

**Business Case for a New PBO Structure and Mandate
(DRAFT FOR DISCUSSION)
July 2016**

INTRODUCTION

The position of the Parliamentary Budget Officer (PBO) was created through the *Federal Accountability Act* in 2006. As an officer of the Library of Parliament, the PBO was vested with a mandate to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.ⁱ

At the time, the Government explained that the purpose of the PBO would be to "improv(e) the transparency and credibility of the Government's fiscal forecasting and budget planning process, (which) is a fundamental step in making it more accountable to Parliament and to Canadians."ⁱⁱ

As an officer of the Library of Parliament (LoP), the PBO is the head of the "PBO Branch" in the Library of Parliament. As such, he is not administratively independent. He is currently subject to LoP administrative procedures and regulations regarding human resources, information technology management and other corporate services. As well, the PBO's budget is subject to approval by the LoP Deputy Head (that is, the Parliamentary Librarian) and his funding approved through the LoP's parliamentary appropriations. Finally, all staff that work for the PBO are LoP employees.

In 2015, the Liberal Party platform committed to:

- "ensur(ing that) the Parliamentary Budget Officer is truly independent of the government, (...) that the office is properly funded, and accountable only - and directly - to Parliament, not the government of the day";
- "Help(ing) Canadians make informed decisions during elections, we will also add the costing of party platforms to the PBO's mandate. Starting with the next election, Canadians will have a credible, non-partisan way to compare each party's fiscal plans."

Furthermore, in its section on fiscal transparency, the Liberal Party platform specifically mentioned two OECD countries already involved in platform costing:

- "...add the costing of political party platforms to the Parliamentary Budget Officer's mandate, as is the case in Australia and the Netherlands, so that starting in the next

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federal election, Canadians can review the fiscal plans of political parties from a credible and comparable baseline”.ⁱⁱⁱ

Subsequent to this, the Mandate Letter for the Leader of the Government in the House directed that he:

- “Ensure that the Parliamentary Budget Officer is properly funded and truly independent of the government;” and that,
- “The Parliamentary Budget Officer’s mandate should focus on accuracy and transparency in costing and, in the future, also include the costing of party election platforms.”^{iv}

This business case outlines a proposal to fulfil these new commitments as they were proposed in the legislative text previously requested to be developed by the PBO. As well, it builds on the PBO’s existing operating model to accommodate administrative independence as a separate agent of Parliament, as well as address new capacity requirements to perform election platform costing.

CURRENT ORGANIZATION OF THE OFFICE OF THE PARLIAMENTARY BUDGET OFFICER

The current organizational structure of the PBO Branch contains 18 full-time positions, of which 14 are focussed on preparing analysis and research (see Figure 2-1, below). Apart from the administrative positions, the job descriptions for staff generally have consistent competencies drawing from economics, finance and statistics. This ensures that they are able to work on all aspects of the Officer’s mandate.

Analogous to the human resource structure among the budgeting teams within the Treasury Board Secretariat, Finance Canada and Privy Council Office, the administrative team supporting the PBO is relatively senior. Given the complexity of the projects that PBO undertakes, it was deemed essential to hire employees that had considerable experience in the areas of economic analysis and forecasting, budget analysis and forecasting, and estimates analysis.

Current Budget of the PBO Branch

Since 2009, the Parliamentary Librarian has provided the Officer with a budget of \$2.8 million per year plus small adjustments as required. However, the allocated budget does not cover the cost of corporate services that are provided by the LoP. As presented in Figure 2-2 (below), the majority of expenses for the PBO pertain to staff (\$2.3 million, or 78%).

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Figure 2-1: 2016-17 Budget for the PBO Branch (\$)

Human Resources	\$2,250,849
<i>Staff Salaries</i>	<i>\$1,910,849</i>
<i>Benefits</i>	<i>\$340,000</i>
Goods and Services	<u>\$624,763</u>
TOTAL	\$2,875,612

Output

Over the past eight years, the PBO has published roughly 30 reports each year. The majority of staff resources are typically devoted to requests from parliamentarians and parliamentary committees, including a standing motion from the House of Commons Standing Committee on Finance that the PBO present an Economic and Fiscal Outlook every six months, as well as cost all Private Members' Bills.

Over the past three years more resources have been devoted toward building in-house modelling capacity in macroeconomics, fiscal projections and corporate tax. In addition, the PBO has also placed greater emphasis on building new "self-serve" web-based applications to both improve the service available to clients and reduce the cost of responding to requests.

Operating Risks and Challenges

As noted by the Organization for Economic Cooperation and Development (OECD), the mandate of the current PBO is very broad and could engender an unlimited number of requests from parliamentarians.^v Legislative budget offices in other jurisdictions which have similar mandates to that of the Canadian PBO are generally much bigger with much larger budgets. According to the International Monetary Fund (IMF) a legislative budget office that undertakes forecasting, costing and analysis should have at least 40 employees.^{vi}

Commensurate with growth in the number of parliamentarians (from 308 to 338 or +9.7%), the number of requests from clients for reports and briefings has also grown in turn. The PBO has remained very productive in terms of both the breadth and the depth of its reports. However, this has been accomplished by:

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- being selective in responding to requests from parliamentarians, which means many legitimate requests could not be accepted or could not be done in a timely manner;
- narrowing the scope and limiting the number of independent economic and budget analyses; and,
- demanding considerable over-time work hours from the staff, which places unsustainable pressure on them and contributes to employee turnover.

In short, the PBO has managed this operating model essentially working like a “start-up” organization over the last eight years. This is not sustainable and does not allow PBO to fulfill his current mandate comprehensively or adequately serve parliamentarians.

Beyond a mismatch among available resources, legislative mandate and client expectations, PBO's work have also been hindered by uneven working relationships with the public service. Most notably, the PBO has experienced challenges to access to the data and information held by the public service as well as the expertise within the public service to interpret the data and information that the PBO requires to fulfill his mandate.^{vii} While there have been some recent improvements, these challenges persist.

IMPLICATIONS OF THE PROPOSED CHANGES TO THE MANDATE OF THE PBO

Earlier this year, the PBO was requested to develop a draft legislative text for discussion that reflected the changes the government has proposed to make to PBO's mandate and organization. There are two key legislative changes that would motivate changes to the PBO's existing operating structure. Both would require additional financial resources. Specifically:

1. Making the PBO truly independent as an agent of Parliament; and,
2. Requiring this new independent agent to expand its mandate to include electoral platform costing.

Administrative Independence

Making the PBO an independent agent of Parliament would require changes in its administration structure. Similar to other agents of parliament, it would have to comply with reporting requirements to the Treasury Board.

As presented in Figure 2-1, the average cost of internal services per full-time equivalent ranges from roughly \$120K to \$270K annually among other parliamentary organizations. Based on LoP estimates, three of its FTEs provide corporate and various other support services to the PBO. For instance, the PBO team currently occupies 465.2m² equivalent to an annual cost of \$257,000 covered by PSPC, but negotiated by the LoP.

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Figure 3-1: Internal Service Budgets for Parliamentary Organizations

Organization	Number of FTEs	Number of FTEs for internal services	Budget for internal services	Internal services_Average cost per FTE	Mains Total	Mains_Salary	Mains_G&S
Office of the Conflict of Interest and Ethics Commissioner	48	10	\$2,185,837	\$218,584	\$6,970,653	\$5,399,193	\$1,571,460
Parliamentary Protective Services	602	24	N/A		\$62,115,110	\$39,530,490	\$22,584,620
Office of the Auditor General of Canada	570	N/A	N/A		\$78,533,732	\$69,942,732	\$8,591,000
Office of the Information Commissioner of Canada	93	22	\$2,596,950	\$118,043	\$11,291,386	\$8,262,143	\$3,029,243
Office of the Privacy Commissioner of Canada	181	50	\$7,328,553	\$146,571	\$24,513,944	\$17,937,843	\$6,576,101
Office of the Chief Electoral Officer (Elections Canada)	556	120	\$32,075,233	\$267,294	\$98,535,261	\$47,943,054	\$50,592,207
Office of the Commissioner of Official Languages Canada	160	46	\$6,952,477	\$151,141	\$20,891,619	\$15,891,619	\$5,000,000
Public Sector Integrity Commissioner	30	7	\$1,898,247	\$271,178	\$5,462,474	\$3,584,499	\$1,877,975
Office of the Commissioner of Lobbying of Canada	28	6	\$1,543,072	\$257,179	\$4,462,686	\$2,972,737	\$1,489,949
				\$204,284			
	Organization of interest based on size/number of FTEs			\$248,980	\$5,631,938	\$3,985,476	\$1,646,461

There are also other types of corporate administrative capacity which the PBO currently does not have in place, but which would be expected for an independent agent of Parliament. For example, professional communications services and, of course, access to information services should he or she be subject to a new regime.

The recent creation of Ontario's Financial Accountability Office (FAO) is also instructive. The FAO is an independent agent of the Ontario Legislature with a similar mandate to the PBO. For the 2016-17 fiscal year, the FAO's intends to have 20 full-time equivalents (roughly the same as the PBO). However, this includes 5 administrative staff (compared to 2 for the PBO), and additional resources to contract for communications and legal services.^{viii}

Electoral Platform Costing

Consistent with the proposal for the election platform costing in the draft legislation, the PBO would need additional resources to expand existing research and analytical capacity, in particular model building. The additional capacity would also serve to address other ongoing capacity challenges highlighted earlier.

Beyond additional resources, the new independent agent of Parliament should negotiate formal memoranda of understanding – as already provided in the current legislation – governing data access and collaboration with the public service. It is expected that this would serve to offset future resource pressures, as well as improve the quality of work prepared for parliamentarians.

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The plan for changes to the PBO would transform both its mandate and its structure. While the addition of staff and resources to fulfil ongoing administrative requirements is fairly straightforward, additional resources for electoral platform costing will necessitate changes to the existing organizational structure to ensure staff could be effectively deployed on an ongoing basis.

The addition of election platform costing to the mandate of the PBO and expecting the PBO to undertake more policy costings would require new tools and a different structure that would allow the PBO to respond quickly to requests from parliamentarians. These changes would be necessary not only during the election period but throughout the parliamentary session.

PROPOSED RESOURCE REQUIREMENTS UNDER AN ENHANCED PBO'S LEGISLATIVE MANDATE

To fulfill the expanded mandate as an independent agent of Parliament, the PBO will need to have the following business lines:

1. **Economic analysis and forecasting.** This group would be responsible for undertaking research and analysis and provide short-, medium- and long-term economic forecasts on a regular basis. In addition the group would have to develop, maintain and improve models that will be used to do forecast and undertake research and analysis. Depending on the nature of the costing project the group would also undertake policy costings. **This group would require 7 FTEs.**
2. **Fiscal analysis and costing.** This group would be responsible for fiscal forecasting and analysis, expenditure and estimates analysis, and tax analysis. This would also include developing new models and tools that would help PBO to respond to requests for costing in these areas. **This group would require 12 FTEs.**
3. **Policy costing.** Policy costing which includes costing of existing and proposed government programs and costing of Private Members Bills (PMBs). In addition, this group would be the lead for election platform costing and would collaborate with the Economic and fiscal forecasting groups to ensure that fiscal projections are consistent with the program costs it has estimated. **This group would require 6 FTEs.**
4. **Corporate and Internal services.** As an independent agent of Parliament, the PBO would be responsible for managing and funding all its internal services. This group would have to prepare PBO's annual financial statement and lead the preparation of all the reports required by the Treasury Board. Internal services include the following functions:
 - Office management (3FTEs)

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- Report production and publishing (**2FTEs**)
- HR, finance, procurement and contracting (**4 FTEs**)
- Media relations (**1 FTE**)
- Legal counsel (**1 FTE**)

Total FTE required:

Economic and Fiscal	15
Policy Costing	10
Internal Services	11
PBO and DPBO	2

Total FTE 38

Budget required:

A new PBO structure with 38 FTEs and the responsibility for funding all its internal resources would require a **salary budget of \$4.5 million** and a **G&S budget of \$1.5 million** for a **total budget of \$6 million**. This calculation does not take into account any possible charges for accommodation including the initial investment in furniture and equipment.

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ANNEX A: Draft Mandate for a New Parliamentary Budget Office

This section is an excerpt from the proposed legislative text requested earlier this year to be developed by the PBO.

The mandate of the Parliamentary Budget Office is to:

- (a) provide, on his or her own initiative, independent analysis to the Senate and House of Commons on: the state of the nation's finances, including analysis of the estimates and medium- and long-term projections; economic developments, including medium- and long-term projections; and the financial, economic and distributional impacts of any program or proposal that relates to a matter over which Parliament has jurisdiction;
- (b) when requested to do so by a committee or by a parliamentarian, provide analysis to the Senate and the House of Commons on: the state of the nation's finances, including analysis of the estimates and medium- and long-term projections; economic developments, including medium- and long-term projections; and the financial, economic and distributional impacts of any program or proposal that relates to a matter over which Parliament has jurisdiction;
- (c) provide, within three months before the date of the general election, a five-year economic and fiscal projection to be used as the basis of measuring the fiscal impacts of a Parliamentary party's election platform; and,
- (d) On request from the leader of a Parliamentary party, provide estimates of the economic and fiscal impacts of that Parliamentary party's election platform if: a) details of the policies in the platform are provided to the Parliamentary Budget Office by a Parliamentary Party at least three months before the date of the general election; and b) the Parliamentary Budget Office has access to the relevant data, information and models held by a government institution at least three months before the date of the general election.

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Annex B: Election Platform Costing in Australia and the Netherlands

- Australia.** The Australian Parliamentary Budget Office (PBO) has a legislative mandate to provide electoral platform costing on request of political parties represented in Parliament.^{ix} Historically, the PBO has prepared platform costings for the opposition parties, while the Government has relied on the Public Service.^x Unlike Canada, the Australian PBO will perform confidential analyses on behalf of parliamentarians. As a result, they are generally aware of policy proposals likely to be brought forward as part of an election platform well in advance. Further, the PBO also has access to the data and models used by the public service. In practice, this means that they are able to rely on external capacity when preparing platform costings.^{xi}
- Netherlands.** Although it doesn't have the legislative to do so, the Netherlands' Central Planning Bureau (CPD) prepares electoral platform costings for all political parties.^{xii} By convention, this work is done for both the Government and opposition parties, using a similar baseline economic projection.^{xiii} Similar to Australia, the CPD has broad access to data sets held by the Government. However, rather than rely on the public service's models, the CPD has built its own internal modelling capacity in macroeconomics, fiscal projections, as well as tax and transfer microsimulation. As such, the CPD is able to quickly prepare cost estimates of most election proposals.

Figure A-1: Comparison of Australian and Dutch Approaches to Platform Costing

	Australia	Netherlands
Number of Staff	35 FTEs (all involved in platform costing)	120 FTEs (40 to 50 directly involved in platform costing)
Budget	AUD6M/year (with an election-year top-up)	€13M/year
Mandate	Narrower than Canada	Broader than Canada
Data Access	Better than Canada	Better than Canada
Modelling Capacity	Primarily Rely on Public Service	Internal Capacity

Sources: Australian Parliamentary Budget Office, Netherlands Central Planning Bureau

Common Aspects of Election Platform Costing Operations

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While Australia and the Netherlands differ in terms of their reliance on internal versus external capacity, they do generally share a common administrative approach toward managing the process of election platform costing. Specifically:

- **Clear Timelines.** Both organizations set clear timelines for the submission of electoral commitments, ensuring that adequate time is available to prepare their analyses.
- **Ongoing Dialogue.** The approach taken to platform costing is iterative, with ongoing structured contact with the political parties to confirm assumptions and interpretations of the proposals.
- **Common macroeconomic and fiscal baseline.** All proposals are assessed against a common macroeconomic and fiscal projection, providing an “apples-to-apples” comparison of platform commitments.

While neither the Australian nor Dutch system could be directly imported into the Canadian context, both could be viable approaches with some modifications.

The most salient feature of the Australian electoral costing system is the strong collaboration with the public service. This collaboration is partially due to administrative linkages, with formal memoranda of understanding (MOU) signed between the PBO and virtually all government departments and agencies.^{xiv} These MOU permit the sharing of data, information, expertise and modelling capacity. It is also due to the cultural aspects of the Australian system^{xv}.

The approach of building a closer working relationship between the Parliamentary Budget Offices (also known as Independent Fiscal Institutions) with executive branch functions is not uncommon. Most notably, the UK’s Office for Budgetary Responsibility (OBR) is highly reliant on the capacity of the executive branch to fulfil its mandate^{xvi}.

The Netherlands’ approach places greater emphasis on the internal capacity of the CPD, especially with respect to modelling and analysis. However, there continues to be reliance on the executive branch departments and agencies to share data and information in a timely way.

This approach appears to be successful for several reasons. The first is capacity. The CPD was established over [60] years ago and has roughly 120 staff, including 15 modelling experts. Hence it enjoyed significant time and resources to build considerable internal modelling capacity. This includes its own macroeconomic, fiscal and micro-policy simulations.

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- ⁱⁱ Federal Accountability Action Plan. <https://www.tbs-sct.gc.ca/faa-lfi/docs/ap-pa/ap-pa06-eng.asp#toc6>. Government of Canada. 2006.
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- ^{iv} Mandate Letter to the Government House Leader. <http://pm.gc.ca/eng/leader-government-house-commons-mandate-letter>. Government of Canada. 2015.
- ^v Independent Fiscal Institutions Country Notes: Canada. <https://www.oecd.org/gov/budgeting/D2-AM%20-%20SBO%20Hand-Out%201%20ANNEX%20-%20Country%20Notes%20-%20revised%2029%20May.pdf>. OECD. 2012.
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- ^{viii} Financial Accountability Office of Ontario Operating Plan. http://www.fao-on.org/web/default/files/publications/FAO_OperatingPlan_EN.pdf. FAO. 2015.
- ^{ix} Role of the Parliamentary Budget Office. http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/role. Parliamentary Budget Office. 2016.
- ^x Personal communication with staff of the Australian Parliamentary Budget Office. May 2016.
- ^{xi} Ibid.
- ^{xii} Case Studies of Fiscal Councils: Functions and Impact. <https://www.imf.org/external/np/pp/eng/2013/071613a.pdf>. IMF. 2013.
- ^{xiii} Personal communication with Central Planning Bureau officials May 2016.
- ^{xiv} Memorandum of Understanding Between the Parliamentary Budget Officer and the Heads of Commonwealth Bodies in Relation to the Provision of Information and Documents. <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2012/PBO-Comm-MOU>. October 2012.
- ^{xv} Personal communication with staff of the Australian Parliamentary Budget Office. May 2016.
- ^{xvi} External Review of the Office for Budgetary Responsibility. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/349955/external_review_of_the_OBR_web.pdf Kevin Page. September 2014.