

ROLE OF THE PARLIAMENTARY BUDGET OFFICER

Notes for Remarks by Allan Darling
Senior Special Advisor Parliamentary Budget Officer Project

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INTRODUCTION

I would first wish to thank your organizers for placing this topic on your agenda. It is clearly a subject of considerable interest and of future consequences for your work.

It is with considerable reluctance, however, that I speak to you this afternoon. Bill C-2 is currently before the Senate for third reading. Until it receives Royal Assent it is a proposal of the government, although the cornerstone of the government's agenda to improve accountability to Canadians.

The Parliamentary Budget Officer is one of the proposals in Bill C-2 intended to enhance the accountability of government to Canadians. Mr. William Young, the Librarian of Parliament, decided last summer that it would be prudent to prepare a preliminary implementation plan for the PBO to facilitate its establishment in the event the legislation is approved. I agreed to assist him in this task but emphasize that the views I will outline today reflect my personal observations and conclusions.

It is significant that Bill C-2 does not create an office but an Officer, attached to the Library of Parliament. The Library provides analysis and information that is objective and politically neutral to all Parliamentarians, including on subjects within the mandate set out for the PBO. By assisting Parliamentarians to understand better the relevant issues related to specific proposals, the level of debate around public policy issues is elevated.

The mandate set out in the Bill is to:

- Provide independent analysis to the Senate and House of Commons about the state of the Nation's finances, the estimates of the government and trends in the national economy;
- When requested by the National Finance Committee in the Senate, the Finance Committee in the House or the Public Accounts Committee in the House, to undertake research into the nation's finances and economy;
- When requested by a committee of either chamber mandated to consider the estimates of the government, to undertake research into those estimates; and
- When requested by a member or committee of either chamber, to estimate the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction.

My remarks today are intended to provide some of the insights I have developed that appear pertinent to planning for a Parliamentary Budget Officer function within the Library. I will first explore prior efforts to improve Parliament's capacity to review fiscal and expenditure proposals of the government. I will then speak briefly about organizations with similar functions in other countries. I will conclude by setting out a possible interpretation of the mandate of the PBO set out in Bill C-2 and a possible approach to implement that mandate.

1. PAST INITIATIVES TO IMPROVE FISCAL AND EXPENDITURE REVIEW

A: Fiscal Forecasts

A key concern of Parliamentarians over many years has been the divergence between the fiscal forecasts of the Department of Finance contained in the annual budgets and the actual outcome when the public accounts were finalized several months after the fiscal year ended. In 1994 the Minister of Finance, the Honourable Paul Martin, commissioned Ernst and Young to undertake an independent, external review of the Department's forecasting performance over the previous decade and the Department's then current forecasting methods. That report resulted in numerous improvements to the methodology and processes of the department. Of particular significance was the implementation of the recommendation that the House of Commons Finance Committee hold public hearings each fall to review and comment on the government's current fiscal plan and economic outlook. The recommendation in that report to establish an independent forecasting agency to provide 'no policy change' economic and fiscal policy forecasts was not adopted.

In 2004 the Minister of Finance, the Honourable Ralph Goodale, asked Dr. Tim O'Neill to review the processes and systems employed to prepare federal fiscal forecasts. Dr. O'Neill concluded that:

- Budget balance projections have been too low in each of the last ten years by an average of over \$10 billion
- Total revenues were under-forecast in seven year of the last eight years but their contribution to budget balance under-forecasts has been quite modest in recent years.
- Total program expenditure projections have more consistently contributed to the budget balance under-forecasts, having been on the high side in all but one of the last ten years.

Among his recommendations Dr. O'Neill proposed the creation of an agency within government with a mandate to focus on the medium-to-long term fiscal implications of structural and demographic factors. He suggested such an office could be attached to either the Library of Parliament, the Office of the Auditor General or accountable to the House of Commons Standing Committee on Finance, although the last option was, in his view, the least desirable.

The Election Platform of the Conservative Party in 2006 proposed the creation of an independent Parliamentary Budget Authority to provide objective analysis directly to Parliament about the state of the nation's finances and trends in the national economy. This commitment became the first mandate of the Parliamentary Budget Officer in Bill C-2. The Platform also undertook to update fiscal forecasts quarterly.

B: Review of Estimates

The granting of supply is one of the historic and fundamental powers of Parliament, yet the review of estimates tabled by the government has atrophied over the years. In 1998 the Report of the Standing Committee on Procedure and House Affairs (Catterall-Williams Report) made several recommendations to improve the ability of the House to discharge this responsibility. In October 2001 and September 2003, changes to House of Commons rules allowed a Committee of the Whole House to consider the Estimates documents of two departments or agencies selected by the Leader of the Opposition. In September 2003 the Standing Committee on Government Operations and Estimates recommended that the Library of Parliament develop a proposal detailing key enhancements to the support of estimates-related work of the House of Commons committees. The Legislative Committee of the House of Commons, in its review of C-2, following testimony by Mr. Robert Marleau, a former Clerk of the House of Commons, extended the mandate of the PBO to provide estimates-related analysis to the committees to which estimates are referred. Strengthening Parliament's capacity to review estimates became an additional mandate of the PBO.

C: Cost estimates

A third mandate of the PBO is to estimate the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction, on request of any member or any committee of either the House or the Senate. This activity is already carried out by the staff in the Parliamentary Information and Research Services Branch in the Library. Requests range from specific costs of an expenditure proposal to changes in tax or other revenue policies.

2. INTERNATIONAL COMPARISONS

A World Bank-OECD survey in 2003 identified 11 countries with budget research organizations attached to their legislatures to conduct analysis of national budgets. Seven indicated a staff of less than 10 professionals. The bench mark, of course, is the Congressional Budget Office in the United States, established in 1974, with an estimated staff of 230 professionals. Korea established a National Assembly Budget Office in 2003, with a staff of 92. The Philippines created the Congressional Planning and Budget Department in 1990, with a staff of approximately 50 people. What characterizes each of these countries is their congressional system of government, which separates executive and legislative branches, and where the legislative branch is able to propose its own expenditures or taxes.

In November 2002 the United Kingdom established a Scrutiny Unit, based within the Committee Office of the House of Commons, to provide advice on expenditures and draft bills. This Unit has a staff of 7 professionals, seconded from other organizations. To date the main focus of this unit appears to be improvements in the presentation of information from the Treasury to improve the ability of members to discuss the estimates.

3. AN APPROACH TO IMPLEMENT THE MANDATE OF THE PBO

I believe there are some underlying principles that provide parameters to implement the mandate of the PBO.

- a. The Parliamentary Budget Officer is subject to the overall accountability regime applicable to the Librarian of Parliament. It is not a separate office, but an officer responsible directly for the implementation of the mandate set out in the statute. The

Officer is subordinate to the Librarian of Parliament and the Speakers of the two chambers, for purposes of management accountability.

- b. The present role of the Library is to provide objective and politically neutral information and analysis to all Parliamentarians. This principal would be equally applicable to the PBO.
- c. The officer is mandated to provide independent analysis to the Senate and House of Commons on the fiscal plans of the government, which requires a proactive role to implement.
- d. The mandate is directed to future fiscal plans and estimates, not past management or expenditures, except where required to understand future options.

A. Fiscal Forecasts

The mandate to provide independent analysis of the government's fiscal plan could be implemented by developing an alternative forecast or to explain the assumptions underlying the forecast prepared by Finance and to identify alternative assumptions and their implications for that forecast. Consistent with the underlying role of the Library to better inform members, the latter approach would be a more positive contribution to an informed debate in Parliament.

There are five independent private sector economic forecasters who maintain an econometric model of the Canadian economy. Provincial governments and private corporations rely on that model to prepare their own economic forecasts. It would appear to be more critical for the PBO to have a capacity to understand the econometric model and the assumptions underlying forecasts prepared by reference to the model than to create its own model.

All models are based on the most recent GDP numbers from Statistics Canada. In this respect, Dr. O'Neill observed that continuous revisions by Statistics Canada of the GDP number for the quarter used to forecast the budget was a significant factor in the deviation between initial revenue projections in the budget and year end outcomes. This systemic bias is built into every forecast, regardless of the owner of the model.

Conversion of the economic forecast to a fiscal forecast is carried out internally in the Department of Finance. The Department introduces the most up to date data on revenues and expenditures provided from the appropriate government departments to project the revenues and expenditures in the fiscal forecast. It is not necessary for the PBO to duplicate this work, but the Officer must have ready access to the working documents used by the Department, in part to verify the data and in part to determine whether an alternative interpretation of the data is a reasonable hypothesis. The alternative would be a costly and unnecessary duplication by the PBO of work already done by Finance.

To summarize, the objective is to produce an independent analysis of the fiscal forecast for the purpose of better informing parliamentarians. This does not require an expensive and independent modeling process unless the intent is to create an alternative to the Department's forecast. If explanation of that forecast is the objective, then a staff capacity to interpret the data and timely access to it is the critical factor in fulfilling the mandate.

B. Improving the Focus of Committees in Reviewing Estimates

Approval of supply in a Westminster system of government is a matter of confidence in the government. For this reason changes to the estimates tabled by the government does not happen. So how would a Parliamentary Budget Officer enhance committee review of estimates and for what purpose?

The Report of the Standing Committee on Government Operations and Estimates, September 2003 entitled *Meaningful Scrutiny: Practical Improvements to the Estimates Process* was based on an innovative approach to reviewing the estimates of Public Works and Government Services Canada. The Committee chose one program, Real Property Services, and examined it in depth. It recommended this approach be the norm for review of all estimates.

The Officer could work with committee chairs to orient the discussion by the committee in a more strategic and in-depth focus on selected programs. I would set forth the proposition that Parliamentarians, when they are reviewing estimates, are interested in the outcomes of programs that are ongoing and the expected benefits of new programs or changes to existing programs. The PBO could be expected to provide appropriate analysis and information related to outcomes to focus discussion in committees reviewing the estimates.

Parliamentarians currently receive briefings from the research staff of the Library on the content of estimates. In addition to facilitating a more strategic committee approach to the review of estimates, the Officer could help identify a more relevant presentation of estimates information for use by committees. To quote the 2003 Report of the Government Operations and Estimates Committee: 'It is essential that the federal government enhance its ability to communicate clearly the information considered relevant by its clients –MPs and the Canadian public-- and release it in an appropriate format.' I would foresee the PBO taking a lead role in identifying what the interests of Parliamentarians are and participating in initiatives to simplify the presentation of information related to those interests.

C: Estimating costs

The third mandate of the PBO, to provide an estimate of financial costs of any proposal that relates to a matter over which Parliament has jurisdiction, is a function that the Library research staff already provides to individual members, when requested. How this demand will be changed with the passage of the Bill will depend on how individual members and committees chose to act in the future.

CONCLUSION

Establishment of the Parliamentary Budget Officer within the Library will strengthen the capacity of the Library to provide analysis and advice to Parliamentarians on fiscal and expenditure issues. The creation of this Officer contributes to the Government of Canada's stated goal of strengthening the capacity of Parliament to better hold government to account, by increasing transparency in the Government's fiscal planning framework and improving understanding of expenditure proposals.