

Submission

No 12

INQUIRY INTO THE PARLIAMENTARY BUDGET OFFICE

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Date Received: 25/08/2011

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26 August 2011

Committee on the Parliamentary Budget Office
Parliament House
Macquarie St
Sydney NSW 2000

NSW Business Chamber Submission to the Inquiry into the NSW Parliamentary Budget Office

1. The NSW Business Chamber welcomes the opportunity to make a submission to the NSW Government's Inquiry into the Parliamentary Budget Office (PBO). The NSW Business Chamber represents the interests of around 30,000 companies across NSW and the ACT, ranging from owner-operators to corporations and from manufacturers to service providers.

The Rationale for a Parliamentary Budget Office

2. The primary motivation for the creation of a body like the NSW PBO is to increase the fiscal transparency and accountability of the NSW Government. This objective is accomplished by improving both the transparency and the independence of the budget and forecasting process.
3. The NSW Treasury is ultimately responsible and accountable to the government of the day, and this unavoidable closeness can give rise to a perception that the advice prepared by Treasury is influenced by the wishes of that government.
4. NSW is not alone in facing this situation; all governments face a perception that the advice provided to them by the public service, and in particular the advice provided by Treasury, closely aligns with that government's own objectives.
5. Under these circumstances an independent source of economic review can provide a useful reference point. The provision of authoritative and independent forecasts and analysis can mitigate the potential problems associated with complete reliance on just one level of assessment.
6. The OECD sees Parliamentary Budget Offices as performing a useful role in the functioning of government, and noted that they: *"have the potential to improve transparency and enhance the credibility of the Government's Budget and public finances in general."*¹
7. For these reasons, the NSW Business Chamber believes that the maintenance of a Parliamentary Budget Office in NSW is highly desirable.

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Recommendation 1: That the NSW Government continues to operate a Parliamentary Budget Office.

¹ OECD, submission to the Joint Select Committee on the PBO, January 2011, p. 1.

Parliamentary Budget Offices in other jurisdictions

8. In other jurisdictions, the issue of potential “government capture” of Treasury advice has been addressed through the creation of independent fiscal authorities which are non-partisan public sector bodies that provide advice to government and the community. This advice can be in relation to the projected budget position, economic forecasts and fiscal policy settings.
9. There are now at least nine other advanced economies which currently operate a Parliamentary Budget Office, with four of these having been established within the past three years.²
10. The OECD has noted that: *“The growth in bodies to assist the legislature in budgetary matters is a strong trend in OECD countries. They take a variety of forms but their raison d’être is the same: Parliaments need specialised resources in order to carry out their constitutional responsibilities vis-à-vis the budget. The functions of such bodies include economic forecasts, baseline estimates, cost estimation, analysis of the Executive’s budget proposals and medium-term analysis.”*³
11. The experiences in other countries have demonstrated that a well-functioning PBO makes a valuable contribution to the operation of government.

The role and function of the Parliamentary Budget Office in NSW

12. PBOs can fill a variety of roles, and different jurisdictions have established them to perform a wide range of functions. As such, there is no “one size fits all” or “optimal” model that all PBOs should seek to follow. Instead, the role and function of a PBO should be shaped by the existing governance frameworks and the capacity of the government to finance the PBOs activities.
13. In the case of NSW, the PBO was established *“to provide independent costings of election promises and, outside pre-election periods, to provide independent costings of proposed policies of Members of parliament.”*⁴
14. At present, the main focus of the PBO appears to be on the costing of election commitments. The PBO’s website sets out in some detail the process through which election costings would be handled, and the operations of the PBO during this period.
15. However, the majority of the activities of the PBO will take place outside of this period, and there is little detail around how the PBO should focus its activities during this time. The PBO’s website simply notes, in fairly general terms, that *“outside of the election cycle, the office aims to ensure that members of parliament are accurately and promptly advised on the estimated costs of their proposals and on economic, financial and fiscal matters in which they have expressed an interest.”*⁵
16. The submission from Mr Tony Harris, the former NSW Parliamentary Budget Officer, noted a number of concerns about the operation of the PBO. In particular:
 - Mr Harris noted that the role of the NSW PBO is narrower than that encompassed by most similar overseas bodies – indeed it is specifically excluded from undertaking some activities that could be considered a normal part of a well-functioning PBO,⁶ and

² ACCI, submission to the Joint Select Committee on the PBO, January 2011, p. 2.

³ OECD, submission to the Joint Select Committee on the PBO, January 2011, p. 1.

⁴ Daley M, NSW legislative assembly, *Hansard*, 19 Oct 2010, p. 26229.

⁵ See: <http://www.parliament.nsw.gov.au/prod/web/common.nsf/key/ParliamentaryBudgetOffice>

⁶ Harris T, submission to NSW inquiry into the PBO, July 2011, pp. 2-3.

- The PBO's current primary role, namely the costing of election commitments, is undermined by the fact the Governments are not required to, and have no incentive to, submit their commitments to the PBO.⁷

17. The NSW Business Chamber agrees with these concerns.

18. The role of the PBO should be broadened beyond a current focus on election promise costing, to include commentary on economic, fiscal and budget forecasts, which it could undertake independently and publish during the long periods between State elections. This wider scope of activities would assist in making government forecasts less contentious, and could also help to re-focus attention on the merits of a government's overall fiscal policy stance and its performance against this strategy. While recognising that the resources of the PBO are limited, it should nonetheless be proactive in working to improve the public (and Parliament's) understanding of economic, fiscal and financial matters.

Recommendation 2: That the PBO be given greater powers to proactively undertake and publish relevant work to improve the public's understanding of economic, fiscal and financial matters.

19. Given that the primary function of the PBO is the provision of independent costings of election commitments, it is important that the legislative framework is effective in allowing the PBO to achieve this objective. The experience from the 2011 election, where neither major party submitted all the election commitments to the PBO for costing,⁸ demonstrates that the current framework requires some modification.

Recommendation 3: That the framework around the PBO's election costing process be refined to improve the likelihood of this facility being utilised by the government and opposition in future.

Funding the operations of the Parliamentary Budget Office

20. The NSW PBO was allocated funding of \$4 million in its first year, and ongoing funding of \$3 million per annum over the period 2011-12 until 2018-19.⁹ The Government at the time estimated that this level of funding would be sufficient to engage approximately 12-16 experienced staff with expertise in relevant fields, such as economics, accounting, and financial analysis.¹⁰
21. The NSW Business Chamber believes that the currently budgeted levels of funding and staffing are appropriate, and that they provide the PBO with the capacity to make a meaningful contribution to improving the transparency of government processes, without being an excessive drain on limited government finances.
22. Over time, we also believe that the costs of maintaining the PBO could be absorbed into the existing budget for NSW Treasury. This would ensure that the PBO can continue to operate in the medium-term at no net cost to the taxpayers of NSW.
23. We note that the current budget for the operation of the NSW Treasury is more than \$250 million.¹¹ Absorbing the costs of the operation of the PBO within this budget would require Treasury to reduce its expenditure in other areas by only 1.2 per cent.

⁷ Harris T, submission to NSW inquiry into the PBO, July 2011, p. 3.

⁸ *ibid.*

⁹ Daley M, NSW legislative assembly, *Hansard*, 19 Oct 2010, p. 26230.

¹⁰ *ibid.*

¹¹ NSW 2010-11 Budget, Budget Paper 3 Volume 2, Chapter 14.

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Recommendation 4: The PBO should continue to be funded at current levels, with these costs to be met by an equivalent reduction in the NSW Treasury Budget over the medium-term.

24. Finally, one of the fundamental reasons to establish a PBO is to provide a transparent and independent source of reliable information. For this reason, it is essential that funding for the PBO is guaranteed for an extended period. In addition, it is important that mechanisms are in place that allow PBO staff to operate independently from the government without having to fear for the security of their jobs.

Recommendation 5: That the PBO retain long-term appointments for the Parliamentary Budget Officer to ensure independence.

25. Should you require further information or clarification on any of these matters, then please do not hesitate to contact Mr Micah Green, Economist on (02) 9458 7259 or via e-mail at micah.green@nswbc.com.au.

Yours sincerely



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