

Independent Fiscal Institutions and budget outcomes

h

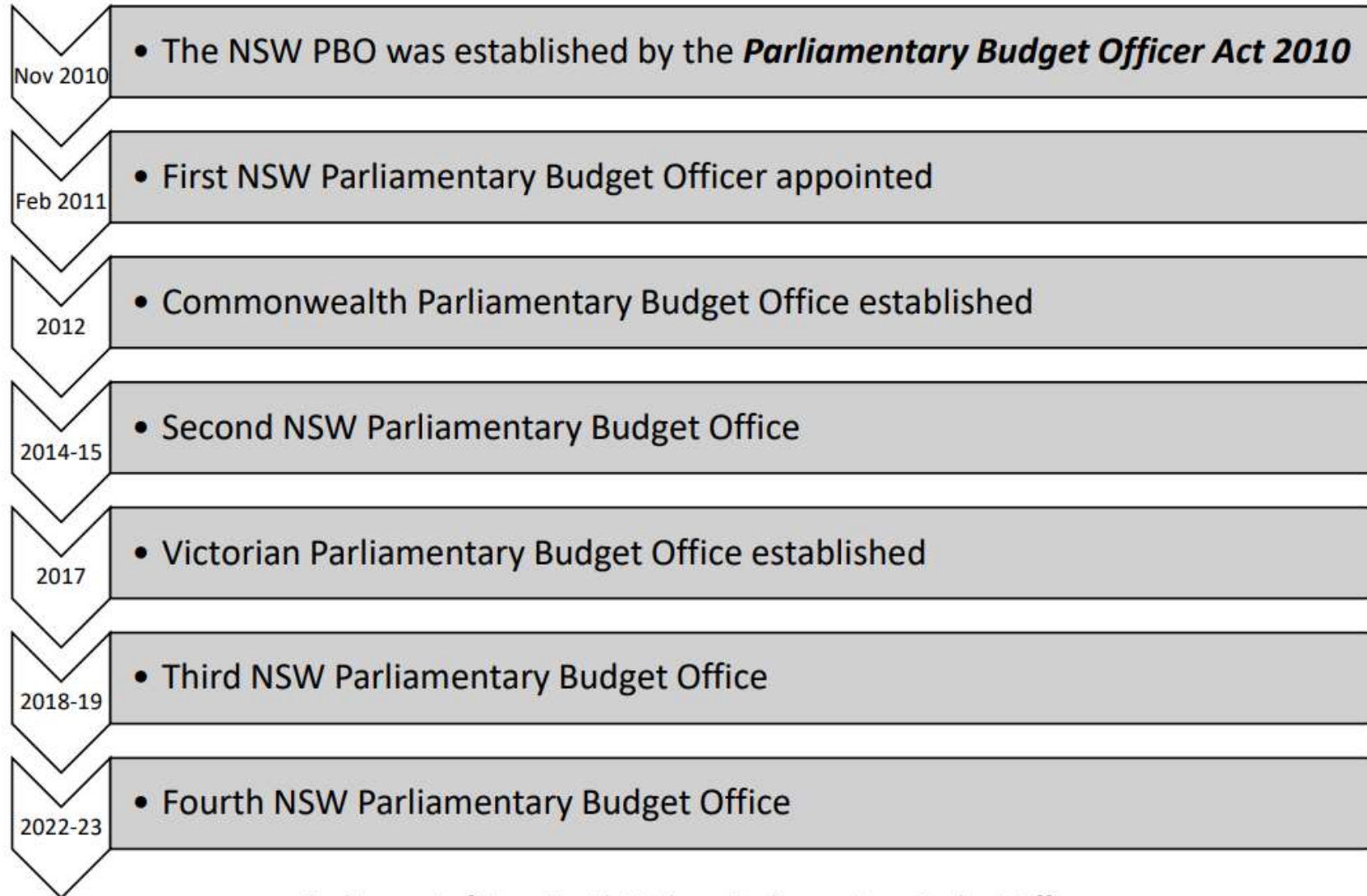
Professor Stephen Bartos



Do independent fiscal institutions improve fiscal outcomes?

- Some weak evidence of a correlation between IFIs and adoption of fiscal targets by governments
- Less evidence in relation to achievement of outcomes
- Observations of IFIs in Australia (where the Commonwealth, NSW and Victoria have independent Parliamentary Budget Offices) suggests that IFIs can potentially make a difference
 - But institutional design is crucial

Parliamentary Budget Offices in Australia



Commonwealth PBO

- established in 2012 by amendment to the *Parliamentary Service Act 1999 (Section 64B)*
 - To provide “independent and non - partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals”
- Useful online tools include a budget glossary, a “build your own budget” and a small model of Australian representative taxpayers (SMART)
- Very low profile in recent years

Purpose of the PBO



To provide a **more level playing field for all parliamentarians**; particularly non-government parties and independent parliamentarians



To improve the **accuracy of election commitment costings**



To **improve transparency**, particularly around budget information and budget-related issues

NSW PBO

- NSW Parliament has fixed four-year terms
 - The last election was on 25 March 2023
- The Officer is appointed in September every fourth year before the election the following March
- NSW is the only jurisdiction in the world with a recurring PBO
 - Often mislabelled “temporary” – it is not, it is recurrent
- The PBO costs policies for Government and Opposition
- Before the election the PBO publishes costings of announced policies together with a summary of their total fiscal impact

Victorian PBO

- Parliamentary Budget Officer Act 2017
- Objective “for members of Parliament to be provided with ongoing, authoritative, independent and credible policy costing and advisory services”
- Mostly the functions involve costings, although there is also provision for advisory services to members of parliament

Contrasts between the Australian IFIs

- Commonwealth has a public information role, does self initiated work (eg very good reports during COVID) and costings for MPs on request
- Releases a report on costs of election promises after the election
 - (s.64MA) “30 days after the end of the caretaker period or... 7 days before the first sitting day”
- Victoria does costings and similarly releases a report on costs of election promises after the election. Publishes Victorian economic indicators and budget snapshots (based on already published data)
 - Previous PBO Anthony Close criticised Andrews government in 2023 for not using the PBO to cost its policies. He was not reappointed.
- NSW PBO costs election promises for government and opposition
 - Before the election the PBO publishes costings of all announced policies together with a summary of their total fiscal impact

Costings methodology

- All three PBOs follow similar methodologies. A few costings can be completed in house, based on data publicly available. Most require information held by Government agencies
- In NSW Agencies are obliged by law to provide this information to the PBO unless there is an overriding public interest against its disclosure
- Commonwealth has MOUs with government agencies about information provision which appear to work effectively
- Victoria has struggled with obtaining information from some departments.
- In NSW, although dependent on agency information, the PBO prepares its own independent advice, outlining key assumptions, calculation methods, and models used to prepare the costing.

NSW experience with modelling

- Where departments have models they are obliged by law to share them with the PBO
- PBO can hire consultants to assist with modelling (but has not done so to date)
- In the last election, NSW PBO also drew on published academic modelling work and also developed some models in house based on data sourced from agencies
- Key lesson is that solid empirical data on behavioural responses is essential for modelling to be reliable

NSW Budget Impact Statements

- Two Budget Impact Statements are prepared, one each for Government and Opposition
- The Statements list all policies (spending, savings, revenue increases, revenue decreases) and show the impact of these on the NSW forward estimates (budget year and three subsequent years)
- Published five days before the election
 - on 20 March in 2023

What the BIS showed – Coalition (government)

Table 7: Movements in General Government Net Operating Balance (Budget Result)² (\$ million)

(\$ million)	2022-23 (Revised)	2023-24	2024-25	2025-26
Position as at the Pre-Election Budget Update	(12,031)	(7,107)	328	824
Costed Policies				
New Expenditure initiatives	(14)	(1,245)	(514)	(512)
New Revenue initiatives	(8)	(133)	(107)	(150)
New Savings initiatives	-	682	978	1,120
Current position	(12,053)	(7,802)	685	1,281

Source: 2023 Pre-Election Budget Update

What the BIS showed – Labor (opposition)

Table 7: Movements in General Government Net Operating Balance (Budget Result)² (\$ million)

(\$ million)	2022-23 (Revised)	2023-24	2024-25	2025-26
Position as at the Pre-Election Budget Update	(12,031)	(7,107)	328	824
Costed Policies				
New Expenditure initiatives	41	(671)	(398)	(733)
New Revenue initiatives	(31)	7	186	193
New Savings initiatives	54	755	926	1,100
Current position	(11,967)	(7,016)	1,042	1,384

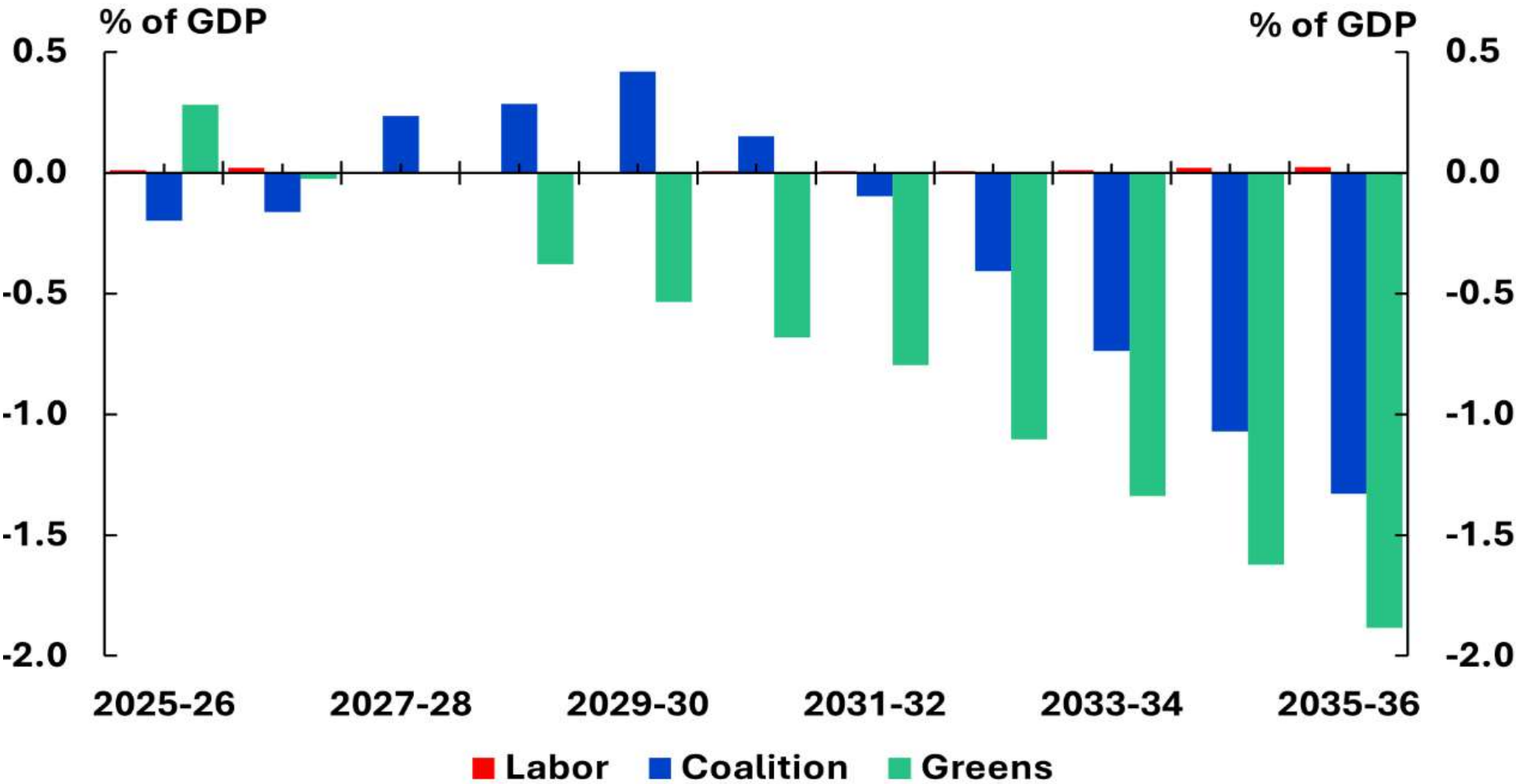
Source: 2023 Pre-Election Budget Update

Virtuous competition

- Both sides in the last NSW election presented affordable lists of policies that (over time) reduced the deficit
- Each competed to be responsible in their approach to spending and saving
- In 2024 Chris Minns and Dominic Perrottet shared the Susan McKinnon prize for political leadership
 - in recognition of their conduct in the 2023 campaign
- Election promises in NSW before and after PBO: overblown and unaffordable vs. modest and responsible.
- May not be a direct causal relationship, but evidence from the key political players suggests it has been an influence.

Commonwealth PBO post election costings

Figure A-2: Impact of major party platforms on the underlying cash balance
Change in underlying cash balance level



Question marks over Cwth. opposition costings

- Public service cuts: PBO accepted Coalition claim it could reduce public service in Canberra by 41,000
 - Caveat: 'savings...are highly uncertain and dependent on the assumed rates of natural attrition...PBO has not made any assessment as to whether the specified reduction in the APS would affect...service delivery.'
- Nuclear policy: PBO accepted Coalition estimate of a cost of \$118.2 billion through to 2050
 - Caveat: PBO has 'not made any assessment as to whether the specified equity amount would be sufficient to meet the objectives...has also made no assessment of the viability of the proposal.'

Question mark over timing

- Election Commitments Report was released on 20 June
 - Election was 3rd May 2025
- Timing was determined by the PBO legislation, not at the PBOs discretion
 - Nevertheless, ensured the report received little publicity
- May have encouraged major parties to present promises that in aggregate either did not add to the deficit reported in PEFO or moved the balance towards surplus
- Still, a milder fiscal responsibility incentive than publication of the results prior to the election

Broader issues

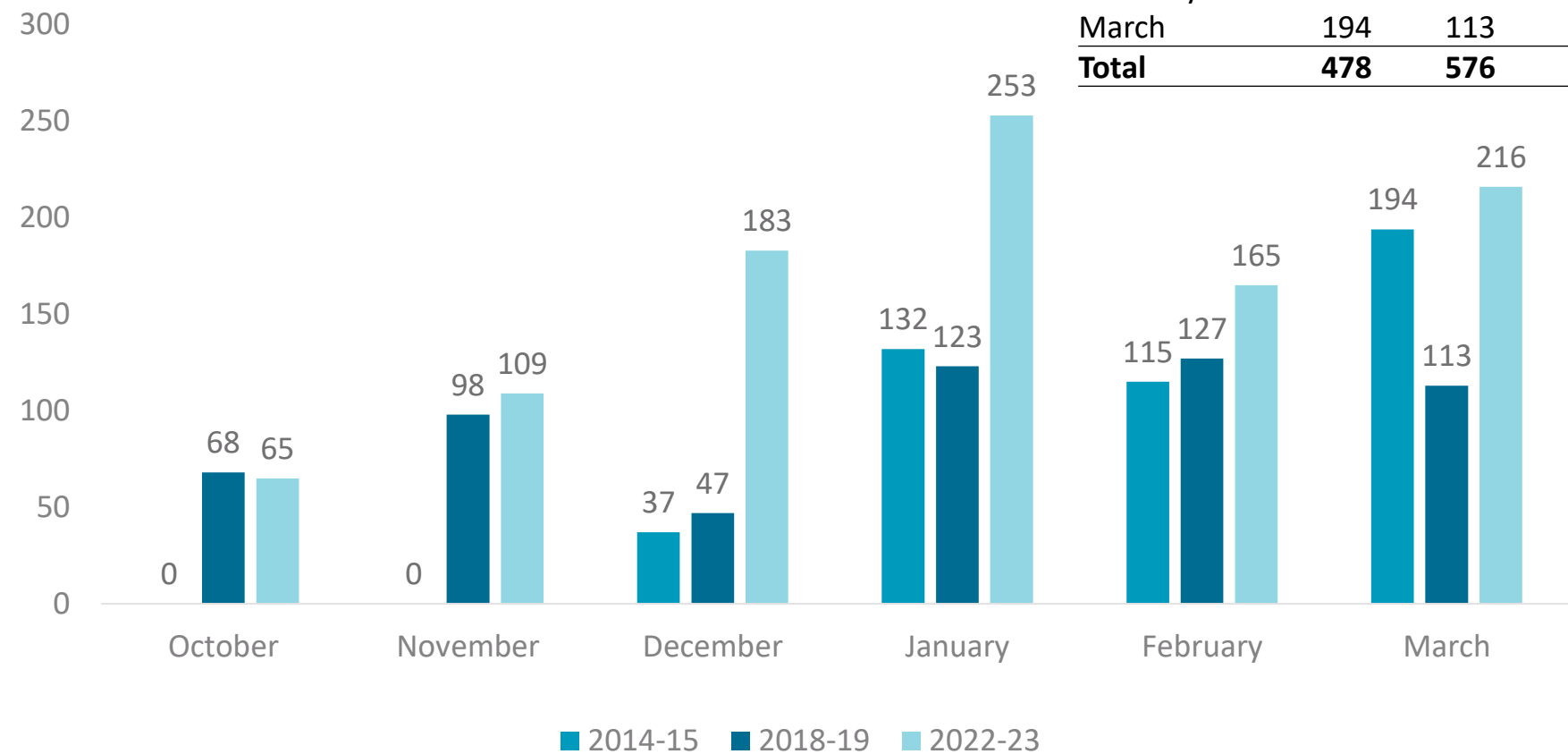
- Do we need an independent body to set fiscal policy, as proposed by Nick Gruen (1997)?
 - Has not achieved traction politically
- Importance of PEFO (Commonwealth) and PEBU (NSW) being produced independently by economic agencies
- Need to examine quality of spending, not just the impact on the budget balance

Conclusion

- Having an independent fiscal institution can improve fiscal outcomes
 - But depends on institutional design
- Paralleled in international experience
 - Numerous IFIs, some more effective than others
- Hard to draw conclusions when confounding factors affect a country's fiscal position
 - USA has the world's largest and in many past years the most influential IFI
 - Of late its influence on budgets has been small.



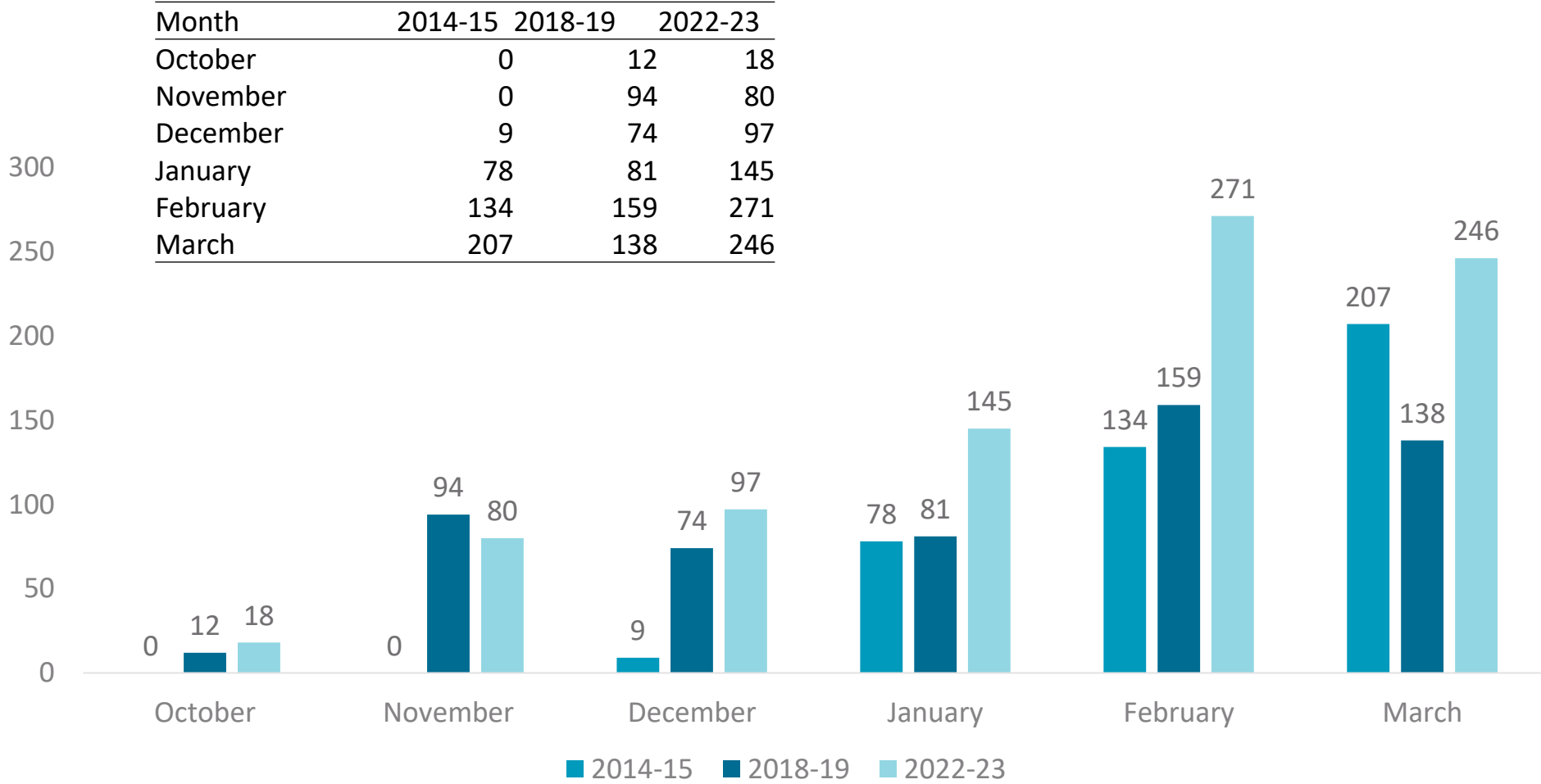
Costing requests received by month



Month	2014-15	2018-19	2022-23
October	0	68	65
November	0	98	109
December	37	47	183
January	132	123	253
February	115	127	165
March	194	113	216
Total	478	576	991

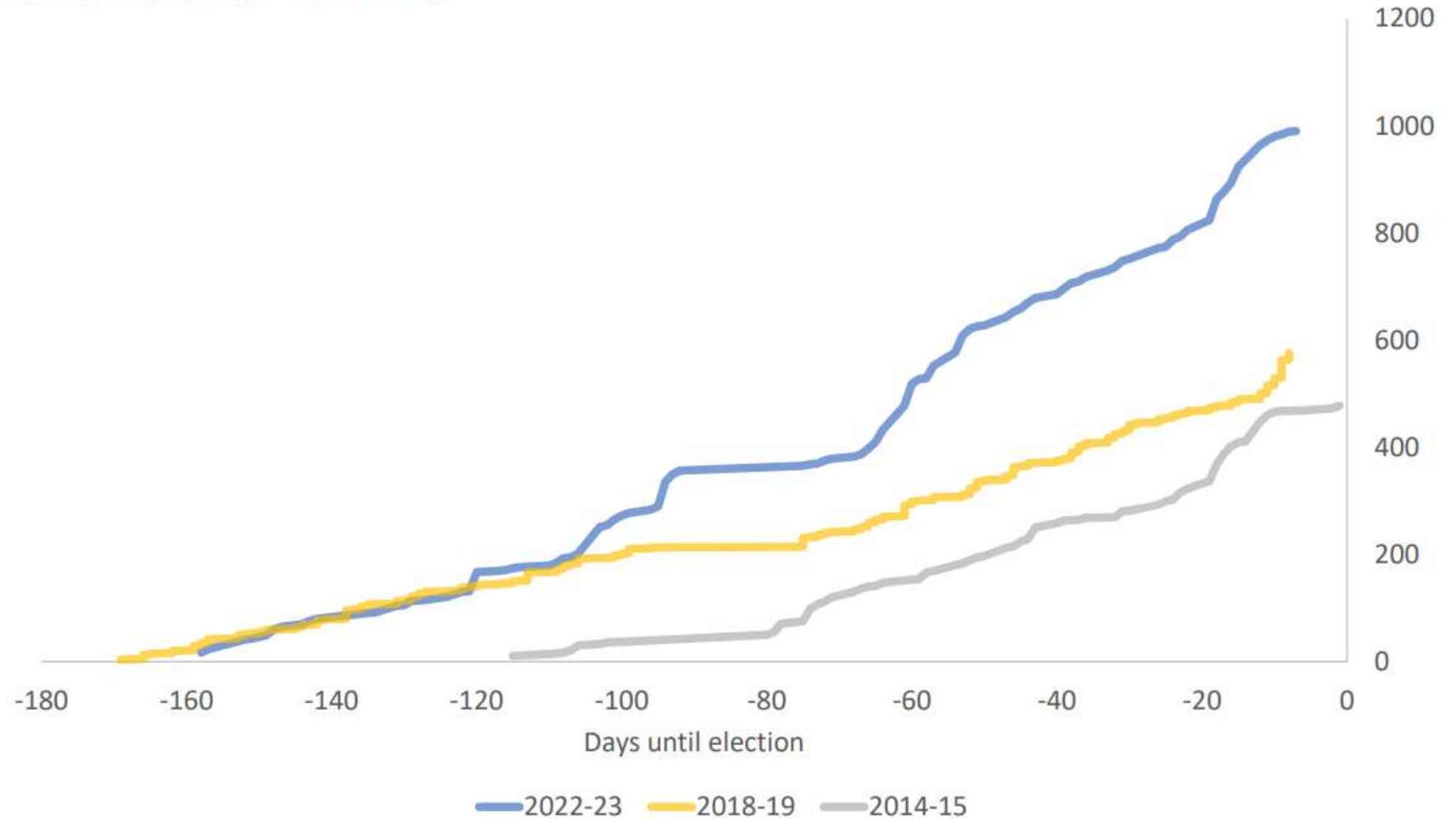


Costings completed by month





Costing requests received, versus days until election for 2022-23, 2018-19 and 2014-15



Unsung benefit of an IFI

- NSW PBO in 2023 received, 990 policy costing requests
 - 191 costings were published prior to the election (19% of requests received)
 - The remainder will remain confidential forever
- Not a failing of transparency – a deliberate design
- The process allows parties (especially opposition) to test policy ideas and discard the infeasible and unaffordable
 - The voting public is better off as a result
- Similar role/benefits probably apply with the Cwth and Vic PBOs, but comparable data unavailable



UNIVERSITY OF CANBERRA

The University of Canberra acknowledges the Ngunnawal people, traditional custodians of the lands where Bruce Campus is situated. We wish to acknowledge and respect their continuing culture and the contribution they make to the life of Canberra and the region. We also acknowledge all other First Nations Peoples on whose lands we gather.