

Parliamentary Budget Officer

Stakeholder Consultation Summary

Ottawa, Canada
August 15, 2008



Office of the
Parliamentary Budget Officer
Bureau du
Directeur parlementaire du budget

Consultation process

- During the summer of 2008, my staff and I undertook a consultation process with Senators, Members of Parliament, key parliamentary committees, retired and current senior bureaucrats, think tanks, academics and peer organizations in other jurisdictions.
- During this process, we also appeared as witnesses before the Senate National Finance Committee, Standing Committee on Public Accounts, Standing Committee on Government Operations and Estimates, the Joint Committee of the Library of Parliament and expect to appear in the Fall before the House Standing Committee on Finance.
- We are pleased to compile and present the needs analysis, findings and best practices, that emerged from these discussions.
- My staff and I are keen to get on-going feedback from parliamentarians on the performance of the office and in helping to set the forward work plan.
- We thank parliamentarians and other contributors for their time, effort and support throughout the consultation process.

Kevin Page
Parliamentary Budget Officer

The Context for Change



Context for change

- Unprecedented public demand for transparency and accountability across the public and private sectors
- A series of large unplanned budgetary surpluses for the Canadian government
- A number of high profile cost over-runs on major government capital projects
- New and emerging global standards and best practices to promote financial and budgetary transparency
- Successive minority governments that are changing the relationship between the government and Parliament

A fundamental change has taken place in the way citizens view the government's stewardship of taxpayer resources

The government's commitment

- The government's 2006 election platform promised the following reforms in the area of political accountability:
 - To create 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.
 - Require government departments and agencies to provide **accurate, timely information** to the Parliamentary Budget Authority to ensure it has the information it needs to provide accurate analyses to Parliament.
 - Ensure that government fiscal forecasts are updated quarterly and that they provide **complete data** for both revenue and spending forecasts.

Bill C-2, the Federal Accountability Act, was introduced by the government in April 2006 and became law in December 2006.

The government's announcement

- **Ottawa, March 14th, 2008** - The Honourable Peter Van Loan, Leader of the Government in the House of Commons and Minister for Democratic Reform, today announced the appointment of Kevin Page as Canada's first Parliamentary Budget Officer [PBO].
- The appointment fulfills another commitment made to Canadians during the last election.
- “As promised in the *Federal Accountability Act*, the Parliamentary Budget Officer will provide independent analysis to Canadians on the state of the nation's finances,” said Minister Van Loan. “With his expertise in economics, Mr. Page is a fine choice to fill this position.”
- The Parliamentary Budget Officer is an independent officer of the Library of Parliament who reports to the Speakers of both chambers. The position was created through amendments to the *Parliament of Canada Act* contained in the *Federal Accountability Act*.
- Mr. Page's appointment is effective as of March 25, 2008.

The Mandate, Mission and Comparables



The legislated mandate of the PBO

- The *Federal Accountability Act* (FedAA) specifically mandated the PBO to provide *independent* analysis to the Senate and to the House of Commons (HOC) about the state of the nation's finances, the estimates of the government and trends in the national economy.
- The legislation further directed the PBO to:
 - Undertake research into the nation's finances and economy
 - Undertake research into the estimates of the government (i.e. planned expenditures)
 - Estimate the financial cost of any proposal that relates to a matter over which Parliament has jurisdiction

The PBO has been provided with a broad mandate to support Parliament and parliamentarians in holding the government to account for the good stewardship of public resources

Supporting the work of committees

- The FedAA also directed the PBO to support the following parliamentary committees:
 - The Standing Committee on National Finance of the Senate
 - The Standing Committee on Finance of the House of Commons
 - The Standing Committee on Public Accounts of the House of Commons
 - Though not specifically named in the legislation, the Standing Committee on Government Operations and Estimates of the House of Commons is clearly implied by the mandate
- The PBO committed to returning to the above listed committees in the fall with a progress update on the business plan and operating model.

Parliamentary committees are the workhorses of government oversight and should benefit from additional independent and authoritative advice on financial and economic matters

Mission of the PBO

- Linked to its legislated mandate, the PBO will support Parliament and parliamentarians in exercising their oversight role over the government's stewardship of public funds and in ensuring budget transparency.

The goal of the PBO is to render budgets more transparent. This means providing parliamentarians with access to financial and economic analysis in a relevant, timely and systematic manner.

There are parallels in other jurisdictions

- The U.S., South Korea, the Netherlands and the United Kingdom have budget research functions serving the national legislatures
 - A number of sub-national governments, including Westminster model, have also implemented legislative budget offices
- The US Congressional Budget Office (CBO) is the best known of the legislative budget offices
 - CBO was founded on July 12, 1974, with the enactment of the Congressional Budget and Impoundment Control Act
 - The CBO currently employs about 230 professional staff
 - The CBO has an appropriation of \$37.3 million in FY 2008

While the CBO is an obvious comparison for the PBO, the CBO is very much a creature of the Congressional system which is reflected in the CBO's size and scope

Does the PBO fit with Canada's system?

- The relevance of a legislative budget officer/office, in the Canadian context, has been met with some scepticism
 - Canada's British-style government (i.e. Westminster model) features a high degree of integration between the legislative and executive branches, particularly during the terms of majority governments
- The CBO's sheer size and scope is linked to the US Congressional system of government having both a larger fiscal role for the legislature and a clearer demarcation between the legislative and executive branches
- However, in terms of budgetary best practices, there are fewer differences between the US and Canadian system than one might think and fewer still in a minority government context

The PBO function is entirely consistent with Parliament's role in the budgetary process as defined by the Constitution, legislation, convention and the best practices of other jurisdictions

Why Parliament matters in budgeting

- Leading organizations such as the Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF), the Brookings Institution and the International Budget Project (IBP) provide guidance to legislatures regarding budgetary best practices to hold the government to account

Budgetary Best Practices for Legislatures

- 1) Parliament needs reasonable assurance that due diligence has been exercised in spending proposals in the budget and estimates
- 2) Parliament needs timely information in an analyzable format
- 3) The parliamentary appropriations process needs to reflect actual financial estimates
- 4) Supporting due diligence and analysis on off-cycle fiscal pressures
- 5) Parliament needs information on the sources of funds of departmental expenditures.
- 6) Parliament needs timely and accurate information on how departmental expenditures comply with Treasury Board authorities and policies.
- 7) To ensure informed voting on appropriations, Parliament needs to assess the reasonableness of departmental asks.
- 8) The impact of any other government decisions or other circumstances that may have a material effect on the budget should be disclosed

Even in a Westminster model, Parliament has the fiduciary obligation to scrutinize the planned expenditures of the government

How Parliament draws its authority*

- The right of Parliament to control public money is set out in Canada's Constitution and is based on two concepts:
 - first, that all duties and revenues received "shall form one Consolidated Revenue Fund (CRF)", and
 - second, that the balance in the CRF "shall be appropriated by the Parliament of Canada".
- The effect of these two constitutional measures is to provide the Parliament of Canada with the indisputable right to require the Government to deposit all public moneys into the CRF, and before making a payment out of the Fund, to obtain parliamentary authority.
- This authority, which is sought by the Government in the form of an Appropriation Bill, defines the amounts and purposes for which public money can be lawfully spent by the Government, including the right to access public funds through the business of supply.

* *Operations, Structures and Responsibilities in the Federal Government - A Guidebook for Heads of Agencies*, Privy Council Office (Machinery of Government), 1999

How the PBO would serve Parliament

- The *House of Commons Guide to Procedure and Practice* notes that: “No tax can be imposed or money spent without the assent of Parliament” and there exists an extensive framework that supports Parliament’s supremacy over financial matters, which is derived from the *Constitution Act (1867)*, the *Financial Administration Act*, unwritten convention and the rules of the Senate and the HOC.
- This framework rests on two key pillars:
 1. Assent to all legislative measures that implement public policy and the amounts of public expenditure; and,
 2. Review of the Public Accounts and Reports of the Auditor General to confirm that actual expenditures are consistent with granted authorities.
- Consistent with the enabling legislation and supporting policy documents that established the position, the PBO is mandated to support the first pillar...

...scrutiny of the amounts and objects of proposed public expenditure and the provision of this analysis to parliamentarians to aid their deliberations.

How the PBO Defines the Client's Challenge, its Value Proposition and its Methodological Lens



Defining the client's challenge

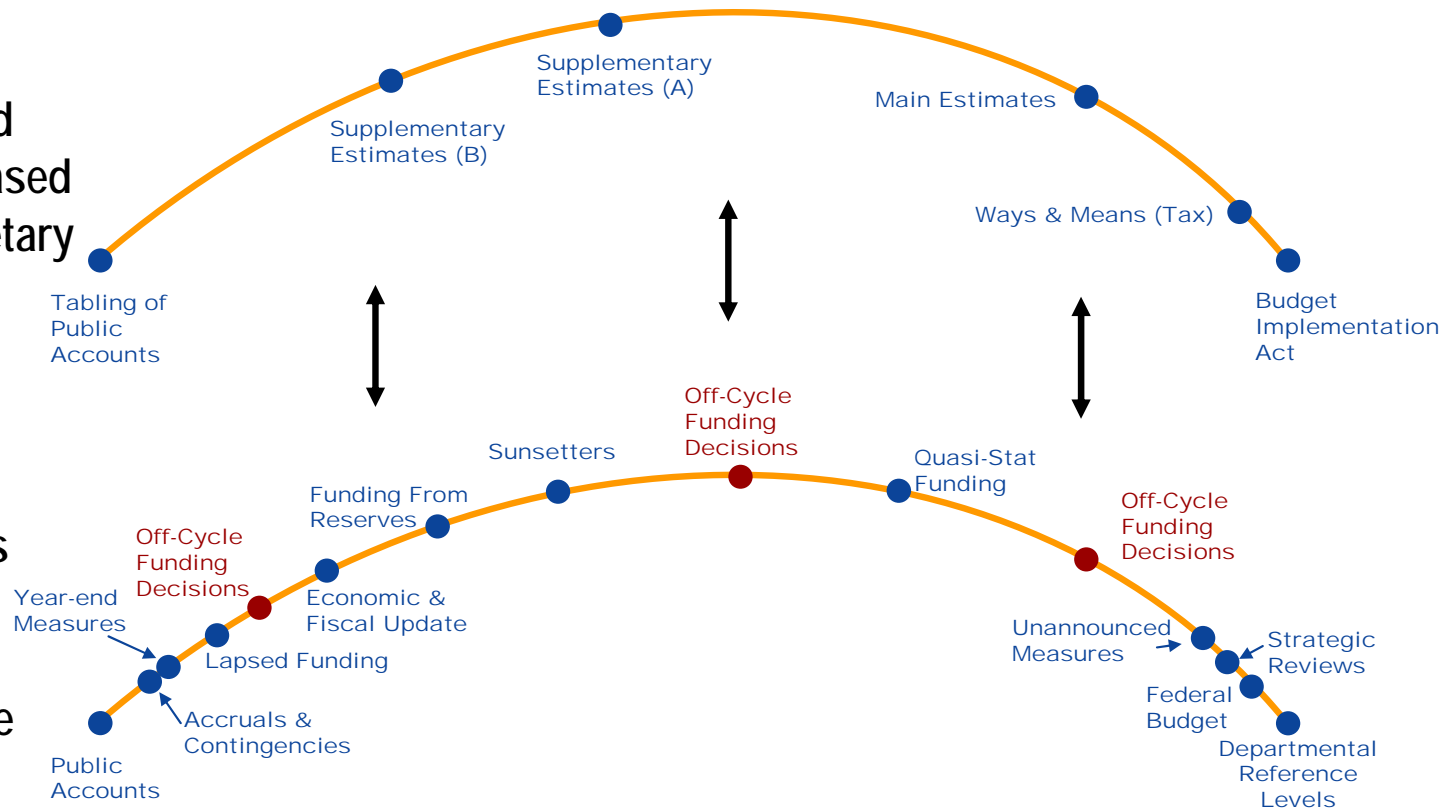
- The PBO will support Parliament, through information and analysis, to bridge the parliamentary appropriations process with the government's budgetary decision-making process using:
 - Timely economic and fiscal analysis
 - Business decision support analysis and information
 - Due diligence on off-cycle budget pressures
 - Assessment of the performance of government expenditures

Parliament's appropriations-based view of the budgetary system is sometimes limited and not always clearly linked to the government's budgetary decision-making process

Bridging the appropriations and budget gap

Parliament has a sometimes limited appropriations-based view of the budgetary system

The government's actual budgetary decision-making process has some disconnects from Parliament's view



* Please read the graphic from right to left

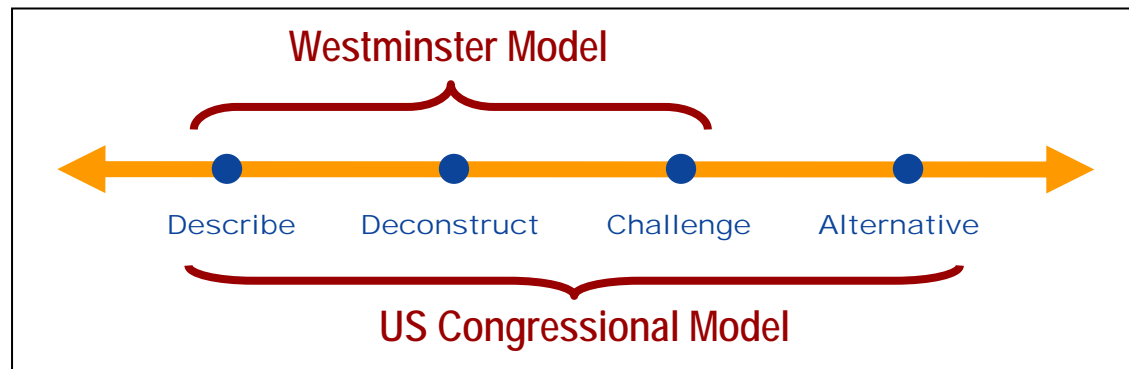
How the PBO will bridge the gap

- The PBO will provide description, deconstruction and challenge to the discrete elements of the government's budgetary decision-making cycle
 - Also referred to as the expenditure management system (EMS)
- To the extent possible, the PBO analysis will link the government's EMS decisions with Parliament's view of those decisions, including an assessment of the economic and fiscal outlook presented in the Fall Economic and Fiscal Update and in the Budget
 - Parliament generally sees the government's decisions through the Budget Implementation Act, the Appropriations bills and Public Accounts

Distinct from the *retrospective* view and *assurance* role of the Auditor General, the PBO's work will be largely *prospective* in nature and in a *decision support* role for parliamentary voting purposes

Value proposition

- The underlying value proposition behind the PBO's work is to provide independent, timely and objective research-based advice with an analytical focus on core economic, fiscal and expenditure management issues underpinning budgetary decisions;



The PBO's will support Parliament's role in the budgetary process in a manner that will be consistent with the Westminster model of government

An expenditure management framework

- The PBO will leverage a best practice framework on public sector expenditure management* to ask the following key questions:
 - **Aggregate fiscal discipline:** Do the government's economic and fiscal projections appropriately take into account the existing risks and fall within a reasonable range? Does the government take appropriate account of long-term economic, demographic and social trends in its planning?
 - **Allocative efficiency:** Are the government's expenditures appropriately linked to stated policy priorities and results? Is new expenditure mindful of existing programs and performance?
 - **Operational efficiency:** Are the government's expenditures and execution based on sound business cases that reflect due diligence, effectiveness and efficiency relative to best practices, Treasury Board policies and the government's own assertions?

* Prof. Allen Schick, University of Maryland & Brookings Institution

The Operating Model



How the PBO would operate

- During the consultation process, parliamentarians were of the near unanimous view that the PBO should employ a *fully transparent, open publishing* model
 - This view was echoed by academics, think tanks and current and former senior bureaucrats
 - The model would also draw from best practices in peer organizations such as the Auditor General and the Congressional Budget Office
- A fully transparent open publishing model would enable the PBO's research to be undertaken in a collaborative basis with third parties and include peer review, where practical
- The operating model would also cause the PBO to publish its workplan and communicate research findings via a public website
 - This would be key to leveraging the PBO's information access provision with the government and the bureaucracy; critical to the PBO realizing its mandate

The PBO will use an open and transparent operating model to ensure that the analysis is authoritative, objective and non-partisan

Products and services

- The PBO will produce three types of analytical products, in two categories: Economic & Fiscal Analysis and Expenditure & Revenue Analysis
 1. Fact sheets: up to 2 pages.
 2. Briefing notes: up to 3 pages with questions for follow up
 3. In-depth analytical notes: potential co-authors; annexes
- Economic & Fiscal Analysis
 - Regular: weekly and quarterly economic and fiscal updates
 - Research: foundation reports and research reports on key emerging economic and fiscal issues including pre- and post-budget assessments of the economic and fiscal situation.
 - Requested: both brief and in-depth analysis as requested by committees
- Expenditure & Revenue Analysis
 - Regular: parliamentary appropriations series; parliamentary reporting series; government budgetary decision-making series
 - Research: foundation reports on best practices, budget transparency, expenditure management, financial reporting, government operations
 - Requested: both brief and in-depth analysis as requested by committees and / or Parliamentarians (e.g. costing of Afghanistan engagement)

All products will be published directly on the PBO's public website at www.parl.gc.ca/pbo

Examples of products under development

- While the PBO is in its early stages of development and with a limited profile among parliamentarians, the consultation process has yielded a short term workplan that includes both briefing notes and longer analytical papers:
 - An update of the economic and fiscal situation, to be ready before the Fall Economic and Fiscal Update presented by the Minister of Finance
 - Regular economic and fiscal updates every quarter
 - Costing the war in Afghanistan including fiscal implications
 - Examining the recent performance of funding for native residential schools
 - The role of departmental accrual-based quarterly financial statement in parliamentary scrutiny of the estimates
- In addition, the PBO is developing a series of on-going products on economic and fiscal analysis as well as parliamentary appropriations and budgetary processes

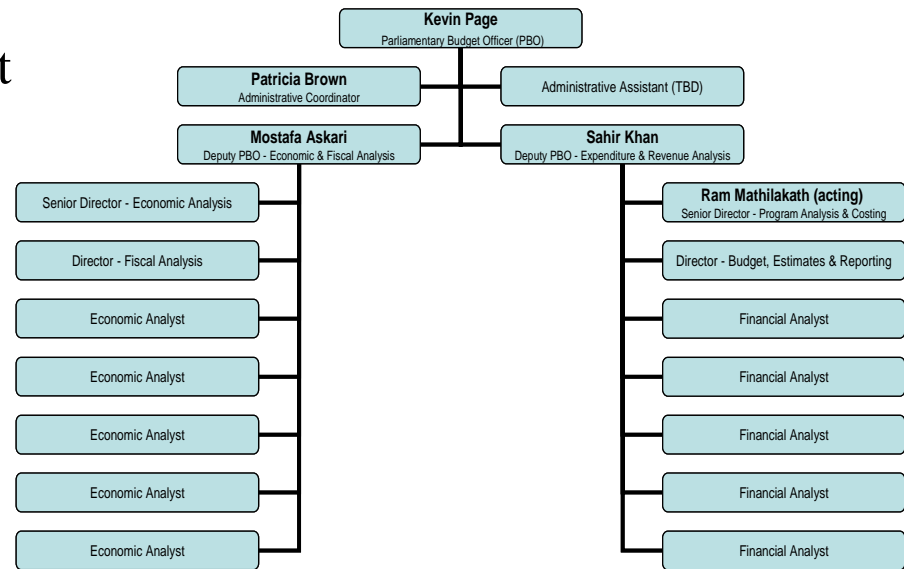
Timely & relevant information is critical

- Availability of timely, relevant and accrual-based financial reporting, fiscal forecasts and underlying decision support information (business cases) is key for the PBO to advise Parliament on a real-time basis; in order to:
 - Assess *budget* versus *actual* performance
 - Analyse operating performance
 - Assess the business case for large projects, programs and the capital vote
- The PBO's enabling legislation includes a provision for timely access to the government's financial and economic information

Accessing information will be a challenge. This has been the experience of other legislative budget offices. The main compensating factor will be the quality and depth of analysis.

How we are organized to deliver

- The PBO is still in the start-up phase
- The leadership team has been put in place and we are actively recruiting economists and financial analysts
- The PBO will leverage its resources by partnering with academics, think tanks and consulting firms
- As an advisory service business we strongly believe that our value proposition to Parliament is entirely based on the quality of talent that we attract and retain



Given the available resources, the broad mandate of the PBO will have to be realized by leveraging people and partners

Challenges facing the PBO

- Maintaining independence in the provision of analysis
- Massive asymmetry of information between the government and Parliament
- Limited resources to fulfill a very broad mandate
- Competitive market for talent in the financial and economic analysis domains
- Being and being seen to be non-partisan, while providing scrutiny, opinion and challenge

In spite of the high expectations of parliamentarians, the PBO operates with significant constraints in trying to meet its legislated mandate

Concluding thoughts

- Whether in the executive or legislative branch, budget offices share the common pursuit of financial transparency and effective decision support
- While a legislative budget officer in a Westminster model government faces certain challenges and scepticism, the approach is fully congruent with the accountability of Parliament under the law, convention and best practices
- Ultimately, the role of the PBO is largely about raising the quality of dialogue, both inside Parliament and between Parliament and the government to help achieve better public policy

Contact us

Kevin Page

Parliamentary Budget Officer

50 O'Connor Street

Ottawa, Canada K1A 0A9

+1 613 992 8026

pbo-dpb@parl.gc.ca

www.parl.gc.ca/pbo-dpb

Selected bibliography

1. Report on budget best Practices, OECD (2001)
2. Budget Transparency – Experiences from OECD countries, Ian Hawkesworth
3. The World Bank’s Public Expenditure Handbook
4. “Can National Legislatures Regain an Effective Voice in Budgetary Policy?”, OECD Journal of Budgeting, Paris, France (2002). Allen Schick, Visiting Fellow, Brookings Institution, Washington DC and Professor, School of Public Affairs, University of Maryland at College Park.
5. Best Practices in Budgeting: Putting NACSLB Practices into Action. By Metzgar, Judd Publication: Government Finance Review
6. Legislatures and budget oversight best practices – Warren Krafchik, International Budget Project and Joachim Wehner, London School of Economics
7. Recommended budget practices – a framework for improved state and local government budgeting – National Advisory Council on State and local budgeting – Government Finance Officers Association
8. Report on best practices in state and local government budgeting in the United States by the Government Finance Officers Association
9. What makes public accounts committees work – a comparative analysis by Riccardo Pelizzo, Singapore Management University, Rick Stapenhurst, the World Bank, Vinod Sahgal, the World Bank and William Woodley, Office of the Auditor General of Canada
10. Best practices in budgeting by Roland Calia, Salomon Guajardo and Judd Metzgar
11. The causes of fiscal transparency, IMF Staff Paper, Vol. 53, by James E. Alt, David Dreyer Lassen and Shanna Ross
12. IMF – Code of good practices on fiscal transparency, 2007
13. State and local government, recommended best practices in budgeting, John A Gordon, Government Finance Officers Association
14. A framework for improved state and local government budgeting, National Advisory Council on State and local budgeting
15. Key findings, Open budget initiative -2006, Center on budget and policy priorities, Washington

Selected bibliography

16. Central government budget practices – An international comparison, Franciso Bastida and Bernardino Benito
17. Contingent liabilities for infrastructure projects, Christopher M. Lewis and Ashoka Mody
18. OECD journal on budgeting, Vol 1, No. 3