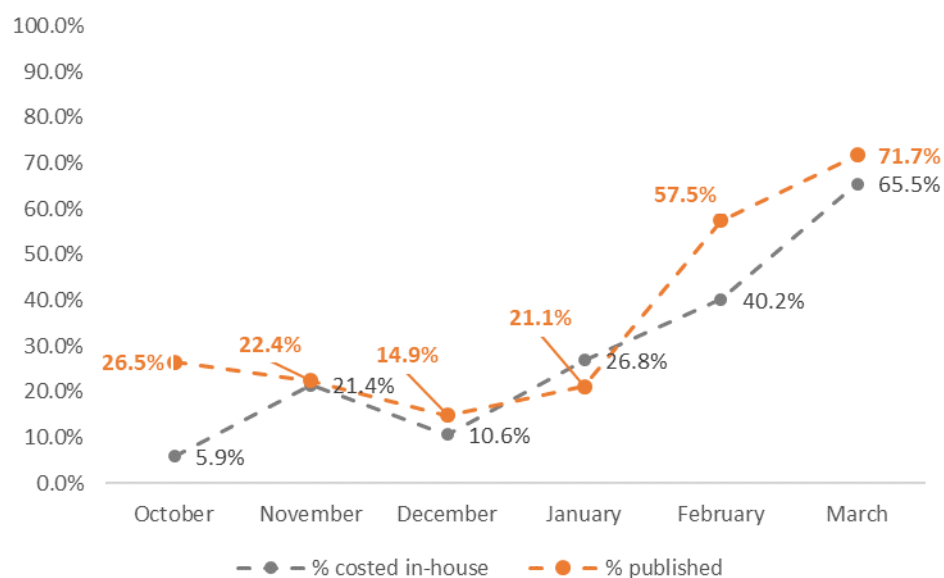


Figure 14 shows later costing requests submitted by parties were more likely to be policies ultimately published by the PBO; 58% of the costing requests received in February were completed and published by the PBO, rising to 72% in March.

Figure 14: Probability of a Submitted Costing Request Being Published



The overall data in Figure 13 and Figure 14 shows a higher proportion of policies were costed in-house in the lead up to the election. The costings were also completed faster by the PBO as the election approached. There was a higher probability these policies were ultimately adopted by the parties and subsequently published by the PBO in the BIS. In total, 50% of the final published policies

were costed in-house by the PBO, even though only 32% of the total policies submitted by the parties were costed in-house.

These statistics highlight the importance of the PBO having access to underlying agency cost models. It builds internal capabilities within the PBO to complete costings in-house in the final stages of the election campaign. The final submitted policies by the parties in late February and early March are typically small refinements on previously costed policies; and the costings need to be completed accurately and quickly by the PBO.

Invariably, the earlier that agency models were provided to the PBO, the better the final result with the costed and published policy. It saved both agencies and PBO much time later on, increased the accuracy and transparency of costings, and reduced the risks of errors being made.

The Operational Plan for a future PBO should codify the process for agencies supplying models to the PBO. Where a model has been used by an agency to cost a policy, as a rule, this model should also be supplied to the PBO with the agency response to the information request.

Some agencies did express concerns with the PBO having access to models. They were concerned the PBO could use such models to independently cost policies without the agency seeing or quality assuring the final result. These concerns could be addressed by PBO staff discussing and providing their costing results to agencies as part of the quality assurance checking prior to completion.

Access to the Underlying NSW Treasury Cost Systems

Some stakeholders also suggested the PBO should be provided with underlying access to NSW Treasury systems and models, and potentially other agency systems, so the PBO could more autonomously undertake costing exercises without relying as heavily on agency information requests. PRIME software is one of the main NSW Treasury systems used for cost modelling.

The model would be more closely based on the Commonwealth Budget Office which does have access to underlying NSW Treasury cost models.

The PBO considers this idea may be a useful addition to the operation of the next PBO and enhance its capacity to independently cost certain policies. It may however raise concerns about possibly enabling PBO staff access to budget or other cabinet in confidence information. A way to handle this might be for NSW Treasury to place a staff member with access to the PRIME system and other NSW Treasury costing data sources in the PBO. The staff member would be located in the PBO office, but would still work for NSW Treasury over the period, ensuring access was only provided to authorised data.

While this suggestion could improve the speed for completion of costings, and improve consistency between PBO and NSW Treasury costing information, it could also be difficult to implement in practice due to the sensitivity of data on the PRIME system. Although in principle the idea has merit, it would rely in practice on finding a suitable officer able to compartmentalise both PBO and NSW Treasury information, sharing only where security and confidentiality concerns allowed. This would require both good judgement and the necessary technical skills to maintain the balance. The PBO recommends this suggestion be considered by a future Parliamentary Budget Officer and future NSW Treasury Secretary closer to the next election.

Future Relationship Improvements with Agencies

There is scope for improvement in the relationships between the PBO and some agencies including:

- Both the agency and PBO providing a designated key contact, including separate key contacts for divisions within larger agencies (such as separate contacts for TAFE and Primary Industries within the Planning & Industry portfolio).
- More regular updates between agencies and the PBO on when to expect responses and how many information requests agencies might receive.
- Establishing protocols for initial phone conferences with agencies when drafting information requests for more complex policies. Under this approach, the agency is engaged early to assist in drafting the information request in a sensible manner that allows the agency to meaningfully respond — so ten days or more is not wasted with a “no response” or an answer that is unhelpful because the correct question was not asked. Such an approach may encourage better “buy in” from agencies when responding to requests,¹³ and also may better ensure the PBO asks the right questions and seeks all relevant information. Post-election survey data received by the PBO suggests there is potential to improve the quality of the information requests it sends.
- Establishing a clearly defined process for understanding where there are differences between an agency and the PBO on a costing.

Information Request Process Improvements

During the 2019 Election, the following practices resulted in high quality costings and strong working relationships. The future Parliamentary Budget Officer could encourage the below processes as best practice and consider whether they should be included in the Operational Plan.

1. Within 24 hours of receiving an information request, the agency is to respond with the name and contact details of the principle analyst(s) working on the request. The analyst should call the relevant PBO contact within 48 hours providing an indicative timeframe for when the response is expected to be completed.
2. For time sensitive costings, or if internal agency sign off will take more than 24 hours, the analyst supplies provisional draft response advice to the PBO, noting it is still subject to final sign off.
3. If a nil response is provided by an agency, it must be done within 48 hours of receiving the initial information request by the PBO.
4. Where an agency has used a model to respond to the information request, the model should be supplied together with the information response.

¹³ Agencies sometimes said the information in the costing request was not specific enough to enable a response to be completed. The initial phone conference would be designed to minimise misunderstandings, better clarify and simplify the costing request sent to the agency.

Costing Complexities

The PBO and Opposition observed the policies and costing requests submitted by the Opposition in 2018-19 were typically more complex than in 2014-15. The 2018-19 costing requests generally required the PBO and agencies to collect substantially more elaborate data, undertake more detailed and sophisticated model building, and report more granular information on the costing outputs and sensitivities to changes in input assumptions. The Opposition advised this assisted in developing more comprehensive and considered policies.

As an example of this increased complexity, one proposed policy involved costing 18 different options. The PBO and relevant agencies faced additional challenges in obtaining reliable data and building accurate costing models for each option.

The additional complexities are also illustrated by the greater number of costing requests submitted to the PBO (576 policies were costed in 2018-19 versus 478 policies in 2014-15) and the more than doubling of the information requests sent to agencies (476 in 2018-19 versus 215 in 2014-15). Significant numbers of costing requests from the Opposition began in early October 2018 for the 2019 Election versus December 2014 for the 2015 Election.

This earlier start date allowed the Opposition a longer time period to gather and analyse the detailed information contained in the completed costings, enabling them to develop more comprehensive and considered policies from this initial work.

Collaboration between Agencies and the PBO for Highly Complex Costings

A series of unpublished costings were highly complex and involved multiple agencies. Some of the data sourced from agencies required complex algorithms to be written to extract information from systems that took up to four days to complete.

Agencies worked closely with the PBO to provide the most accurate data possible under tight timeframes and with little need for discussion or renegotiation of timelines. Highly sophisticated models were built by the PBO based on this data to estimate the costs of these policies. The work provides good examples of the collaboration between agencies and the PBO to produce high quality costings.

Resolving Differences on Costings with Agencies

Where there were differences in costing outcomes between the PBO and agencies, the PBO established processes to understand these differences with agencies. These included:

- Where inputs were uncertain or contentious, discussing the issue with the agency and obtaining more data from the agency and other sources, prior to reaching any final positions.
- Discussing whether a common position could be reached between the agency and PBO that was reasonable given the information available.
- Discussing with agencies the different input assumptions used, and testing whether the agency agreed with or at least considered the PBO assumptions were reasonable.
- Sending some of the completed costings to NSW Treasury and to agencies for information.

Stadium Costing

A specific example of a difference between the PBO and an agency arose in relation to the PBO costing of a policy for a concessional loan to the Sydney Cricket Ground (SCG) Trust to pay for the rebuilding of the Allianz Stadium. There is no impact within the Total State Sector (TSS), it is a transfer of funds between agencies, but because the SCG Trust is outside the General Government Sector (GGS) there was a question on how best to show the impact of the policy on the GGS.

The policy was costed and the costing released with the BIS for the Opposition on 18 March. It showed the impact as revenue.

This treatment was based on information provided to the PBO by NSW Treasury on 8 February 2019. The NSW Treasury information was used to develop a costing, which went through several drafts. A key concern at that time was serviceability of the proposed loan. NSW Treasury officers were consulted on those drafts before the PBO finalised the costing and provided it to the Opposition leader's office. The final costing was also sent to NSW Treasury on 6 March for information. NSW Treasury notes the information it provided at that stage was dependent on the variables presented in the information request.

The Secretary of NSW Treasury raised a concern about the revenue line treatment at a meeting with the Parliamentary Budget Officer on Tuesday 19 March, following publication of the costing in the BIS on 18 March and questions raised about it with the NSW Treasury by the Treasurer. A further meeting between the PBO and NSW Treasury staff was held on Wednesday, 20 March.

The Parliamentary Budget Officer sought further information about the accounting treatment from a range of sources. Obtaining written accounting advice was not possible due to time constraints. It was clear the accounting issues were complex and a large number of different variables would affect the treatment: in particular, how the arrangement was structured, the serviceability of the loan and the final ownership of the stadium. However, after consideration of the range of views expressed, the Parliamentary Budget Officer determined that showing the impact as a revenue line would be feasible.

Taking into account all the views received, including those from NSW Treasury, the Parliamentary Budget Officer took a decision that the costing should stand, and issued a media release to that effect on the morning of Friday 22 March, which can be found in Appendix F. Later that day the Parliamentary Budget Officer received formal accounting advice from NSW Treasury reiterating their position that the accounting treatment was incorrect.

One of the key lessons from this experience is that the last week of an election campaign is the wrong time for resolving differences. Any changes to costings in this week will potentially be politically explosive.

Resolving Policy Costing Differences

Feedback from one party has suggested it is important that PBO costings do not change after they have been publicly released. The PBO recommends introducing a rule that costings will be final once published in the BIS, unless there are exceptional circumstances. This could be implemented via the next PBO Operational Plan. Such a rule would minimise the potential for politicising or misrepresenting the PBO's costings in the final week of the election campaign.

Recommendation 5

The PBO Operational Plan should specify costings are final once published in the BIS.

Feedback from agencies has also indicated differences with the PBO on costings has caused some issues post-election. A key area is whether or not a policy cost can be absorbed within the existing budget. As with the 2015 Election, the PBO did not take a position on whether absorption was a desirable outcome of a policy – indeed, in many cases it appeared an agency would have to curtail other activity in order to meet this assumption. The test applied was not desirability but possibility: in other words, where a party specified in its policy that costs should be absorbed, the PBO approach was to accept this assumption if it was feasible. This may be causing practical problems in implementing some election policies where incoming Ministers are not inclined to accept that absorbing administrative costs for a new policy will require reductions elsewhere. It also appears some agencies had difficulty reconciling details of policies on which information was provided to assist with costings with the details of those policies kept by NSW central agencies and published in the 2019-20 Budget.

The following table provides a list of suggestions for the next PBO on processes that could be used to resolve and minimise differences with agencies on costings:

Table 4: Options for Resolving Policy Costing Differences

Option	Outline
1. Send a list of key differences on costings to the agencies, and discuss these prior to publishing the costing	Where there are significant differences between an agency and the PBO on a costing, the future PBO should send to the agency a list of these key differences prior to completing the costing, with a 24 hour response time. Ideally, the data should be sent with a follow-up phone call and exchange of information between the relevant PBO and agency analysts to see if the differences can be resolved.
2. Send completed costings to the agencies, where permitted by the relevant leader, with agencies responding within 24 hours if there is a disagreement	The next PBO could establish a process with the parties where, if agreed by the relevant leader, a completed costing is sent to NSW Treasury and or the relevant agency when it is sent to the party. If a final costing is provided to an agency and there is disagreement on the final numbers, the agency could bring this to the PBO's attention within 24 hours. The agency could respond within 24 hours to all completed costings provided to them with either: agree, noted, or disagree with reasons provided if there is a

	disagreement. ¹⁴ Under such a process, the PBO could quickly revise a costing if the agency had picked up an error.
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The next PBO could also consider having a 24 hour delay process on releasing some of the more important costings to a party, where the final costing is first sent to the agency for checking. The PBO would await feedback from the agency on whether there is any significant disagreement.

This process could be used on an exception basis for important policy costings, where agreed by the party. Such a process may be useful over the October-January period, but is unlikely to be as useful from late February onwards where expeditious responses to costing requests are more critical.

Uncommitted Funds

For the 2015 Election, the *PBO Act* required NSW Treasury to produce a Statement of Uncommitted Funds when the Half-Yearly Review was published in December 2014. The requirement was removed for the 2019 Election on the recommendation of the Parliamentary Budget Officer in his 2015 Post-election Report.

The reason the previous post-election report recommended discontinuing the Statement was that although it had been highly resource intensive for NSW Treasury and agencies to produce, the Statement had not been a helpful construct. Following its publication the Opposition submitted a number of policies to the PBO to be funded from uncommitted funds, based on what had been published in the Statement of Uncommitted Funds in December. In almost every case the amount of uncommitted funding shown in the Statement was no longer current¹⁵ and no budget funding was available for the proposed policy. The advice from agencies was that by the time of the 2015 caretaker period, most of the information in the Statement was inaccurate.

For the 2019 Election, the Opposition requested the PBO provide it with information on uncommitted funds by agency cluster broken down by program. The PBO advised that it was not in a position to provide an equivalent of the previous Statement of Uncommitted Funds, and so the Opposition worded its request as a series of election policy costing requests which the PBO was obliged to cost. The PBO sent out information requests to agencies from January 16 to January 30. The delays in sending out the information requests were caused by extensive discussions on definitional issues and what agencies could be reasonably expected to provide in a timely manner.

The process for the PBO collecting the information by agency on uncommitted funds in 2018-19 was not satisfactory:

- Agencies reported difficulty responding to the requests and many were not adequately prepared to respond in a timely manner.
- Agencies reported it took considerable resources to prepare the information for the PBO.
- Some agencies reported difficulty defining what was uncommitted.

¹⁴ The process would not be a formal quality assurance check by the agency, rather it would be an informal process to assist with discovering if there are differences between the agency and PBO.

¹⁵ The relevant section of the *PBO Act*, prior to amendment, appears to have been based on an assumption that Governments and agencies make no commitments between the time of the Half-Yearly Review and the election, whereas clearly they do.

- Agencies were slow to respond to the requests, with responses typically taking up to one month. The responses were received by the PBO between the 12 February and 25 February.

The information returns from the agencies were however helpful and high quality. They were more detailed, insightful and identified a greater quantum of uncommitted funds than the information provided for the 2015 Election.

In the lead up to an election, there is an understandable desire for an Opposition party to have; independent advice on the status of committed expenditure in the forward estimates; to baseline funding data from which policies can be developed; and, to allow uncommitted monies to be redirected to their own priorities.

It is likely the Opposition will seek to obtain information on uncommitted funding through the PBO costing process in 2022-23. Hence, without reform in this area it is likely the same unsatisfactory process will again occur for the 2023 Election. There are several possible options:

Table 5: Reform Options

Option	Advantages	Disadvantages
1. The PBO publishes an information paper on uncommitted funds at a time to be specified in the PBO Operational Plan (indicatively, around the same time the Half-Yearly Review is published). The paper would be updated one time only, when PEBU is published.	Provides comprehensive information and is transparent Independent PBO verification of information from agencies	Resource intensive Prone to definitional problems Half year review paper would be indicative
2. Amend the legislation to prohibit policy costing requests from seeking details on uncommitted funds	Would remove ambiguity Lower resource cost	Unlikely to be workable in practice - staff in leaders' offices can generally word costing requests to produce desired results Could lead to disputes over rejected policy costing requests Decreases transparency on uncommitted funds
3. The PEBU provide a Statement of Uncommitted Funds	Provides Treasury authority for uncommitted funds information Avoids the problem of agencies prematurely advising funds are uncommitted while Government processes to commit those funds are still underway	Could be too late in the costings process to enable the Opposition to develop and adjust its policy settings Asymmetry of information: Ministers will generally have good information from their own agencies on what is uncommitted, and can

		announce policies using this money, while this information is not available to an Opposition
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The PBO favours option one as it provides the most information, transparency, and impartiality for both the Government and Opposition on the status of budget spending. Uncommitted funds would include funds in the forward estimates that could be reallocated by a future Government without affecting existing or announced services and projects. These include:

- Spending programs where the funding still requires a further decision of Government before the money can be spent. The decision could be delegated to a Minister or agency.
- Grant programs where funding is still available to be awarded to current and future applicants. Redirecting the funding would not affect the delivery of existing services.¹⁶
- Funds set aside for government or agency priorities that have not been announced.

If a more formal process is not established to collect this information, even more resourcing is likely to be expended next election from the Opposition seeking the same information from a series of ad hoc requests through the costing process.

Option one attempts to improve on the 2014-15 and 2018-19 experiences in the following ways:

- The information paper in December would be indicative only, and updated for decisions taken up to caretaker period so it does not become outdated. Only one update would be prepared: agencies would not be asked to provide running commentary on commitments.
- Timing of the release of the information paper would be determined during preparation of the next PBO Operational Plan, and take account of pressures on agencies (especially those arising from Budget and Half-Yearly Review processes which may be underway). Ideally though, the information paper would be released roughly around the time of the release of the Half-Yearly Review.
- The requirement to provide the information would be legislated, so time would not be wasted arguing on whether or not the information should be provided. Agencies would know and could prepare in advance to provide the information once, around December/January, which would then be simply updated once, for any further Government or agency decisions taken up to the caretaker period.
- The PBO would work with NSW Treasury and agencies on definitional issues and to simplify the process. Defining and identifying uncommitted funds always involves the exercise of judgement. The 2018-19 experience showed it was important for the PBO to work with each agency to develop a practically workable definition given their particular circumstances.

¹⁶ This segment may not be needed if the NSW Government established a central register of grants based on the Commonwealth model, outlining the total funding for each program, grants awarded, the funding still available, and the timeline for applications. See <https://www.grants.gov.au/>. The main rationale for establishing a central registry is it promotes simplicity, transparency and efficiency with the grant application process, thereby improving the allocation of grant funding.

- Treasury could, with the agreement of parliamentary leaders, potentially play a role in supporting the PBO by reviewing the accuracy of agency returns and/or providing a second opinion on the extent of availability of uncommitted funds.

Recommendation 6

The *PBO Act* be amended to require the PBO, in consultation with NSW Treasury and Government agencies, to publish an information paper on uncommitted funds prior to the election. A timetable for publication would be specified in the PBO Operational Plan. An updated paper would be published as soon as practicable after the start of the caretaker period.

As an alternative, the next PBO Operational Plan could indicate agencies should resource appropriately to provide information to the PBO on uncommitted funds on the expectation the Opposition will request this information.

Baseline Funding in the Forward Estimates

One of the key issues for the 2019 Election for the Opposition was a lack of information on baseline funding included in the forward estimates, such as the number of teachers and nurses that were funded. Ideally, future Budget Papers should provide a greater disclosure and disaggregation of this type of information. With the move to outcomes-based budgeting, there may also be a need for more detailed reporting on these inputs and how they impact outcomes.

Baseline funding information should also be readily available to the PBO and Opposition through the PBO costing process. It is necessary to accurately cost policies.¹⁷ For example, an Opposition may want to increase teacher numbers in total by 4,000 over the forward estimates. Current policy may already fund an increase of 3,000; hence new funding is only required for an additional 1,000 teachers. However, without access to the underlying data on what is funded from existing policy, the cost of the Opposition policy cannot be accurately estimated.

The Opposition did use the costing process to obtain this baseline funding information. The process was at times cumbersome and resource intensive, with the Opposition sometimes submitting several carefully worded policy requests to “derive” baseline funding data.¹⁸ Sometimes there were delays with whether agencies could provide the costing information, or whether it was cabinet-in-confidence.

In addition, with some Government policy announcements during the 2019 Election it was not clear whether the policy was already funded in the forward estimates or an election commitment requiring new spending.¹⁹ The Opposition was only indirectly able to obtain this information on new

¹⁷ The PBO calculates the costs of new policies relative to existing policy; therefore the existing policy assumptions form the baseline funding for costing calculations.

¹⁸ For example, an Opposition could submit two costing requests to increase teacher numbers by 5,000 and 6,000 and use the information from the two costings to derive the unit cost of increasing teacher numbers. It could then use the total cost numbers to derive the growth in teacher numbers under existing policy.

¹⁹ PEBU should also include an aggregate figure for policy decisions taken, but not yet announced, that are in the forward estimates.

spending by putting in a costing request to “not proceed” with the Government policy. Where there was a nil impact, the Opposition could then identify the Government policy was new spending.²⁰

For the next PBO, baseline data on existing policy, such as the current number of teachers and nurses and forecast growth over the forward estimates, should be provided by agencies to the PBO early on in the costing process (such as October or early November).

Confidentiality

Introduction

The PBO Operational Plan noted that confidentiality is of vital importance to the operations of the PBO. Before an election policy is released by either the Premier or the Leader of the Opposition it is the leader’s expectation that all policy details are kept completely confidential.

Two sections of the *PBO Act* in particular relate to confidentiality: sections 16 and 17. Section 16 sets out procedures for the PBO to obtain information from Government agencies, and stipulates that *“the head of a Government agency or any member of staff of the Government agency must not disclose any information or document... except (a) to a member of staff of the agency or the head of the agency or (b) to the secretary or a member of staff of the Department of Premier and Cabinet”* (section 16(4)). Section 17 applies to disclosure of information by the Parliamentary Budget Officer or any member of staff of the PBO.

Of necessity, an information request sent from the PBO to an agency will contain details of the policy concerned. The PBO did not always provide full details of a policy to agencies; information requests contained only as much detail as was required to cost the policy. Even so, a policy analyst in an agency with knowledge of the subject area would generally be able to fill in any gaps. Any information request therefore had the potential to lead to the unauthorised release of a policy.

In initial meetings in September and October with the heads of Government agencies the Parliamentary Budget Officer emphasised the importance of confidentiality. He received reassurances that any material contained in requests for information would be kept confidential.

Confidentiality was also discussed several times at the Finance Leadership Committee (a body convened by NSW Treasury and comprising the Chief Financial Officers (CFO) of cluster departments and senior NSW Treasury officials). The head of the Department of Premier and Cabinet reinforced the confidentiality message at a number of meetings of departmental Secretaries.

In the briefings to departmental Secretaries the Parliamentary Budget Officer emphasised the need for limited circulation of information requests on a strict need to know basis (that is, only those staff who were absolutely necessary in preparing a response to be involved). Despite this, the PBO became aware that in some agencies, information requests were widely circulated including to senior executives whose claim to a need to know was questionable. It did appear in some cases agencies took a liberal interpretation of the “need to know” principle by giving access to requests for

²⁰ The Opposition also said its nurses policy for the election proposed employing substantially more nurses than the Government policy; however, because of poor baseline data it was not able to clearly make this point in its public materials.

information and information returns to senior executives whose claim to a need to know amounted to little more than curiosity about Opposition policies.

Leaking confidential material is at its heart a cultural problem. It is apparent, not only in the policy costing process but also from unauthorised release of government information at other times, that in some NSW public sector agencies discretion and confidentiality is not as well observed as it should be. This raises particular problems for the policy costing process.

If a public servant has access to confidential information and is sufficiently motivated to release it, there is no foolproof method of prevention. However, there are measures agencies can take, such as limiting access to sensitive information, increased deterrence (both risk of detection and penalties for breaches) and on the positive side, identifying the benefits of an agency having a reputation for probity and strongly reinforcing those benefits with agency staff.

Breaches of Confidentiality Provisions

The PBO is aware that there were breaches of confidentiality in 2018-19. Two were confirmed:

- An unauthorised disclosure relating to information on Opposition environmental policies arising from an information request to the Planning and Environment Cluster. The Opposition referred this to the NSW Independent Commission Against Corruption.
- An inadvertent disclosure of information on Opposition policy to a Minister in conjunction with a briefing on a related matter. This error was reported to PBO staff by the public servant responsible for the breach. It related to a policy which was not announced, and as far as the PBO knows no use was made of the material. The PBO understands internal review and action to guard against repetition of such unauthorised disclosure was taken.

There may have been other instances of confidentiality being breached, based on information provided to the PBO.

In the 2015 Election there were no confirmed cases of unauthorised disclosure of information. By contrast, there are two confirmed and other possible cases of unauthorised disclosure in the 2019 Election. Even one instance is too many: the success of the costing process depends on complete confidentiality. If a parliamentary leader is not confident that their policy information will remain confidential they are unlikely to make use of the costing process.

The following table outlines the options for addressing the challenges in maintaining confidentiality in the costing process.

Table 6: Options to Consider for Addressing Confidentiality in the PBO Costing Process

Option	Advantages	Disadvantages
<p>1. Increased penalties for unauthorised disclosure (currently 50 penalty units)</p> <p>Jail terms for public servants found to have disclosed information without authorisation</p>	<p>Reinforces the importance of confidentiality</p> <p>Strong deterrent to unauthorised release</p>	<p>Would need judicial oversight, create further workload for courts</p> <p>Difficult to enforce for accidental disclosures</p> <p>Jail terms may be seen as extreme</p>
<p>2. Any suspected case of unauthorised disclosure to be automatically referred to NSW police by the agency concerned or the PBO (whichever becomes aware of the case)</p>	<p>Removes discretion and makes response automatic</p> <p>Increases deterrence</p>	<p>Potential for political misuse; as referrals to police can give rise to negative media stories, political offices may have an incentive to raise allegations</p> <p>Resource intensive</p> <p>Referrals could be in breach of the confidentiality provisions in the <i>PBO Act</i></p>
<p>3. Agencies should apply the same principles of confidentiality to PBO information requests as applied to cabinet-in-confidence documents²¹</p>	<p>Makes staff aware the same principles of confidentiality apply to PBO documents as apply to Cabinet documents</p> <p>Reinforces the sensitivity of election promises</p>	<p>Minor increase in resourcing</p>
<p>4. Increase the number of briefings about confidentiality from the PBO to agency heads and to staff within agencies</p>	<p>Stresses the importance of confidentiality</p> <p>Reinforcement of the message</p>	<p>Not needed for agencies with strong confidentiality culture, could be seen as indicating lack of trust</p> <p>Requires additional resourcing</p>
<p>5. A written log of every staff member in the PBO office and in agencies who sights a policy costing request or information request, including the date(s) on which they see the material</p>	<p>Enables tracking of people who had opportunity to leak information</p> <p>Increases deterrence</p> <p>Reinforces the "need to know" principle</p>	<p>Increase in resourcing and processes</p> <p>Adds extra time in completing information requests and may reduce flexibility to build agile teams of appropriate specialists to complete costings</p>

²¹ This would require training and briefing staff that PBO information requests have the same confidentiality status as cabinet documents. It would not involve building new IT systems, processes and protections that are similar to those currently used for cabinet documents. It would not be practical to use the current Cabinet document system for this purpose, and doing so could potentially lead to inadvertent disclosures.

6. Require every member of an agency staff involved in responding to an information request to sign a confidentiality agreement similar to that which applies to PBO staff	Builds increased awareness and understanding of confidentiality amongst staff Minor deterrent effect	Minor increase in resourcing
7. Circulating information requests in hard copy by hand, on “anti-copy” security paper (to prevent photocopying), each copy numbered and watermarked	High level of security	Increased turnaround times Resource and labour intensive

The PBO view is that confidentiality is of such paramount importance that improvements are needed in both prevention and deterrence of unauthorised release of information. A combination of the suggested approaches will improve confidentiality²².

A number of agencies indicated that some of the suggested changes (for example, a log of all staff viewing a request for information) would considerably increase response times. The PBO suggests that agencies should be encouraged to improve their internal processes for confidentiality using what best suits that agency and improves confidentiality without compromising timeliness. If in one agency a log of all staff with access to documents is already something with which staff are familiar, it may be the best approach; in another agency alternative methods might be more suitable.

Similarly, a number of agencies suggested that rather than an increase in penalties, an alternative would be greater enforcement of the current penalties. For this to happen, a more rigorous enforcement mechanism will need to be developed. An enforcement regime based on the PBO identifying and prosecuting breaches of confidentiality is highly unlikely to work in practice – it will create a powerful incentive for agencies to hide any breaches, and could even have the perverse result of creating a climate where unauthorised breaches are more common. If the *PBO Act* were to be amended, it desirably should indicate that each head of agency is responsible for confidentiality, and will be required to ensure the penalties provided in the *PBO Act* for breaches of confidentiality are applied should there be such a breach.

²² One agency suggested that there are already Codes of Ethics in place for the public sector. Due to the increase of unauthorised disclosures that came to the attention of the PBO (two in 2018-19, compared to zero in 2014-15), it is paramount that existing legislation is strengthened.

Recommendation 7

Confidentiality around PBO requests to agencies for information to assist in costings be strengthened in the following ways:

1. The *PBO Act* be amended to increase penalties for unauthorised disclosure of information, **or**
A better enforcement mechanism for breaches of confidentiality be added to the *PBO Act*.
2. Agencies should apply the same principles of confidentiality to PBO information requests as given to Cabinet documents.
3. The next PBO provide an increased level of briefings to agencies on the importance of confidentiality.

Circumstances Which Led to Suspicions of Unauthorised Disclosure

In 2014-15, although there was no direct evidence of unauthorised disclosure, the Opposition raised concerns about some cases involving announcement by the Government of policies almost identical to those of the Opposition. Because the issues concerned had been widely reported in the media, the PBO noted it was possible that the similarity between the policies could have been coincidental, rather than a result of an unauthorised release of information.

The same dynamic applied to some policies for the 2019 Election. Agencies observed that in many cases interest groups provided parallel briefings to both the Government and Opposition on policy issues. Where interest groups consider an election result might be close they “hedge their bets” and put policy positions, with supporting arguments, to numerous candidates. These can result in very similar base information being used to support election promises.

There were numerous instances, especially in Health, Education and Transport, where both the Government and Opposition put forward very similar policies. As a result, both costings and associated information requests were similar. Reassuringly, there were several examples – especially in Health – where minor differences in assumptions led to quite different costings; this indicated that there had been no unauthorised sharing of information.

Widely Reported Policies Can Lead to Impressions of Unauthorised Release of Information

In November 2018, nominees from the Leader of the Opposition contacted the PBO about whether information or documents associated with a PBO request for information had been disclosed to the Minister for Education by officers of that department. The Opposition was concerned about Government announcements covering subject matter contained in PBO information requests that had pre-empted Opposition policy announcements.

A specific example was a media release of 26 November in which the Minister for Education said *“unlike Labor’s plans, the NSW Liberals & Nationals’ Cooler Classrooms program was both economically and environmentally sustainable.”* At that point, Labor had not made a formal announcement of its proposed election policy in the election context, albeit the policy broadly had been made public previously.

The Parliamentary Budget Officer wrote to the Secretary of the NSW Department of Education seeking advice on whether any information contained in a PBO request for information had influenced briefings to Minister Stokes. The Secretary responded with an assurance that there had been no briefing or contact with Minister Stokes in relation to any information about Labor’s plans for school air conditioning following receipt of an information request from the PBO on this topic. He pointed out that Labor’s plans in relation to air conditioning of schools and solar panel offsets had been reported in the media throughout the year.

The Parliamentary Budget Officer accepted this assurance and was pleased to note that the Secretary of the NSW Department of Education took the opportunity provided by the email exchange to remind officers in the department about the need for confidentiality.

One further learning which a future PBO should pass on to agencies is that any contact with a Minister’s office about work on costing information requests should be avoided. The PBO was told at various times during 2018-19 by staff from the Premier’s and the Treasurer’s offices that they had been told by agency staff about workload pressure those agency staff were under as a result of PBO requests for information to assist with costing policies²³. Agencies should not have disclosed this. In a climate where both Government and Opposition pay close attention to the political advantages to be gained from the timing of policy announcements, information that an agency is working on Opposition costings can be used tactically by a Minister. It can, for example, lead to the problem of perceptions of unauthorised disclosure of information if a Government Minister – based only on a report that the Minister’s Department is working on information for a costing – brings forward an announcement about an issue in the public domain.

It may be that some agency staff whose day-to-day work requires being responsive to requests from Ministers and providing information to ministerial staff do not fully understand that any information

²³ It would have been obvious to the Government that these were Opposition policies.

about Opposition policies must not be disclosed. This should be emphasised more strongly in briefings from the PBO to agency heads in 2022-23.

Part 3 – Preparation and Publication of the Budget Impact Statements

This part discusses the preparation of the BIS by the PBO. It also discusses potential improvements and potential reform options, including:

1. The PBO Operational Plan being more specific on when parliamentary leaders are required to notify their draft and final list of policies for inclusion in the BIS.
2. Encouraging the earlier publication of costings by the PBO prior to the release of the BIS.
3. The appropriate time period for PBO costings.
4. The appropriate fiscal aggregates that should be reported by the PBO in the BIS.
5. Bringing forward the publication date for the BIS.
6. Allowing the PBO greater powers to pre-release costings where they had been publicly referred to by a party.

Preparation of the Budget Impact Statements

The PBO prepared BIS for the Premier and Leader of the Opposition as required under Section 23 of the *PBO Act*.

The BIS listed the cost of proposed election policies for each leader and summarised the financial impact of each costed election policy for the period 2018-19 to 2021-22. The 2019 PEBU was the starting point or budget baseline, from which the BIS were prepared.

Draft Budget Impact Statements

The *PBO Act* requires the PBO to provide a draft BIS to each leader 15 days before the election (8 March 2019). Each leader should provide the PBO with a list of election policies for inclusion in the draft BIS, so the BIS can reflect their proposed policies. However, the *PBO Act* is silent on a party's obligations to provide such a list to the PBO.

One party did not provide their list of election policies for inclusion in the draft BIS to the PBO until late on 8 March 2019. This resulted in them receiving their draft BIS on the 10 March 2019, two days after the deadline. The other party received their draft BIS on the 8 March 2019. To allow the PBO to meet its obligations to provide a draft BIS to the leaders 15 days before the election, it is recommended the *PBO Act* be amended to require the leaders to provide their list of policies for inclusion in the draft BIS 18 days before the election.

Recommendation 8

The *PBO Act* be amended to require parliamentary leaders to provide the PBO with a list of election policies for inclusion in the draft BIS **at least 18 days** prior to the election.

Final Budget Impact Statements

Under section 23(4) of the *PBO Act*, a parliamentary leader must notify the Parliamentary Budget Officer in writing of their final list of costed policies for inclusion in the BIS nine days before the election date; the final list of costed policies was due on 14 March 2019. One party met this requirement. The other party did not finalise their list until the evening before the final BIS was released on 18 March 2019.

The Parliamentary Budget Officer sought legal advice on the best way to proceed following the party's failure to meet the nine day deadline. This advice considered whether the Parliamentary Budget Officer could determine which policies should be included in the final BIS, or whether the PBO should release any final statement for the party.

The Crown Solicitor's advice suggested that, where no final list of policies had been received from the parliamentary leader by the deadline, the final published BIS could be based on the draft BIS provided to the leader. A copy of this advice can be found in Appendix E.

Desirably, the BIS should be as comprehensive and accurate as possible. This implies including the latest versions of party policies (noting that the policies of both parliamentary leaders are frequently refined and amended as the election campaign progresses).

In practice, in light of the Crown Solicitor's advice, the Parliamentary Budget Officer determined he would accommodate the party as best as possible to accurately reflect their intended election policies. While no new policies were accepted, changes to policies submitted in the draft list were accepted up until the night before publication of the BIS. In retrospect, this allowed greater latitude for changes than was really desirable, increasing the risk of errors in the BIS.

PBO Should Require Final Policies to Be Notified Three Days before Release of the BIS

Accepting late changes to election policies increases the risks of errors being made, reduces the time needed to complete any last minute election costings, and reduces available time to perform quality assurance checks before publication of the BIS. There is a need to balance the requirements for the BIS to be up-to-date, as well as ensuring their accuracy prior to release.

Recommendation 9

The next PBO Operational Plan should require the final list of election policies be provided by parliamentary leaders to the PBO **at least three days** prior to the publication of the BIS, with no amendments to those policies to be accepted by the PBO for the purposes of publishing the BIS following that date.

Pre-Release of Costings Prior to Publishing the BIS

Section 21(4) of the *PBO Act* requires a parliamentary leader to notify the Parliamentary Budget Officer of the public announcement by that leader of policies that have been costed. Section 22(2) of the *PBO Act* then requires the Parliamentary Budget Officer to publish the election costing request and election policy costing.

The PBO received advice in 2014-15 that the effect of section 22 was that the PBO was not allowed to publish an election costing request or election policy costing on its own initiative. It had to receive advice from the parliamentary leader under section 22(2) that the policy had been publicly announced. This applied even when it was obvious that a policy was in the public domain and had been announced; the PBO was not allowed to take that into account, it had to wait on advice from the parliamentary leader.

Both parliamentary leaders publicly announced election policies during the election but did not notify the Parliamentary Budget Officer of the public announcement. This meant the Parliamentary Budget Officer was unable to release any election costing requests and election policy costings until the publication of the BIS 5 days before the election.

A number of stakeholders have suggested the Parliamentary Budget Officer should publicly release election costing requests and election policy costings after they have been publicly announced by

the party. They suggested this would improve transparency and provide more time for public scrutiny of policies.

There are two important reasons for costings to be published as early as practicable: it allows voters to be better informed, and it means costings are less liable to be misrepresented. Against this, both major parties have an incentive to release details of their policies as late in the campaign as possible to minimise the risk that external scrutiny will discover flaws in those policies.

In addition, as shown in the previous section of this report, there is an asymmetry between the Government and Opposition. Prior to the caretaker period the Government has access to the resources of NSW Treasury and other agencies to cost policies confidentially, without any requirement for them to be released.

Under the current *PBO Act* there is a possible way in which a concerned member of the public could encourage early publication of costings. Section 21(4) provides that “*a parliamentary leader is required to notify the Parliamentary Budget Officer of the public announcement by that leader of policies that have been costed by the Officer*”. If a policy has been announced it would likely be open to a person with legal standing (potentially any NSW voter) to apply for a writ of mandamus compelling the relevant parliamentary leader to notify the PBO of the announcement. This would then trigger publication of the costing. This mechanism could however be costly and involve delays, so not be a practical way of approaching the matter.

Balancing these considerations, the best option would seem to be earlier and more comprehensive public release of costings during the election campaign, but after the start of the caretaker period, to enable voters to be as well informed as possible.

Feedback post-election from the parties suggested, however, they would not support the Parliamentary Budget Officer having a discretion to pre-release election costing requests and election policy costings without first being notified by the parliamentary leader. It was important to them during election campaigns to have control over the timing of the release of cost information for their policies.

There were a number of instances where claims of misrepresentation would have been resolved quickly and easily had the relevant election policy costing request and election policy costing been published. There was an incident in late 2018 where partial details of a policy were released by the Opposition; the Government sought costing of what it said was its own policy along the same lines²⁴; these two costings were very different due to different assumption details. The result was a game of claim and counterclaim based on incomplete information. If both election policy costing request and election policy costing had been released the confusion would have been resolved.

The PBO accepts that it is not always clear when a policy has been announced. Policies may be released slowly and gradually over time to maximise their media coverage. A policy may also be

²⁴ Note that while the *PBO Act* does not allow a parliamentary leader to ask the PBO to cost the policies of the other parliamentary leader, it is common practice for parties to seek to match each other's policies, either exactly or in similar terms. The practical upshot is that it is not possible for the PBO to refuse to cost a policy even if it looks very similar to that of another party

announced by a junior politician without formal endorsement by the parliamentary leader concerned.

Sometimes media reporting may misrepresent a PBO costing based on a particular interpretation of a party's public statements (where several interpretations were available). It would therefore introduce a large element of uncertainty if decisions on when to publish a costing were to be made on nothing other than media reporting about an election policy.

Nevertheless, there is good rationale for the PBO having a discretionary power to release a costing, or a part of it, if the costing has been publicly referred to, and the public is misinformed. Sometimes the simplest and best way to clarify and correct the record will be to release the costing itself. NSW voters and the media can then see the exact details of the election policy costing, rather than relying on someone's interpretation of the election policy costing details. Having the power to release costings also provides good incentives for parties to be accurate when publicly referring to election policies.

The recommendation would enhance the operation of section 22(3) of the *PBO Act*, which allows the Parliamentary Budget Officer to issue public statements to correct misrepresentations of election policies that have been costed by the PBO. The Parliamentary Budget Officer, in deciding whether to release a costing, would first consult with the relevant leader.

Recommendation 10

An additional Section 22(4) be added to the *PBO Act* that allows the Parliamentary Budget Officer to release an election policy costing request and election policy costing, or a part thereof, if:

1. it has been referred to publicly, and
2. the Parliamentary Budget Officer considers the public is misinformed.

The Parliamentary Budget Officer must consult with the relevant leader before deciding whether to release the costing or a part of it.

A stakeholder has suggested it should be mandatory for the PBO to correct any misrepresentation made by a parliamentary leader, minister or shadow minister. The Parliamentary Budget Officer supports retaining a discretion to correct misrepresentations as necessary and required to keep NSW voters properly informed on PBO costings.

Policies Announced after the BIS Were Published

Following publication of the BIS on Monday, 18 March 2019, some election commitments were announced by both parties. Most of these policies had not been submitted to the PBO for costing²⁵. Only four such policies had been costed by the PBO. The PBO was not notified by the relevant parliamentary leader under Section 21(4), so the PBO was unable to publicly release the election policy costing requests and election policy costings. Subsequently, the PBO did not release any

²⁵ The PBO did not track media for policy announcements unless they related to a policy submitted for costing, so it does not have an exact number for these late announced policies. There were not many: possibly around a dozen.

updates to the BIS²⁶.

There is a risk that a party could publicly announce significant expenditure commitments following publication of the BIS and not notify the PBO. If this occurs, the final published BIS would not accurately reflect the party’s full expenditure commitments. In practice, however, this could be exposed and held up to criticism as a misleading tactic. The PBO therefore does not think it is a major risk.

Election Commitments Not Notified to the PBO

The two major political parties are required to have the PBO cost all of their election policies that they propose will be implemented if elected to Government under Section 18(1A) of the *PBO Act*. Post-election feedback from agencies suggests this did not occur. For example, one agency has undertaken a post-election audit of all announced policies during the 2019 Election; this indicated a significant number of election commitments had not been costed by the PBO or included in the BIS.

The PBO is only able to cost election policies that have been request by a parliamentary leader or their nominee. There is no mechanism under the *PBO Act* to enforce a party’s obligation to notify its full set of election policies to the PBO. This can result in NSW voters being less informed if the BIS only reflect some of the parties’ policies.

The following table outlines the options for ensuring that both political parties have all their election policies costed by the PBO.

Table 7: Options to Ensure That All Election Policies Are Costed by the PBO

Option	Advantages	Disadvantages
1. Amend the <i>PBO Act</i> to allow the PBO to automatically cost announced election policies by the parliamentary leader regardless of whether the parliamentary leader or their nominee has requested the election policy to be costed	Creates an incentive for parliamentary leaders to submit election policy costing requests to the PBO Increases transparency of election policies for NSW voters	Significant increase in PBO resourcing Difficulty costing election policies without full set of election policy assumptions
2. Include a requirement in the Operational Plan that the parliamentary leaders provide the PBO with a list of announced election policies and identify election policies that are required to be costed by the PBO	Increases transparency of election policies for NSW voters	Increase in resourcing for Premier’s office and the Leader of the Oppositions office

²⁶ The PBO did issue a revision to the ALP BIS correcting minor typographical errors; there were no changes to the final costing figures in this revised statement.

<p>3. Amend the <i>PBO Act</i> to allow the Parliamentary Budget Officer to request that a parliamentary leader provide the PBO with an election policy costing request for an announced policy</p>	<p>Creates an incentive for parliamentary leaders to submit election policy costing requests to the PBO</p> <p>Increases transparency of election policies for NSW voters</p> <p>Ensure that the PBO will be provided with the full set of assumptions for the election policy</p>	<p>Minimal increase to resourcing</p> <p>Request may not be enforceable</p>
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On balance, the PBO prefers option 3 as it ensures that announced election policies are cost against the election policy assumptions which results in the NSW voters being better informed.

Recommendation 11

An additional section 18(7) should be added to the *PBO Act* that provides:

“The Parliamentary Budget Officer may, under this Part, ask a parliamentary leader to make an election costing request for a policy that has been publicly announced by the party.”

Costing Timeframe

A number of policies submitted to the PBO for costing specified significant financial impacts beyond the forward estimates period. This meant the figures reflected in the BIS were less than, and sometime only a fraction of, the total financial impact of the policy. This approach allowed both parties to publicly announce significant expenditures for certain policies, while showing only a minimal increase in expenditure in the published BIS.

Deferring policy expenditures beyond the forward estimates could potentially mislead the public of a policy’s full financial impact. In the interest of improving transparency, the PBO recommends, where relevant, additional information should be collected and published on the total impact of policies beyond the forward estimates period.

During the 2019 Election, the PBO did collect and publish the ten year impact of individual policy costings that had large effects outside of the forward estimates where these impacts were able to be estimated. This data was not included in the BIS, though it was often published in the discussion accompanying the individual costings.

For the next PBO it would be possible for up to ten years of financial information to be collected and reported in the BIS for all policies. This aligns with the data collected by NSW Treasury in their Financial Management System, PRIME. However, it may involve extra work for the PBO and agencies to cost all policies for ten years, where only some of them have impacts beyond the forward estimates. For this reason, it is recommended the next BIS include a separate section that reports on the impacts over ten years for those policies that have significant impacts beyond the forward estimates. Most agencies support the PBO collecting information over a longer timeframe for costing policies.

Recommendation 12

The next PBO should use a ten year costing timeframe for policies with long lead times, large capital spends or significant revenues or expenses occurring beyond the forward estimates. The BIS should include a separate section that reports on the individual and aggregate impacts over ten years of policies that have significant effects beyond the forward estimates.

The Appropriate Fiscal Aggregates for PBO BIS Reporting

Section 23 of the *PBO Act* provides that:

- (2) A budget impact statement is to list the relevant costed policies and show:
- a. a summary of the assessed financial impact of each costed policy, and
 - b. the total net financial impact of all the costed policies, on the current year's State budget and on the forward estimates for the period to which the pre-election half-yearly budget review relates.

(2A) The budget impact statement is also to show, for the general government sector, the impact of all the costed policies on the following financial indicators:

- a. the sector budget results, identifying the difference between expenses and revenues from transactions for the sectors,
- b. sector capital expenditure,
- c. sector net lending/borrowing, identifying the financing requirement for the sectors.

(2B) If the costed policies have an impact on the public non-financial corporations sector or the public financial corporations sector, the budget impact statement is also to show the impact on financial indicators for that sector, as set out in subsection (2A) (a), (b) and (c).

For the 2019 BIS, the PBO published detailed lists of the GGS aggregates for revenue, expenses, net operating balance, capital expenditure and net lending as updated in the 2019 PEBU.

The BIS listed the election policies by cluster and their effects on the net operating balance,²⁷ grouped by whether they were primarily expenditure, revenue or savings initiatives. This format was recommended by the 2015 Post-election Report. The Parliamentary Budget Officer considers this layout enhances the public's understanding of policies. It should be noted that a number of policies had both spending and saving components and were therefore recorded in several tables.

The PBO was generally satisfied with the treatment of the GGS fiscal aggregates. However, PBO costing templates could improve by including a reconciliation between capital expenditure and the net acquisition of non-financial assets. This would better align with the presentation of net lending/(Borrowing), and would provide greater transparency around the sale of assets.

²⁷ The clusters were Education, Family and Community Services, Finance, Health, Industry, Justice, Planning and Environment, Premier and Cabinet, The Legislature, Transport, NSW Treasury, and Whole of Government.

Treatment of Asset Sales

The budget treatment of asset sales became a particular concern in relation to PBO costings of Opposition policies not to proceed with some planned asset sales. In one instance the PBO sought information from the relevant agency and was informed that estimated proceeds from the asset sale were not included in the forward estimates on the basis of standard budgeting practice. The NSW Treasury 2018-19 Budget paper says: *“Consistent with standard NSW practice, the expected impact of asset sales is not incorporated until transactions are complete.”*²⁸

However, when the PBO contacted NSW Treasury to confirm the costing numbers, PBO staff were told that estimated proceeds were included in the forward estimates. The costing was prepared on that basis. The PBO then costed a policy in relation to discontinuing another proposed asset sale; the two proposed sales were similar, but in the second case the estimated proceeds were not included in the forward estimates.

The PBO sought advice from NSW Treasury as to what the policy was on treatment of asset sales in the budget. The PBO was given two alternative and somewhat inconsistent pieces of advice. It was however clearly apparent from both sets of advice that the published policy in the budget papers was not in fact NSW budget practice. It is difficult for both agencies and the PBO to provide information or prepare costings if there is no clear guidance from NSW Treasury.

Recommendation 13

NSW Treasury publish accounting policies in relation to key budget items; in particular, develop and publish a policy on treatment of asset sales in the budget.

Total State Sector Reporting under the Budget Impact Statement

The BIS included reporting on election policies impacting net lending/borrowing for the Public Non-Financial Corporations (PNFC) and the Public Financial Corporations (PFC) sectors. It also reported the overall impact of the party’s election policies on net lending/borrowing for the Total State Sector (TSS) — the aggregate of the GGS, PNFC and PFC sector impacts.

The BIS did not provide a further detailed policy breakdown of the revenue, costs and capital expenditure impacts on the PNFC and PFC sectors, as required under section 23.2(B) of the *PBO Act*.

Incentives to Shift Revenue to the GGS and Expenses to the PNFC and PFC

Under the current reporting framework, most of the BIS reports on GGS effects and the GGS net aggregates of election policies. Subsequent media reporting of the PBO’s BIS generally focused on the GGS impacts of policies. This focus may be reasonable, as the majority of policies submitted do not have PNFC or PFC Sector impacts.

However, under the current framework, the political parties may have incentives to shift revenues into the GGS and expenditures into the PNFC and PFC sectors, thereby improving the GGS net operating balance whilst not effecting the overall TSS.²⁹ Parties could do this by shifting the

²⁸ NSW Budget Statement 2018-19, 5-10

²⁹ For example, ALP’s policy on the Sydney Football Stadium proposed a Public Corporation (the SCG Trust) pay revenues to the GGS to construct the stadium funded by a concessional loan provided to the SCG Trust.

ownership of assets and revenue and expense liabilities between PNFC/PFC and the GGS. The PBO observed some policies, including several unpublished costings, did do this.

In practice, some of these policies may have had a negligible net impact on the TSS. They were merely shifting assets and liabilities, and revenues and costs, between the GGS and PNFC/PFC.

In the PBO's view, greater emphasis and awareness needs to be put on the TSS impacts of election policies. These figures provide a more comprehensive and meaningful measure of the full impact of a policy on the State.

Increasing Transparency through Reporting Improvements with the Total State Sector

The PBO's BIS could begin with the TSS impacts of a party's election policies, and show the GGS and PNFC/PFC impacts as subsets of the TSS reporting. The policies costed by the PBO which are publicly released would also outline the full PNFC and PFC Sector impacts of policies in line with Section 23(2B) of the *PBO Act*.

To achieve this improved reporting, the PBO costing template would need to be revised to include the TSS impact of a policy in the top line. The template would then include the GGS and PNFC/PFC sector financial indicators as subsets of this overall result. It would show expenses and revenue, the net operating balance, capital expenditure and net lending/borrowing in both the GGS and for the PNFC/PFC sectors. A copy of this template can be found in Appendix G. Please note this would only be used for election policies that have PNFC/PFC sector impacts, and not all election policies.

The PBO's costing election request form sent to parties should also be updated to include more detailed estimates for the PNFC and PFC sector impacts and the TSS impacts of policies — where a policy does impact these sectors.

In addition, the NSW Treasury Half-Yearly Review and PEBU should provide a list of any significant changes in transactions between the GGS and the PNFC and PFC sectors, showing the impacts on financial indicators for the sectors.³⁰ Providing this disclosure and transparency would reduce any incentives to improve GGS results by taking revenue from, and shifting expenses onto, other PNFC/PFC.

The PBO understands a Measures Statement is likely to be included in future budget papers — this would be a good mechanism for giving effect to this suggestion, and in line with NSW Treasury proposed practice.

Recommendation 14

The Half-Yearly Review and PEBU should provide a list of any significant changes in transactions between the GGS and the PNFC/PFC sectors, showing the impacts on financial indicators for the sectors (revenue, expenses, capital expenditure, and net lending/borrowing).

³⁰ The NSW Treasury already collects this information to compile the GGS accounts for the Half-Yearly Review and PEBU. Hence, the requirement would not entail extra work, rather, it would show more detailed reporting of what is currently collected on the transactions between the GGS and PNFC/PFC.

Opposition's Concerns with NSW Treasury's Pre-Election Budget Update

The 2019 Election was the first time that NSW Treasury issued a PEBU. The purpose of PEBU was to update the information set out in the Half-Yearly Review. The Opposition questioned the transparency of PEBU. PEBU was not well received by the Opposition for two main reasons.

Firstly, it was not clear that PEBU disclosed all of the new policy measures taken since the Half-Yearly Review. The expression used in the Expense Measures Statement was *"Comment on major decisions included..."*. The word *"included"* caused concern to the Opposition because it could potentially hide a number of measures and not include all measures. NSW Treasury confirmed to the PBO that all measures were included and the PBO in turn advised the Opposition of this. However, this advice did not allay the Opposition's concern. In future, it would be preferable for NSW Treasury to list all measures.

Secondly, a number of new measures were listed *"that will be met from existing budget estimates"* (see page 20 and page 22). There was no indication of how these would be funded. On investigation it became apparent that the funding source was a large underspend out of an adjustment made in the Half-Yearly Review *"to reflect Government decisions that are not yet included in agency estimates"*. The relevant policy measures had not been decided at the time of the Half-Yearly Review. While it is common budget practice for state/territory and federal budgets to include provisions for decisions taken but not announced, good practice is for the amount of such provisions to be disclosed. There is no such disclosure in NSW; there is only a dot point note (see page 64 of the Half-Yearly Review).

It is also good budget practice for estimating errors which result in underspends not to become available as a fund for new announcements prior to an election but instead returned to the Consolidated Fund.

Budget Impact Statements Timing of Release

The BIS are published 5 days before the election. Publishing all policies this close to the election may not allow the public and media sufficient time to process, analyse and consider the individual policies and their aggregate effects.

The Grattan Institute have suggested an earlier publication of the BIS, such as two weeks before the election, to allow more time for public scrutiny of policies.³¹

The earlier the release date for the BIS, the less accurate it will be in reflecting a party's full set of election policies. Publishing the BIS earlier would not capture policy announcements after the release date or late and amended policies. So there is a need to balance publishing a more accurate and comprehensive BIS closer to the election date, that provides less time for scrutiny, with publishing a less comprehensive BIS earlier, that allows more time for public scrutiny.

Providing extra time for the review of election policies is becoming more important with the increasing popularity of pre-polling. NSW electoral commission data shows 22% of votes were cast at an early voting centre. Many of these pre-polling voters would not have had access to the BIS, which could have informed their vote. With the rise of pre-polling, parties may choose to release their

³¹ Terrill, [Marion](#) and [James Ha](#), "How the NSW election promises on transport stack up", Grattan Institute, 14 March 2019, accessed 6 May 2019, <https://grattan.edu.au/news/how-the-nsw-election-promises-on-transport-stack-up/>

major policies earlier rather than in the final week.

The practical pressures involved in the current timetable (as outlined previously) meant the BIS were not able to be published until 4pm on the day of release; some media sources have indicated a preference for publication earlier in the day.

Options for future timing of the BIS release are listed in the following table. Consideration should be given to both the need for transparency in election policies and allowing the parties to determine their own election strategies for announcing election policies and their costs.

Table 8: Options for Future Timing for the Release of the Budget Impact Statement

Option	Advantages	Disadvantages
1. Status quo – The BIS is published 5 days before the NSW Election	<p>Allows parliamentary leaders to continue to refine policies for a longer timeframe</p> <p>Parliamentary leaders can still notify the PBO that an election policy has been announced which allows the PBO to release the election policy costing request and election policy costing</p>	<p>Less transparent</p> <p>The BIS will not be available to pre-polling voters</p>
2. Release the BIS 8 to 14 days prior to the election	<p>Allows greater time for scrutiny</p> <p>Pre-polling voters have earlier access to policies</p>	<p>The further the BIS is released from the election the less accurate it may be</p> <p>Parties may not submit all policies and / or release un-costed policies after the BIS</p>
3. If a policy announced and refers to the PBO costing, the PBO will automatically release the costing prior to the release of the BIS	<p>Transparency</p> <p>More time for the public and media to assess the election policy costing request and election policy costing</p>	<p>Parties may not refer to PBO costings in their announcements</p>

On balance, the PBO favours bringing forward the public release of the BIS to 1 pm on the Friday, eight days before the election. This change would also require parliamentary leaders to submit their final list of policies by the Tuesday, 11 days before the election.

Recommendation 15

The PBO recommends that section 23 of the *PBO Act* be amended to require that:

- i) Parliamentary leaders notify the PBO of their final list of policies for inclusion in the Budget Impact Statement on the eleventh last day before the election; and
- ii) The PBO publish the Budget Impact Statements on the eighth last day prior to the election.

Part 4 – Media and Public Engagement

Engagement with the Media

There was a significant increase in contact from the media compared to 2014-15. The Parliamentary Budget Officer invited members of the Parliamentary Press Gallery to a briefing on the role, responsibilities and processes of the PBO on the 7th December 2018 in Parliament House. It was well attended and a copy of the PowerPoint presentation was forwarded to those who expressed interest, as well as the parliamentary leaders.

Further engagement with media came via the issue of eight press releases, an increase from the three released in 2014-15. These announced the Operational Plan, the release and revision of the BIS, the PBO costing process, misrepresentation of the PBO in media articles and issues relating to the concessional loan to the SCG Trust to fund the Sydney Football Stadium Redevelopment. Media releases were uploaded to the PBO website and emailed directly to members of the Parliamentary Press Gallery and journalists who requested to be included on the mailing list. The 2018-19 media releases are in Appendix F.

Engagement with the Public

The PBO had little direct engagement with members of the public, other than the publication of the BIS and media releases on the PBO website. While the PBO Twitter account username and a link was provided online, the account was not used during 2018-19, this in contrast to 2014-15.

The Parliamentary Budget Officer wanted to engage more with the public and promote the role of the PBO and its value in providing thorough, independent, transparent and reliable information on the costs of election policies proposed by the Government and Opposition leading up to the NSW Election. The Parliamentary Budget Officer took some first steps in promoting the role of the PBO by publishing an “About Us” and “Frequently Asked Question” webpage. These pages aimed to increase public awareness of who the Parliamentary Budget Officer was for the 2019 Election, costing guidelines, purpose of the Operational Plan, BIS release dates and career opportunities.

Development of a Social Media Strategy

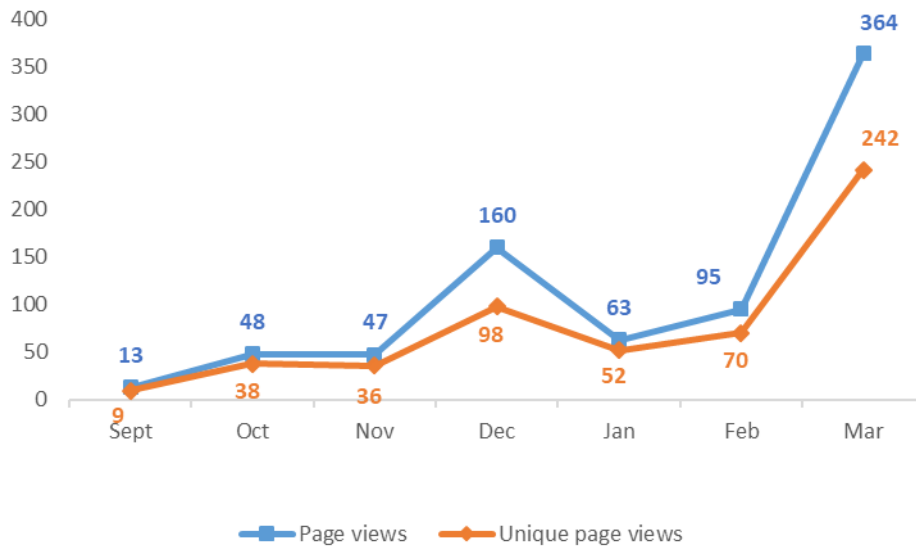
The future PBO should develop a social media strategy and utilise Twitter or future popular social media platforms. Having a comprehensive media strategy will assist in being able to accurately inform the public, such as advising of what has and has not been costed by the PBO following the release of the BIS or releasing a costing following a policy announcement.

At the time of writing, the PBO Twitter page had 63 followers. Future strategies should focus on increasing followers and posting regularly. Regular social media engagement could benefit the PBO, for example proactive posting in response to media articles and enquiries. The post could contain a link to the PBO costed policy, helping the PBO to remain neutral and provide a more rapid and efficient way for the public to access information on the costing.

The Parliamentary Budget Officer published his media releases on the PBO website. Statistics show there is a correlation between the number of views of the Media Release page and media outlets referring to PBO work. An example of this occurred in early December 2018, when there was a

misrepresentation in the media in relation to a PBO costing (refer to graph below). This suggests that a social media strategy would add value to the PBO’s overall public and media communication.

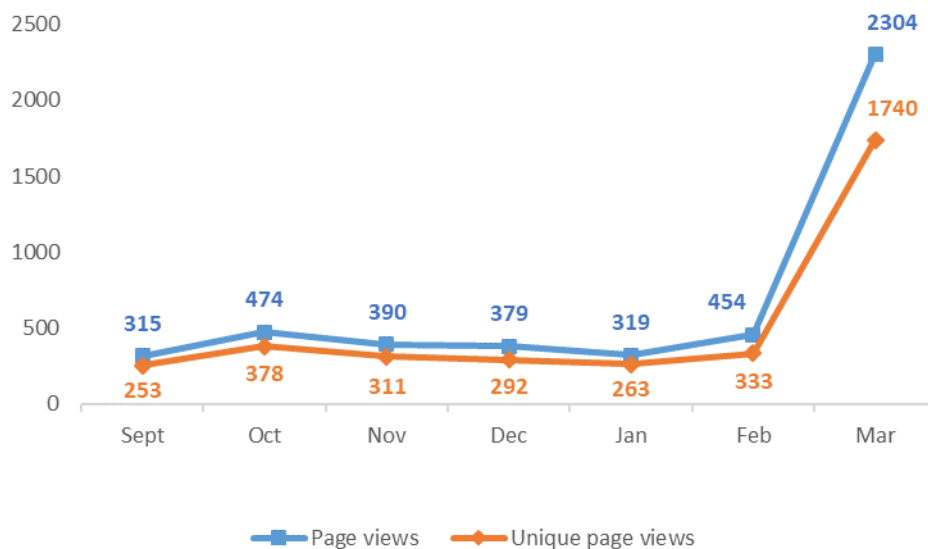
Figure 15: Number of Page Views for the Media Release Page



PBO Webpage

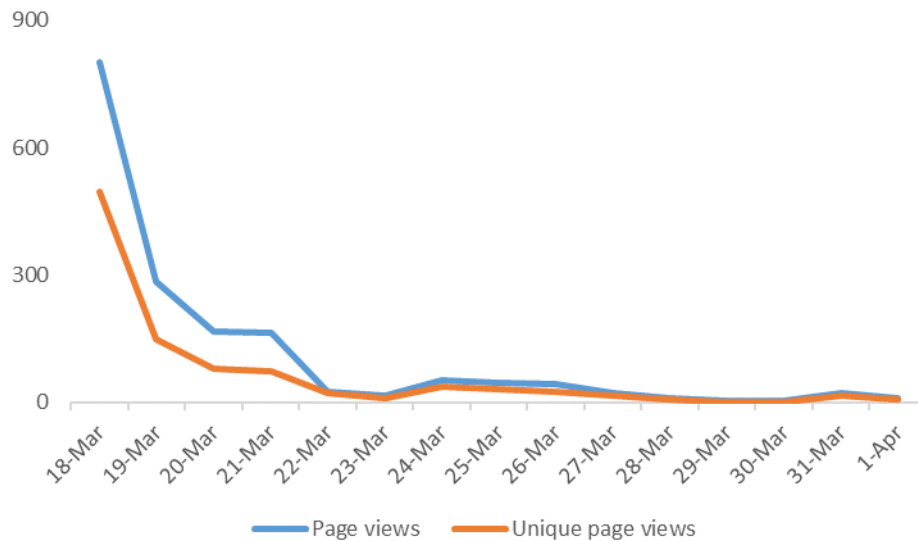
The PBO webpage for 2018-19 went live on the 6 September 2018. The total number of views for the main PBO page from September 2018 to March 2019 was 4,635. Number of views for the main PBO webpage stayed fairly consistent between September 2018 and February 2019, and then increased dramatically in March 2019, with a growth of almost six times the views in February. A surge was expected due to the release of the BIS showing the Coalition’s and ALP’s election policy costings’ impact on the budget. The actual figures for page views (number of times the page was viewed) and unique page views (number of IP addresses, including individual connected devices such as a computer and tablet) can be seen in Figure 16.

Figure 16: Statistics for PBO Main Webpage View September 2018 – March 2019



The number of visits to the BIS webpage were collected from the date of its publication on 18 March 2019 until the 1 April 2019. As expected, the highest number of views took place on the day of the BIS release, followed by the 19 March 2019 when an update to the ALP's BIS was announced. Following the election, there was a small spike in views which suggest that the BIS remains relevant even after the election. Figure 17 below shows the views for the BIS page.

Figure 17: Number of Views for the BIS Page



Interestingly there was a higher number of views for the ALP costings than the Coalition costings in the lead up to the election. The number of costing page views and unique page views for the ALP and Coalition costings is shown in Figure 18 and Figure 19 below.

Figure 18: Page Views for ALP and Coalition Costings

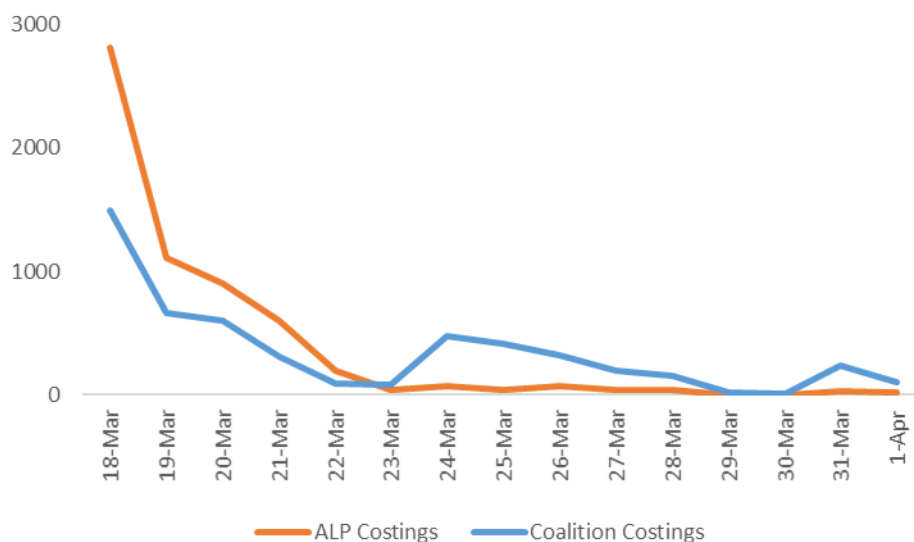
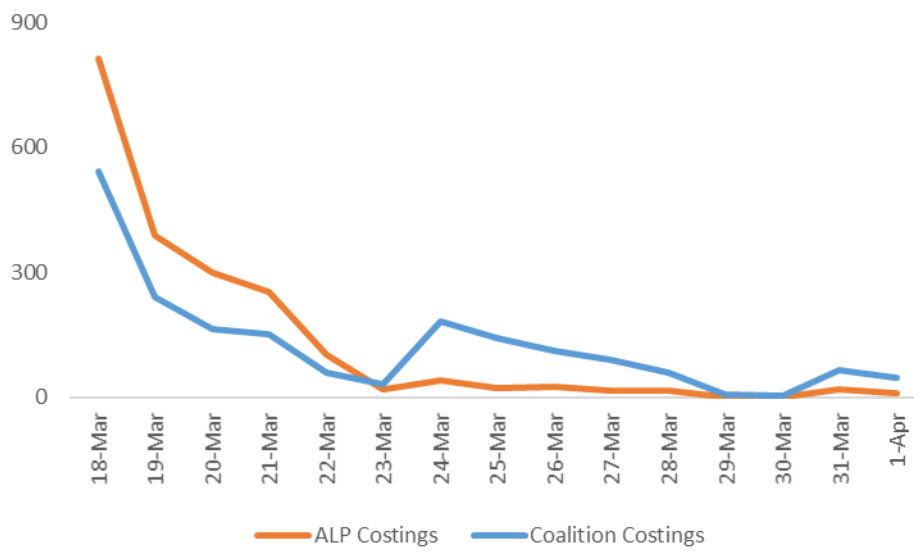


Figure 19: Unique Page Views for ALP and Coalition Costings



Part 5 – Resource Management

Introduction

The recruitment process began in June 2018, significantly earlier than for the 2014-15 PBO. The earlier recruitment of staff was welcomed, and needed given the unanticipated high number of costing requests received in October and November.

The diverse skill set of the PBO staff met the increased complexity of costing requests; however it is recommended that the future PBO appoint a Chief Accountant, similar to the Chief Economist appointment.

While, the PBO has a preference for secondment of staff, feedback received through the 2018-19 debrief workshop highlighted a need to balance workloads between the PBO and agencies. Agencies highlighted a concern for their own workload during the busy election period.

Overall, the PBO assembled a highly professional specialist team to support its operational and legislative requirements. The PBO staff successfully created effective working relationships with agencies and the two major parties in order to meet the PBO's key deliverables.

Timing of Recruitment

Feedback received in 2014-15 and again in 2018-19 in relation to timing of recruitment was that earlier recruitment should be given preference over matching recruitment with workload.

The Parliamentary Budget Officer will face uncertainty about the nature and timing of election policies submitted by the leaders for costing. This is an inevitable consequence of the highly political nature of policies in the election context. This adds an additional challenge for timing of recruitment – there is no way of predicting in advance if recruitment is matched to workload. The volume of policy costings is difficult to predict. Compared to 2014-15, the number of 2018-19 policies increased by 21%. While this shows an increase in confidence of the PBO costings by the leaders, this increases the difficulty in being able to predict workflow requirements.

The Human Services area in the Department of Parliamentary Service (DPS) actioned 2014-15 feedback that the recruitment process for PBO staff should start as soon as possible. While this required extensive resources from the Human Services area, overall the recruitment process was very successful.

Recruitment of Parliamentary Budget Officers

The Parliamentary Budget Officer recruitment process began in June 2018 and consisted of:

1. Developing and placing the job advertisement.
2. Acting as the contact for interested candidates.
3. Reviewing and collating applications.
4. Liaising with the assessment panel members (comprised of the NSW Ombudsman, the NSW Information Commissioner and the Chairperson of the Independent Pricing and Regulatory Tribunal) to arrange interviews.
5. Facilitating the Presiding Officers' approval of the panel recommendations.

6. Preparing and distribution of an offer letter and employment package and negotiation of a commencing date.

Mr Stephen Bartos was appointed as the Parliamentary Budget Officer and commenced on 6th September 2019, two weeks earlier than the 2015 Election. This was Mr Bartos' second appointment as Parliamentary Budget Officer.

Recruitment of PBO Staff

A key improvement for the 2018-19 PBO, when compared to the 2014-15 PBO, was that the Human Services area prepared a short list of candidates for the Senior Budget Analyst, Budget Analyst and Administration staff roles that the Parliamentary Budget Officer reviewed at the commencement of his appointment. This proved highly effective and reduced the workload for the small PBO team. This earlier recruitment enabled PBO staff to commence earlier and allowed agencies to better manage their contingency plans for workforce planning. It is recommended that a short list of candidates is prepared for future PBOs.

The DPS Human Services team have provided comprehensive and extensive support to the PBO office. The PBO extends a thank you to Ms Helen Gors, Mr Colin Brown and Ms Stacey Petrakis.

On-Boarding of PBO Staff

The on-boarding of PBO staff consists of: administration set-up, including adding new staff to the PBO payroll and IT set-up; and, operational set-up, including training on the processes and procedures of the PBO office.

The Human Services area of DPS provided support in the administrative on-boarding for PBO staff, including, start and end dates, concurrence letters, payroll arrangements, offer letters, collation of start-up information (banking details and contact details).

It was noted that some staff members did not have access to computers and phone systems on their first day at the PBO. In future years, computers and phone should be set up and tested prior to PBO staff commencing. This will assist them hitting the ground running on day one.

Training of PBO Processes and Procedures

While administration set-up was largely effective, training on PBO processes and procedures can be further strengthened for future PBOs. While this may come as a challenge due to the uncertain timing and complexity of costing requests received, an investment in training early on will increase the success of the PBO. It will also ensure that working relationships with agencies are maintained.

Due to the staged nature of the on-boarding, it is recommended the future PBO provide a standardised on-boarding operational pack that covers the PBO's processes, procedures, systems training and key contacts. During the peak time, it was discovered that PBO staff were not consistent with the costing titles. This led to increased pressure when uploading the costings to the website in preparation for publishing. While the deadline was met, training in relation to correct costing titles would have avoided this additional stress.

Feedback received from agencies suggests additional training, particularly around understanding policy details would improve the costing process. It highlighted the importance of considering the

information request from all relevant angles prior to contacting agencies and sending requests for information.

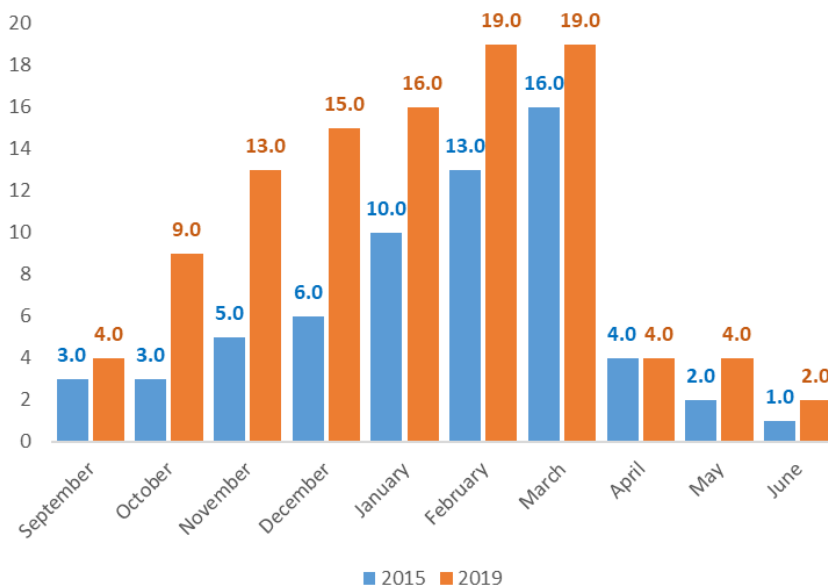
Staffing

Figure 20 below shows the staff numbers by month for the period of operation for the PBO (6 September 2018 to 28 June 2019), and the staff numbers for the 2015 Election.

In September 2018, the staff count was four, including the Parliamentary Budget Officer. This small core team focused on the establishment phase. The establishment phase included office start up and fit out, developing internal processes, planning and methods for managing resources, key stakeholder liaison and developing the PBO Operational Plan.

Staff numbers increased quickly from the initial core staff of four to a maximum of nineteen at peak operational time. The build-up of staff numbers occurred earlier for the 2018-19 PBO.

Figure 20: PBO Staff Numbers



During the peak administration workload during March 2019, the PBO sought the assistance of Ms Carrie Wellings from Parliamentary Catering Services. She shared her expert knowledge of SharePoint, which facilitated the upload of published costing requests and election costings to the PBO website on 18 March. These election costing requests and costings supported the release of the BIS on the same day.

There were three returning PBO staff for the 2019 Election – Ms Katie Hill, Mr Derek Francis and Ms Denise Driscoll. Continuity of knowledge proved to be very successful. The future Parliamentary Budget Officer should consider this point when devising his/her recruitment strategy.

Staffing Capabilities – Matching Skills with Key Costing Issues

The team was comprised of staff with a range of skills and competencies including policy and budget analysts, economists, audit, accounting and administration staff which proved highly complementary and successful. The staff were sourced from the following agencies:

- Department of Parliamentary Services
- NSW Treasury
- Audit Office
- NSW Department of Justice
- Transport NSW
- Create NSW
- Public Service Commission

Finding staff with this mix of complementary skills should remain a priority in future years.

The subject matter of policies submitted to the PBO increased in complexity when compared to 2014-15. Health, Transport, Education, Justice and Planning and Environment will almost always be areas where policies are likely to be proposed. Outside of those, in 2018-19 there was a higher number of policies relating to Industry. The PBO and agencies had not anticipated this.

There was one instance where the accounting treatment of a policy was challenged after the costing was published. This contentious matter was late in the election process and gained extensive media coverage. While the PBO costing remained unchanged and the PBO staff originally consulted with NSW Treasury prior to publishing the costing, it is recommended that the future PBO employ a Chief Accountant, similar to the PBO's Chief Economist. The Chief Accountant will be able to endorse any complex accounting treatments and where necessary liaise with NSW Treasury and external consultants to ensure that; all parties have the same understanding of the facts; the accounting treatment is robust; and, applied correctly to the facts prior to publishing the costing.

Recommendation 16

A Chief Accountant is employed in the future PBO.

Cross-Training of Staff

The PBO staff have a diverse range of skill sets and expertise. One potential drawback of this is that there could be some areas where there is no overlap of key skill sets. This could result in a single point of failure, which is not ideal. The future Parliamentary Budget Officer should identify key skill sets and ensure that staff are cross-trained.

A key skill set required for the preparation of the BIS is a comprehensive and deep level knowledge of Excel. This is required in order to compile the numerous tables and ensure accuracy of the BIS. This requirement may change in the future if the software for compiling the costings and BIS change. However, in future years this skill set should be given priority as early on as possible.

Secondments

The current Parliamentary Budget Officer has a preference for hiring staff through secondments. Key agencies such as NSW Treasury, Transport and the Audit Office provided secondees to the PBO. Having PBO staff with an in depth agency knowledge improves the costing process and enhances working relationships with agencies during the election. Out of the 19 PBO staff, 15 were recruited through secondments. As with the 2015 Election, secondments were the most effective method for recruiting PBO staff with the right capability.

The Parliamentary Budget Officer communicated his recruitment intentions with agency contacts (mainly Secretaries and Deputy Secretaries) early after his appointment. This targeted approach ensured the right skill sets were brought into the PBO. One drawback of contacting very senior leaders within agencies is the message may not have filtered down to potential interested candidates. It is recommended in future, the Parliamentary Budget Officer or the DPS Human Services area advertise expressions of interest through an agency's Human Services area.

The PBO engaged policy experts in Education, Transport, Industry and Justice. It is noted the PBO did not have a Health policy expert. However, close agency working relationships resulted in two PBO staff developing a high-level knowledge of Health. In future years, there should be a continued focus on seconding staff from focused area clusters or from the parts of NSW Treasury that deal with them.

It should be noted, however, that senior agency staff (CFOs and Directors) showed a reluctance for secondments in the future. Key reasons were:

- Staff that would be suitable for secondment hold key agency and costing knowledge, not having access to these staff in the lead up to the election would compound resourcing problems for agencies in completing costings to a high standard and in a timely manner.³²
- Complexities of Clusters and larger agencies often means that one staff member will not have the required knowledge for varied and complex policies. An example of this is Health. Health received several policies that required input from more than one subject matter expert.
- Some agencies favour a more scalable model, whereby agencies maintain key subject matter experts and provide a secondee with high level knowledge who can directly liaise with the relevant key subject matter expert.
- Early meetings between the PBO and agency which outlined complex policies were more successful from the agency point of view.
- Risk of secondees costing a policy without proper agency involvement, and hence not having a complete picture.

The reasons for this reluctance outlined above are all valid concerns. The future PBO should address these concerns early on, highlight the preference for secondments and map out with senior agency staff the best working approach to achieving the PBO's and agencies objectives up to the election.

³² The number of costing requests for agencies significantly increases in the 6 month lead up to the election from both the Government and PBO. Agencies have suggested staff with the appropriate skill base to complete such work are typically in short supply and high demand at this time.

The experience of working in the PBO was seen by all of the seconded staff as highly valuable, an intense learning experience and an exposure to a far wider range of policy, economic and fiscal issues than they would have found in their own workplaces. All of the 2018-19 secondees agreed that they have added new technical and soft skills to their skill suite.

Chief Executive Officers/Secretaries should be encouraged in future years to support secondments and help encourage immediate supervisors of suitable secondees to release them.

Administrative Staff

Given the number of costing requests and associated logging, tracking and records management required, a small administration team of three was assembled in October through to April to meet peak demand, led by the Office Manager.

The administration team consisted of the Office Manager, Administration Coordinator and an Administration Advisor. The Administration Advisor was the 2015 Election Office Manager. Continuity of knowledge in the administration team proved very valuable. The administration advisor was key in providing foresight to the administration team in relation to office set-up, publishing costings to the PBO website, coordinating the debrief workshop and 2019 Post-election Report.

Leading up to the online publication of the costings on the PBO website, the PBO seconded a DPS staff member with expert knowledge of SharePoint which was very successful. For future years it is suggested the PBO should again second staff with website platform knowledge. This greatly reduced the pressure, and ensured accuracy and consistency of the published costings.

Consultants

The PBO engaged the services of one accounting firm throughout the 2019 Election, following a response to a public advertisement on the PBO website seeking expressions of interest from firms interested in assisting the PBO.

The engagement was a retainer arrangement, which resulted in the PBO having access to their expertise throughout the engagement period (mid-November 2018 to end of April 2019). This arrangement was value for money for the PBO and NSW voters.

It is recommended that the future PBO continue to engage external consultants due to their expertise, knowledge and independent advice.

Future PBOs should consider the following with Resource Management:

1. Commence office establishment and operational capacity as soon as possible after the Parliamentary Budget Officer is appointed.
2. Commence planning for recruitment of staff as soon as practicable.
3. Assemble the specialist team with the expectation of a steady stream of incoming costing requests from October of the pre-election year rapidly increasing to peak demand from January to March of the election year.
4. Second staff with PBO website platform knowledge in the lead up to publishing the costings

and costing requests on the PBO website.

5. Plan for preparation of the BIS, including training multiple staff on the BIS process.
6. Standardise the operational on-boarding pack to ensure that staff are fully trained prior to peak periods.

Part 6 – PBO Budget

Fiscal Responsibility

A total budget of \$2.25 million was allocated by NSW Treasury to meet the capital, operational and staffing requirements of the PBO.

A range of measures were implemented to effectively manage the budget and remain consistent with the strategies outlined in the PBO Operational Plan (Section 3.7 Manage resources effectively). These included:

1. Planning a budget with allocated expenditure.
2. Monthly budget reporting and monitoring mechanisms.
3. Controlled budget spending.
4. Introducing protocols for authorising expenditure including a formal delegation process approved by the Presiding Officers.
5. Maintaining a small core staff to minimise staffing overheads.
6. Budgeting to meet the costs of the expected peak staffing period in the months leading up to the NSW general election.
7. Arranging a staged engagement of specialist staff to meet growing and / or peak workloads of the PBO.
8. Utilising Parliamentary in-house expertise for office establishment, staffing, recruitment and technology requirements.
9. Reducing travel costs by using the most economical options.
10. Minimising printing costs by publishing electronic documents only on the PBO website.
11. Meeting with the Financial Services Department to discuss the PBO's budget allocation when appropriate.
12. Keeping the Presiding Officers updated on how the PBO was tracking against its budget.

The PBO budget allocation was not exceeded at any time during the PBO's period of operations. A budget results overview can be found in Appendix D.

Part 7 – IT and Accommodation

IT

2018-19 Costing Records Management

Election policy costing requests from the parties were received via email to the PBO mail box. The request and any supporting documents were registered and saved electronically to the Content Manager (CM) recordkeeping system and made accessible only to PBO staff.

A hard copy of the costing request along with a checklist for sign off was provided to the analyst assigned to the costing. It was decided the shared drive was a better platform for analysts to prepare their costings, after feedback on issues experienced when using Excel in the CM system. A folder for each costing was created in the shared drive and assigned a reference number. As with CM, access to the shared drive was restricted to PBO staff.

On completion of a costing, all documentation was saved electronically into the appropriate CM file by the Administration Coordinator. Documentation included agency costings, correspondence in relation to costing information, research documents, costing tables, the completed costing, the email sent to the parliamentary leader containing the costing and a scanned copy of the completed sign off sheet.

Following the election, the hard copy folders used by analysts to complete costings were placed in archive boxes and transferred to the Parliamentary Records and Archives Department for secure storage.

As well as costing papers, other PBO documents saved into the CM system included:

1. Monthly reporting to the Presiding Officers.
2. Documents supporting the preparation and distribution of the Operational Plan and BIS.
3. Advice from the Crown Solicitor's Office.
4. Documents relating to staff recruitment and on boarding processes, office guidelines and checklists, tax invoices.
5. Copies of media releases and advice given to media along with media reporting of PBO costings.
6. Correspondence with parliamentary leaders, the Presiding Officers, Members of Parliament, Government agencies and the media.

The PBO registered over 4,000 electronic files and documents into the CM system for the 2019 Election period.

The benefits of using CM to capture PBO documentation include:

1. Ease of locating documents using electronic searches.
2. Integration with Microsoft Office and Outlook.
3. Easy version control of documents.
4. Assigning security levels and ability to audit the access and actions on a document.

5. Reducing the need for physical storage.
6. Ensuring the PBO and NSW Parliament meets its recordkeeping and legal obligations.

Future-Proofing the PBO Records Management and BIS for an End-to-End Solution

The record management, costing and BIS process used in 2014-15 and 2018-19, heavily relied on manual processes and procedures. The manual processes include: logging of incoming and outgoing costings and information requests and preparation of the BIS in excel. This process is time consuming and adds a level of risk of incorrectly recording dates and producing the BIS. The future PBO should consider future-proof solutions which are outlined below. It is noted that there will be difficulties implementing a new system, largely due to lead times, while the PBO is not permanent.

Table 9: Options for PBO Records and Reporting System

Option	Advantages	Disadvantages
1. Status quo	No implementation cost Previous PBO staff already familiar with system No impact on agencies	Does not address confidentiality issues Higher risk of manual error
2. e-Cabinet System	Restricted Access addresses confidentiality issues Widely used	Small impact on agencies Implementation lead time
3. NSW Parliamentary Counsel's Office Legis System	Restricted Access addresses confidentiality issues Widely used Compatible with e-Cabinet Track election commitments Prepare tracking reports for costings End-to-end system Prepare BIS Publish straight to PBO website	Small impact on agencies Implementation lead time
4. Cloud-based System (i.e. ShareFile)	Restricted Access addresses confidentiality issues Cloud-based solution lead time generally shorter and cheaper to implement	Training required by PBO staff and agencies No scope to publish straight to PBO website

Consideration was given to engaging Syntura to develop a system similar to that currently used by the Victorian PBO to manage the PBO costing process. However, due to the temporary nature of the NSW PBO, the Parliamentary Budget Officer decided it was not worth the investment to proceed.

In future, it is recommended that if use of Excel within the CM system has not improved, all documents other than costing workings should be saved directly into CM by the analysts. Early training on the use of the system along with having titling conventions would prevent the doubling

up of information saved, assist the workload of the Administration Coordinator, and teach a new skill set to those analysts who do not use CM in their regular work.

Accommodation

From its establishment in September 2018, the PBO operated within room 812 which had been vacated by the Legislative Council staff for the duration of the PBO. To ensure the PBO could operate confidentially, locks were changed and entry to the room required scanning of a security pass. Access to the room was restricted to PBO staff, maintenance and cleaning staff. PBO staff also observed a clean desk policy and locked work materials in secure filing cabinets at the end of each day.

As staffing levels grew, at its capacity in February and March 2019 the office had 19 workstations which were all utilised. These workstations were in addition to the office of the Parliamentary Budget Officer, a meeting room and separate room containing a kitchen, printer, and compactus storage and secure filing cabinets containing costing files.

Planned building works on level 8 took place between December 2018 and March 2019. This was part of the Building Services and Ceilings Replacement project. At times, noise from the works could be heard in the PBO and when raised with Parliamentary Facilities was promptly addressed.

Due to the workload, at times PBO staff worked at Parliament House on weekends. A staff member attempting to work over the weekend of the 23 and 24 February was affected by an unplanned power outage and unable to continue. The need for PBO staff to work on weekends and subsequently, not be affected by construction works was brought to the attention of the Facilities Capital Works team.

From the first week of May, with greatly reduced staff the PBO relocated to the Office of the Black Rod in room 823 and will remain there until the PBO wraps up at the end of June 2019.

The PBO would like to extend its appreciation to the Legislative Council for the room and to Parliamentary Facilities and IT Services for providing workstations and equipment and their ongoing assistance and support throughout the operation of the PBO.

Part 8 – Should the PBO be Permanent?

Feedback gathered in the course of preparing this report has, as in 2014-15, raised the question of whether the NSW PBO should be made a standing or permanent body.

The 2015 Post-election Report discussed arguments for and against establishing a permanent PBO (an extract of the relevant section from the 2015 Post-election Report is included at the end of this part). As noted in 2014-15, any decision on whether or not to make the office permanent will be up to the Parliament; the option was not progressed by the Parliament in 2015.

Since that time, especially in light of the experience in 2018-19, there is a case for permanency to be reconsidered. Important lessons from 2018-19 include:

- As noted previously in this report, in 2018-19 there were more policies costed, and far more of those policies were highly complex, than in 2014-15. Agencies have noted that the current ten days set out in the *PBO Act* for provision of information to assist in costings is itself insufficient for complex costings. Where modelling and testing of alternative assumptions is required, a timeframe of several months would be more appropriate - but not possible under current arrangements. A permanent PBO would enable collection of information and modelling to be done thoroughly (including testing of models and more complex analysis such as Monte Carlo simulations of different policy costs to take account of risks), improving the quality and accuracy of costings.
- Almost all the concerns about timeliness, discussed in Part 2 of this Report, would be overcome if the PBO were to be ongoing.
- Introduction of outcomes based budgeting in NSW will change the nature of costing work. Development of costings of outcomes will potentially require a more iterative process – that is, policies likely revised several times - than under current budgeting arrangements.
- A permanent office would allow a standardised and ongoing set of rules and procedures for PBO engagement with agencies to be developed and promulgated widely. This would reduce the risk of accidental breaches of confidentiality as occurred in 2018-19 (where a contributing factor was agency staff unfamiliar with the PBO process).
- Having a permanent PBO would justify the time and cost involved in developing purpose-built IT systems to support the functions of the PBO. As outlined in Part 7, there are systems available which would be much more functional than using commercial off the shelf products such as Excel, but the time involved in acquiring and implementing such a system is not justifiable for the limited duration (at present) of the NSW PBO.
- Other jurisdictions have appointed or are planning to appoint permanent Parliamentary Budget Officers - notably Victoria has had a permanent PBO since 2017.
- The NSW PBO has demonstrated it can deliver accurate costings for all policies submitted within its budget, very cost effectively.

A costing was prepared and published in 2018-19 for a policy to establish a permanent PBO. That costing indicated a NSW PBO could be maintained on a permanent basis at a cost of some \$1.6m per annum (or less than half the cost of the Victorian PBO). It suggested a permanent PBO team could be comprised of eight full time equivalent (FTE) positions. It did however note that additional funding of

\$1.5 million would be required in the election year (2022-23) to enable the PBO to undertake election policy costing work for the 2023 NSW State Election.

A permanent PBO could also allow an expansion of the role to do other value added work including:

- Providing advice to parliamentary committees on the costs of different policy options being considered in inquiries.
- Costing policies for minor parties and independents.
- Publishing and updating information on NSW fiscal issues to help inform parliamentarians and the public, and improve debate on the choices available to Governments. Publication of reports which are used to inform parliament and the public is one of the key functions performed by the Commonwealth PBO.
- Providing independent and confidential advice to NSW parliamentarians on budget and economic questions.

Should the Parliament be disposed to add these (or other) functions to a PBO, resourcing would need to be adjusted accordingly.

The PBO suggests the PAC would be an appropriate body to consider this matter, depending on its workload and other matters before it. Alternatively, an inquiry with representation from both Houses could be set up to consider the question.

Recommendation 17

The PAC consider whether the NSW Parliamentary Budget Office should be permanent.

Extract from 2015 Post-election Report

“The arguments for an ongoing PBO role include that:

- it provides a higher level of support to the Parliament on policy costing and related matters
- an ongoing PBO demonstrates greater transparency in government, and a commitment to institutions of independent advice and scrutiny
- it allows for a more orderly, thorough and comprehensive development of properly costed policy proposals during the term of the Parliament
- it may be easier to recruit a suitable PBO if the position is ongoing rather than short term
- the office of the PBO can recruit and train staff to develop expertise in the function.

Arguments against are that:

- there is additional cost to the NSW budget³³
- it would be difficult for the existing parliament house to find suitable accommodation for a full time PBO and Office³⁴
- agencies would be more reluctant to second high performing staff to the Office (at present due to the limited tenure of the PBO agency heads can release staff with confidence that the seconded staff will return to their home agency)
- an ongoing PBO role will primarily assist the Opposition and provide little benefit to government members
- there is limited usefulness in costing policies four years out from an election date.

Whether or not the PBO should be ongoing is a matter for the Parliament to determine. If it were to be ongoing, the PBO considers it would only be justified on cost effectiveness grounds if it had a broader role and mandate. There is unlikely to be enough work to justify a permanent PBO if the only role is election policy costing. Possible avenues for additional value added work that could be explored should an ongoing PBO be preferred include: provision of advice to parliamentary committees on the costs of different policy options being considered in inquiries; publication and updating of information on costs and benefits of various NSW government activities to help inform the public and improve debate on the choices available to governments; provision of independent advice to NSW parliamentarians on budget and economic questions.”

³³ Note the 2019 costing which outlined the relatively minor costs involved.

³⁴ Not a compelling argument in 2018-19, following upgrading of the physical spaces in the NSW Parliament House

Appendix A – OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions Conference

Introduction

The Organisation for Economic Co-operation and Development (OECD) Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO-IFI) seek to improve parliamentary scrutiny of the budget process and the evolving role of Independent Fiscal Institutions (IFIs).

Annual conferences are held where senior staff from parliaments, PBOs and fiscal councils are invited to:

- Debate significant budgeting issues.
- Share practical experience on working methods.
- Identify good practices and setting of standards.
- Profile new institutions (including the NSW PBO) and significant changes within the older institutions.

The Parliamentary Budget Officer was invited to attend, but declined because of the timing. The OECD agreed that another member of the PBO staff could attend. This was the first time the NSW PBO has sent a representative to attend the conference, with the 11th annual conference held in Lisbon, Portugal on the 4-5 February 2019.

Showcase of the NSW PBO

The conference provided an opportunity for the NSW PBO to highlight some of its unique features:

- The office is the only PBO in Australia that publishes costings and BIS prior to the election.
- NSW is the only State or Territory that requires parliamentary leaders to have all policies costed by the PBO (enforceable by a Court or Tribunal).
- The temporary nature of the office, operating once every four years for the purpose of the NSW Election. This nature means that the core focus of the PBO is the costing of election policies, rather than providing economic analysis and policy advice as provided by the Commonwealth PBO or auditing and approval of financial statements, as is the role of some IFIs in Europe.

Key Differences to PBO-IFI

The NSW PBO differs from the Victorian and Commonwealth PBOs and IFIs internationally as it is restricted to costings of election policies and preparing the BIS. The majority of IFIs and PBOs have the scope to undertake analysis at their own initiative, for example, the Commonwealth PBO can research and scrutinise budget and fiscal policy settings at the initiative of the Parliamentary Budget Officer (Section 64E). The Commonwealth office prepares regular publications on medium-term budget projections and the national fiscal outlook, chart packs and budget analyses that show the key drivers of change in the budget estimates and budget updates.

Common Challenges

Engaging with the network allowed the NSW PBO to share its experiences of key themes experienced by all offices in the network:

- Engagement with stakeholders and the struggle to gain access to accurate data within required timeframes to complete costings and reports.
- Cases where there are high levels of uncertainty in costings and reports and how to mitigate these situations.
- Ways to promote the PBO's role in enhancing transparency and improving credibility in the management of budgets, including contributing to public debate and the scrutiny of budgets and election promises.

Access to Information

Of the challenges outlined above, the most common challenge was accessing accurate and timely data.

The NSW PBO shared its strength with gaining access to accurate and timely information. This may be due to having the strongest mandate for requesting information in Australia with the *PBO Act* containing penalties for not providing information. The NSW PBO has never used this power as departments have generally provided information on time and of a high quality over the last two elections.

In comparison, the Victorian PBO has a different experience with only 44% of requests for information received on time and a staggering 18% of requests for information sent to agencies going unanswered. In the Netherlands the Bureau for Economic Policy Analysis (CPB), established in 1945 and costing policies since 1986, has no formal agreement with other departments to access information. The CPB relies solely on long standing relationships.

Costing Complex Policies – Insights from the Netherlands

The CPB shared the example of a policy aiming to increase the number of multi-national companies in the Netherlands. The policy proposed abolishing dividend withholding tax, which the Government forecast would generate a surplus of € 1.4 billion. However, there was no way to accurately assess the impact which resulted in a high level of uncertainty in the costing. Furthermore, the CPB utilising sophisticated models and all necessary data arrived at a completely different forecast surplus. The CPB underwent a labour intensive exercise using 20 staff to re-cost the policy and the Government accepted the CPB costing.

Appendix B – Costing Direct, Indirect Effects and Second Round Effects

This appendix outlines the NSW PBO’s (PBO) approach to costing direct effects, indirect effects (or effects in related markets), and second round effects of policies.

The PBO’s approach to costings included calculations of the direct effects of policies and direct behavioural responses. These are known as first round effects.

The effects of policies in areas of Government or market activity not directly affected, but where the direct responses to the policy could eventually lead to changes in prices or consumption of a good or service (other than the one to which the costing applies), were generally not included in costings.

Other indirect impacts from a policy – for example, whether it contributes to employment growth, inflation, or other economic indicators – are known as second round effects. These were not included in policy costings.

It is not always easy to distinguish between the direct and indirect impacts of a policy. This appendix provides a framework used by the PBO for consideration of this question – with the important proviso that it will always be a matter for judgement in light of the details of the policy.

Direct Effects, Indirect Effects and Second Round Effects

Policies may have direct effects, indirect effects in related markets and second round effects.

The direct impact of a policy assumes there are no behavioural changes by those affected. It is an element of all costing analysis.

Behavioural change refers to a change in the way people use goods and services. See examples below for how changes in policies in the context of the NSW Public Sector can affect changes in behaviour:

Example	Behavioural Change	Not a Behavioural Change
A new toll is introduced	A number of road users decide to drive on a different road without a toll	Road users pay the toll
A new public school is opened. The policy proposes a different education model at the school	Children move into the area from other schools	Local children attend

Behavioural changes can either be direct or indirect. The direct effect measures the behavioural change in the market where the policy applies (Refer to example below). Where the direct behavioural change can be measured, the PBO will include this. The indirect effect measures the behavioural change in related markets.

Examples where direct behavioural effects can be estimated reliably include:

- Increased fees for a service already provided for a fee, where there is data on what the response was on previous occasions when fees were raised.

- New public transport routes, where there is data on the number of people who live in the area(s) affected and data on use of public transport in comparable areas.
- Introduction of a rebate scheme, where data is available on the take-up of similar schemes in NSW or other States.

An Increase in the Price of a Government Tolled Road

Consider a policy that increases the price of a Government tolled road such as the Sydney Harbour Bridge. The direct impact measures the change in toll revenues assuming no behavioural response. For example, suppose the average toll is increased from \$3 to \$4, and there are 100 trips made per year before the price rise. The direct impact increases toll revenue from \$300 to \$400 per year, an increase of \$100.

The price increase causes a behavioural response with a reduction in people using the tolled road. If, for example, the price rise to \$4 price causes a 10% reduction in trips, then toll revenue only rises to \$360, a \$60 increase. This response is a direct behavioural effect and will be included in PBO costings as it can be reliably measured in this example.

The toll increase may also cause substitution to public transport, and an increase in public transport fare revenue. This indirect effect would not be included in PBO costings. The increase in demand for public transport may also require and result in the supply of more public transport infrastructure such as buses and trains (second round effect not included in PBO costings).

The toll increase causes the costs of transporting goods that use the toll road to rise, raising prices and lowering output in the economy. This small second round effect is also not included in PBO costings.

Second round effects occur where after a policy is fully implemented it creates benefits or costs which cause further economic feedback from the policy change. These changes can be in related markets that are affected, and also cover the effects in broader markets more generally, resulting from the changes in prices, wages and employment levels flowing from a new policy.³⁵

Predicting the magnitude and timing of these changes in related markets is uncertain. Calculating the overall impact of a number of different indirect effects of a policy requires considerable resources, data and modelling effort. The improvements to the accuracy of the costing would be unclear. Often the effects may have different impacts on the budget. And the total impacts are often unpredictable:

“The impact of a policy is like a stone thrown into a pond. There is an initial direct impact: the splash, but the resulting ripples will cause less predictable consequences as they spread out. In much the same way, the initial direct impact of a policy can set up a chain reaction of secondary

³⁵ See NSW Government Guide to Cost-Benefit Analysis March 2017, NSW Treasury, especially at page 12.

and subsequent impacts that may enforce, distort or lessen the original effect of the policy change.”

World Bank – Poverty and Social Impact Analysis Sourcebook at www.worldbank.org

In addition, these effects will also generally have a much smaller overall impact on the budget. For these reasons, effects in related markets and second round effects are typically not included in PBO costings.

Second round effects are also not included because it would require a policy to be compared against a counterfactual that collects or spends a similar amount of tax revenue. For example, a full analysis of the toll increase should either:

- Compare the effects on economy wide output of alternative taxes that also collect the same \$60 revenue increase.
- Incorporate the benefits to economic output from spending the extra \$60 of tax revenue.

The PBO approach is broadly consistent with the accepted practice for election policy costings prepared by treasuries in other States and the Commonwealth PBO.

However, where indirect and second round effects may be significant and can be estimated, there are instances where they have been included in election costings by other PBOs.

Commonwealth Approach to Costings

The Commonwealth’s approach to costings is discussed in its information paper: *“Including broader economic effects in policy costings”*.³⁶

The information paper distinguishes between direct static impacts, direct behavioural responses and broader economic impacts (which this paper has defined as second round effects). It says generally Commonwealth PBO costings include static and direct behavioural impacts, but have not included quantitative estimates of broader economic effects.³⁷

The information paper does suggest a wider inclusion of direct behavioural responses than typically would be included by the NSW PBO. For example, it discusses an example of an increase in wine tax and suggests increased beer consumption resulting from this policy would be included as part of the direct behavioural response.³⁸

The paper also outlines seven examples where broader economic effects on economic output (second round effects) have been included in costings.³⁹ The Commonwealth PBO says it will consider incorporating broader economic effects into costings where there is compelling evidence of the direction, timing, and magnitude of the macroeconomic impact, the impact is expected to be material to the costing, and the funding of the package is specified.

³⁶ Information paper no.03/2017, 30 November 2017.

³⁷ Ibid page 2.

³⁸ Ibid page 3.

³⁹ Ibid pages 13 and 14.

Appendix C – Summary of Stakeholder Feedback

After the election, the PBO sought feedback from stakeholders who had participated in the election costing process to find out what they thought worked, what was problematic and what could be improved for future elections.

The stakeholders who responded included representatives from agencies that had interacted with the PBO during the costing process, as well as representatives from the two major political parties.

Costing Timelines

- Balance needs to be given to the complexity and urgency of information requests. Agencies wish to provide high quality responses, while the Government and the Opposition are often faced with time critical choices. The PBO plays a key role in balancing the priorities.
- The PBO should specify via email if the information request is required to be returned earlier than the legislated timeframe.
- The ten day deadline should reset if a costing request is modified.
- The PBO developed an effective triaging process for prioritising costings with some agencies. This successful process should be implemented across all agencies in future.
- The PBO should consider how best to encourage agencies to provide information within the timeframe specified.

Differences in PBO and Agency Assumptions on Costings

- The PBO, NSW Treasury and agencies should work together to establish consistent assumptions such as on-costs and treatment of asset sales.
- Improve two-way communication between the PBO and agencies. This includes:
 - Consultation with agencies prior to finalisation of policy costings, especially when there are material differences in PBO and agency assumptions.
 - Reconciliation between PBO costings and agency information returns when the final costing varies from the agency's original assumptions.
 - If a policy assumes costs can be absorbed, the PBO should engage with the agency to ensure that the assumption will not inadvertently create future budget constraints.
- The PBO and agencies need to think about the cumulative impact of policies, and whether the scale of savings required to deliver the full package of a party's policies is feasible.

Information Requests Sent to Agencies

- Establish a process when an information request is sent to multiply agencies, in particular NSW Treasury and another agency. In some cases there was duplication of efforts.
- Ensure that the PBO costing template within the information request is relevant to the policy.
- To increase efficiency, the PBO should specify the format required for each request for information.
- Information requests that appeared "political" in nature caused concern for the agency analyst preparing the information to be returned. The PBO needs to ensure its requests are "within the bounds" of costing election policies.

- It is important that PBO staff consider the information request from all angles prior to emailing the agency. For complex costings, consulting prior with agencies to help draft the requests before sending them worked well.

PBO Communications with Agencies

- The PBO should hold an information forum early on with agency analysts to answer routine questions. It is probably best held once the number of costings has picked up in late October or early November.
- The PBO should mobilise early to allow agencies to coordinate information responses where input from several agencies is required.

Changes to the PBO Act

- There was uncertainty as to whether an agency head could delegate their decision making under the *PBO Act*. This should be clarified for future elections.
- Confidentiality provisions in the *PBO Act* should be changed to reflect the reality of cluster arrangements, to allow for better collaboration and expedient responses from linked agencies.
- The *PBO Act* should be changed to require the source of funding for policies to be identified.
- The PBO should be permanent. A permanent NSW PBO would significantly assist in reducing the “politics” and “misrepresentations” with the costing process.
- As we move to outcomes based budgeting, consideration could be given to a broader remit for the PBO to provide advice on the merits of a policy or the impact on outcomes.

Confidentiality of PBO costings

- The PBO should put more emphasis on confidentiality with agencies throughout the process, and possibly hold an early “town hall” information session open to all clusters.
- PBO costings could be treated the same way as cabinet-in-confidence documents. Consideration should be given to including jail terms as a penalty for people who breach the confidentiality provisions of the *PBO Act*.
- In the lead up to the election, staff within agencies receive a lot of costing requests from the Government, NSW Treasury and the PBO. They can get confused over which is which. It is important different processes are set up so staff do not inadvertently share confidential material.

The PBO Relationship with NSW Treasury

- The NSW Treasury and PBO staff should have fortnightly meetings to build relationships, discuss key processes and operational issues.
- NSW Treasury and the PBO should, where possible, agree on the same technical parameters, base assumptions, and accounting treatment used to produce the results. In particular, there was different treatments for the sale of assets and it was not evident why the treatment varied.
- NSW Treasury should be sent all costings either as an information request or for information so that NSW Treasury can consult with agencies on costings.

Others

- The PBO should publicly release individual costings as they are completed.
- If agencies are required to prepare a Statement of Uncommitted Funds, it is best to flag the requirement with them early on in September and October so they can resource appropriately.
- More detailed baseline budget data needs to be publicly provided such as the number of extra nurses and teachers in the forward estimates, to assist with developing policies — and to prevent parties announcing “election” policies which are in fact just natural growth or funding that is already built into the forward estimates.

Appendix D – Budget of the PBO

PBO Operating Statement

(As at 31 May 2019)

	Annual Budget	YTD Actuals	Funds Available
Salaries & wages (incl on-costs)	1,253,399	990,310	263,089
Contract staff	402,002	331,476	70,526
Employee Related Expenses	1,655,401	1,321,786	333,615
Minor works	92,115	6,110	86,005
Rent	85,360	78,828	6,532
Accommodation Expenses	177,475	84,938	92,537
Books, papers, periodical	441	-	441
Consulting & contractors	63,707	34,717	28,990
Printing, stationery	2,920	6,993	(4,073)
Postage, courier	439	9	430
Staff recruitment	18,414	28,994	(10,580)
Various	2,202	2,299	(97)
Stores and office equipment	42,100	2,492	39,608
Administration Expenses	130,223	75,505	54,718
Travel Expenses	52,701	16,239	36,462
Telecommunication Costs	7,806	1,812	5,994
Network and IT Costs	50,268	36,376	13,892
Other Operating Expenses	418,473	214,870	203,603
Total Expenditure	2,073,874	1,536,656	537,218

Note: PBO also incurred capital expenses which is not included in the above operating statement. The information above is current at end of May, the latest reporting period prior to the transmission of this report to the PAC. There are some expenses still to be recorded, and the final budget outcome will not be known until after the end of the 2018-19 financial year.

The information at the end of May indicates that actual expenses will be lower than budgeted. This is for a number of reasons:

- Much lower than expected employee related expenses, including secondments. It is noted that in November 2018, \$257k was transferred from the capital to the employee related expenses budget. The variance is largely due to this transfer not being fully utilised.
- Less consulting expenses than anticipated (including legal advice).
- Lower than expected "Other Operating" expenditure such as:
 - Telecommunications and
 - IT, including software and hardware.

Appendix E – Advice from the Crown Solicitors Office

This appendix includes three letters of advice received from the Crown Solicitor’s Office in regards to the following matters:

- Whether section 16(4) of the *PBO Act* prohibits the head of an agency from disclosing information to another agency where it is required in order to respond to a request from the Parliamentary Budget Officer.
- Provide clarification on the above advice on what would comprise the content of an earlier information request by the Parliamentary Budget Officer.
- The BIS where the final list of costed policies is not notified by the parliamentary leader by the required date.

Appendix F – Media Releases

This appendix shows media releases from the Parliamentary Budget Office in relation to the following subjects:

- Operational Plan for the Parliamentary Budget Office Published, dated 27 September 2018
- An article published in the Daily Telegraph regarding free public transport for children, dated 3 December 2018
- Release of the Budget Impact Statement, dated 18 March 2019
- Revisions to Budget Impact Statement for the ALP, dated 19 March 2019
- References to Parliamentary Budget Office costings, dated 20 March 2019
- Costing of concessional loan, dated 22 March 2019
- Update on Parliamentary Budget Office costings, dated 22 March 2019
- Stadium Concessional Loan, dated 22 March 2019

Appendix G – Template Where Policy Has PNFC or PFC Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	4 year Total \$'000
Total State Sector Impacts					
Net Lending/(Borrowing):	-	-	-	-	-
General Government Sector Impacts					
Expenses (ex. depreciation)					-
Depreciation					-
Less: Offsets					-
Revenue					-
Net Operating Balance:	-	-	-	-	-
Capital Expenditure	-	-	-	-	-
Capital Offsets					
Net Capital Expenditure:	-	-	-	-	-
Net Lending/(Borrowing):	-	-	-	-	-
PNFC/PFC sector Impacts					
Expenses (ex. depreciation)					-
Depreciation					-
Less: Offsets					-
Revenue					-
Net Operating Balance:	-	-	-	-	-
Capital Expenditure	-	-	-	-	-
Capital Offsets					
Net Capital Expenditure:	-	-	-	-	-
Net Lending/(Borrowing):	-	-	-	-	-

PNFC is Public-Non Financial Corporation, PFC is Public Financial Corporation.

Appendix H – Parliamentary Budget Officer Amendment Act 2018

This appendix contains the details of the *Parliamentary Budget Officer Amendment Act 2018*. Refer to over the page.

Glossary

PBO Act	Parliamentary Budget Officer Act 2010
ALP	Australian Labor Party
BIS	Budget Impact Statement
CPB	Bureau for Economic Policy Analysis (Netherlands)
CFO	Chief Financial Officer
CM	Content Manager
DPS	Department of Parliamentary Services
GGG	General Government Sector
IFI	Independent Fiscal Institutions
NSW	New South Wales
OCED	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PBO	Parliamentary Budget Office
Public Corporation	Public Financial Corporation (PFC) and Public Non-Financial Corporation (PNFC)
PEBU	Pre-election Budget Update
PFC	Public Financial Corporation
PNFC	Public Non-Financial Corporation
TSS	Total State Sector