

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Budgetary Request

New Office of the Parliamentary Budget Officer

November 2017

I. Executive Summary

This business case presents an administrative structure for a new agent of Parliament, the Parliamentary Budget Officer (PBO), which is based on the section 79.01 of the *Parliament of Canada Act*. It is also informed by the Organization for Economic Cooperation and Development's Principles for Independent Fiscal Institutions, current service demands from parliamentarians, and the current operating structures of comparable parliamentary service providers.¹

The New Legislative Framework

Section 79.01 of the *Parliament of Canada Act* establishes the PBO as an independent agent of Parliament and significantly broadens the existing PBO's mandate. In particular:

- To meet the new statutory obligation for electoral platform costing, the PBO will need to invest in additional analytical capacity to build new models and data bases.
- To fulfill the new statutory responsibilities as a Deputy Head, the PBO will need to establish its own back office functions and maintain a system of internal controls.²

Meeting Parliamentarians' Current Expectations

Compounded by the expansion of the House of Commons in 2015 and the appointment of independent Senators, the number and complexity of requests from parliamentarians has grown considerably over time.

Furthermore, the new legislation for the PBO compels it to provide costing of any proposal that the political parties represented in the House of Commons, or unrepresented members, are considering for their election platforms

Based on a careful assessment of these factors, the new OPBO requires an additional voted budget request of \$1.1 million in 2017-2018, a total voted budget requirement of \$3.7 million in 2017-18, \$7.0 million in 2018-19, \$7.0 million in 2019-20 (for the 43rd General Election) and \$6.5 million ongoing. The requested funding would provide for a complement of 41 full-time-equivalent personnel (FTEs).

Table 1: Funding Profile for New Office of the Parliamentary Budget Officer****

<u>2017-18*</u>	<u>2018-19**</u>	<u>2019-20***</u>	<u>Ongoing</u>
\$3.7 million	\$7.0 million	\$7.0 million	\$6.5 million

Notes: *Figure for 2017-18 includes the \$2.6 million deemed appropriation transferred from the Library of Parliament. **Figure for 2018-19 includes non-recurring administrative expenses related to the transition.

***Figure for 2019-20 includes non-recurring administrative expenses related to election platform costing.

****Voted budget requirements only. EBP excluded.

II. Legislative Background

The legislative framework for the PBO is provided for in the *Parliament of Canada Act*. The *Act* establishes the PBO as an independent agent of Parliament, who would be Deputy Head of the Office of the Parliamentary Budget Officer (OPBO). In addition, the *Act* enumerates specific responsibilities of the PBO regarding the preparation of reports in response to request from legislators and committees, as well as a proactive mandate for research and analysis.

Work Plan and Annual Report

As an independent agent of Parliament and Deputy Head, the PBO will be required to establish administrative framework to adhere to the parliamentary and central agency requirements of operating an autonomous entity. Beyond this, the *Act* also requires the PBO to prepare and submit a work plan to the Speakers and an Annual Report.

Under section 79.11 of the *Parliament of Canada Act*, the PBO “has the rank of a deputy head of a department of the Government of Canada and has the control and management of the office of the Parliamentary Budget Officer.” As Deputy Head, the PBO has responsibility to develop and administer a suite of policies regarding human resources, financial management, information technology and procurement. These policies must be consistent with existing statute, as well as generally consistent with the operating principles of other organizations across the public service (executive and legislative branches).

More notably, as Deputy Head, the PBO is responsible for ensuring a system of internal controls is implemented within the OPBO.^{3,4} Broadly speaking, this system should provide assurance that the planning, budgeting, resource allocation, reporting and compliance procedures of the OPBO ensure public resources are:

- allocated toward the directions approved by Parliament (through the Business of Supply);
- managed in a manner that ensures value-for-money; and,
- reported in a standardized, transparent manner that provides for accountability.

OPBO's Operations

The *Act* provides for an operational framework for the OPBO, specifying its overarching mandate, how research and analysis is initiated, and the publication process. It also outlines the role of the PBO during the election period to perform electoral platform costing.

Mandate

Section 79.01 of the *Parliament of Canada Act* stipulates that the purpose of the PBO is "...to support Parliament by providing analysis, including analysis of macro-economic and fiscal policy, for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability." The ultimate goal is to help parliamentarians to hold the government to account.

Initiation of Research and Analysis

Section 79.2(1a) of the *Parliament of Canada Act* provides that the PBO is expected to produce research and analysis regarding the government's budget, economic and fiscal update, fiscal sustainability report and estimates. These requirements broadly map to products that was produced by the PBO Branch of the Library of Parliament.

Parliamentary committees have the power to request research and analysis of the PBO (section 79.2(1c,d,e)). This includes the ability of four specified committees to request the PBO to prepare research or analysis of the Canadian economy or nation's finances.⁵ All parliamentary committees have the authority to request research and analysis regarding the government's estimates or the cost of any proposal under Parliament's jurisdiction.

The preparation of cost estimates is also provided for in section 79.2(1f) of the *Parliament of Canada Act*. Specifically, it provides the right to individual parliamentarians to request the PBO to prepare cost estimates of any matter under the jurisdiction of Parliament. This broad authority is consistent with the existing administrative framework used by the PBO to undertake cost analysis.

Finally, the PBO is able to undertake proactive analysis and research if the projects are identified in its annual work plan (section 79.2(1b)). This work plan is required to identify the criteria for the allocation of resources, "matters of particular significance" that should be brought to the attention of the Senate and the House of Commons during the year, and the priority-setting mechanism for requests. These statutory obligations are generally consistent with existing internal practices of the PBO Branch of the Library of Parliament as part of its ongoing resource management and operations.

Publication – Submitting Reports to Speakers or Requestors

Section 79.2(2, 3, 4) of the *Act* provides a legal requirement for the PBO to present all reports to the responsible parliamentarian or committee prior to publication. Reports identified in the work plan are submitted to the Speakers. All other reports are submitted to the requestor. In addition, the same section requires that the PBO make all reports available to the public one business day after the reports are submitted to the responsible individual.

Electoral Platform Costing

Section 79.21 of the *Act* outlines the PBO's responsibility to prepare cost estimates of political parties' platform commitments during the election period. The election period is further specified as beginning on the 120th day before the date fixed under section 56.1 or 56.2 of the *Canada Elections Act* and ending on the day before the date of the next general election. However, if Parliament is dissolved before that 120th day, the period begins on the day on which Parliament is dissolved and ends on the day before the date of the next general election (section 79.21(2)).

Requests are required to be submitted in writing to the PBO by the authorized representative of recognized political parties in the House of Commons, or individual members (section 79.21(3)). In practice, this currently means that the PBO will be required to accept requests from the three recognized political parties in the House (that is, those with at least 12 seats), as well as the members of other unrecognized parties (fewer than 12 seats), and independent parliamentarians.

PBO may request assistance from departments and enter into arrangements under which the assistance is provided. However, all cost estimates of platform commitments prepared by the PBO must remain confidential, until announced by the relevant political party. The authorized representative or member must notify the PBO in writing that the platform commitment has been publicly released (section 79.21(13)). Following this, the PBO is required to release its report to the public.

III. Analysis

The new statutory requirements significantly expand the responsibilities of the OPBO. More importantly, in combination with an expanded Parliament and evolving Senate, this broader mandate will require considerably more capacity for the PBO to meet the service expectations of parliamentarians.

A novel aspect of the enabling legislation is the direction that the PBO “shall” respond to all submitted requests. Specifically, under section 79.2 of the *Act*, the:

- The PBO “shall” respond to requests made by four named committees of the Senate and the House of Commons for analysis and research on matters relating to the nation’s finances or economy.
- The PBO “shall” respond to requests made a committee of the Senate or the House of Commons for an analysis of the estimates under consideration by that committee.
- The PBO “shall” respond to requests from individual MPs and Senators, and any committee of the Senate or the House of Commons for costing of any proposal that relates to a matter over which Parliament has jurisdiction.

Due to the nature of these provisions, it is likely that the ongoing financial requirements will vary based on the volume and complexity of submitted requests. The new OPBO will monitor the volume of requests closely to assess the impact on resource requirements.

Broader Mandate

As noted earlier, to fulfill the new statutory responsibilities as a Deputy Head, the PBO will need to establish its own back office functions and maintain a system of internal controls. ⁶

It is important to note that under the Library of Parliament, the PBO Branch was resourced to fund direct program costs only. Additional funding has been requested to support indirect costs stemming from the new broader mandate.

Back-Office Functions

As an independent agent of Parliament the PBO will require changes in its administration structure, and similar to other Agents of Parliament, it will have to comply with established reporting requirements.

Table 2 presents the budgetary information of three parliamentary organizations of comparable size to the PBO. The total annual budgets for the three organizations range between \$4.4 million and \$6.9 million. Their budgets for Internal Services (also known as indirect or administrative expenses) is between 25% to 35% of their total planned spending for 2017-18.

Table 2: Internal Service Budgets for Parliamentary Organizations

Organization	Total Budget (\$M)	Internal Services Budget (\$M)	Internal Services Share of Total Budget	Administrative Cost Mark-up on Mandated Services	Full-Time-Equivalents
Office of the Conflict of Interest and Ethics Commissioner	6.9	1.7	25%	33%	50
Public Sector Integrity Commissioner	5.4	1.9	35%	54%	30
Office of the Commissioner of Lobbying of Canada	4.4	1.4	32%	46%	28

Note: Financial figures taken from the 2017-18 Main Estimates of the Government of Canada. ⁷ Human Resources data taken from Departmental Plans for 2017-18, as well as Committee Presentations. ⁸

This suggests that for each dollar the PBO plans to spend on fulfilling its core mandate established in the *Act*, it should budget for an additional 33% to 54% to support administrative spending (that is, for every one dollar spent on its core mandate, an extra 33 cents to 54 cents would be spent on non-core back office functions). This does not reflect the potential cost for Parliament to adhere to access to information exigencies.

In the short-term to ensure continuity of operations, the PBO will continue to adhere to the administrative policy suite of the Library of Parliament. As well, consistent with the spirit of section 79.12 of the *Act*, the PBO will explore options to outsource most administrative services to a parliamentary partner organization, like the Library. It is anticipated that this would potentially allow the PBO to benefit from economies of scale and avoid the fixed expense of establishing its own back-office functions. Over the longer-term, the PBO will evaluate the value-for-money of obtaining its own back-office staff or relying on the economies of scale generated by a larger entity.

Requirement to Accept All Requests

As noted by the Organization for Economic Cooperation and Development (OECD), the mandate of the PBO is very broad and could engender an unlimited number of requests from parliamentarians. ⁹ Further, as mentioned above, the new obligation imposed under section 79.2 of the *Act* to respond to all submitted requests (*shall*) creates additional operating pressures.

Owing to an increase in the number of parliamentarians and the evolution of a more independent Senate, the current bandwidth of requests from parliamentarians far exceeds limited PBO resources. As such, the PBO Branch of the Library of Parliament has been forced to establish research priorities on the basis of materiality and risk. Materiality refers to the potential fiscal impact of the initiative under consideration. Risk refers to the range of potential outcomes in comparison to the expected value.

This “triage” approach results in many legitimate requests being deferred; often being completed after the analysis and research is relevant or timely for parliamentarians. This has become particularly apparent over the past year. The House of Commons Standing Committee on Finance has requested that the PBO table a cost estimate of each private member’s bill within 45 days of it being placed on the Order of Precedence. However, it has been difficult and sometimes simply impossible to fulfill this direction in several instances.

As such, it is evident that the PBO merits additional research and analysis capacity to simply meet existing client expectations.

Electoral Platform Costing

The new legislation compels the PBO to provide costing of any proposal that the parties represented in the House of Commons, or unrepresented members, are considering for their election platforms. There is no specific bound on the number or complexity of requests that can be submitted to the PBO. As such, each political party may ask the PBO to cost many proposals before they prepare their final election platform, which may not be ultimately incorporated into the platform.

Two other jurisdictions undertake similar work: Australia and the Netherlands. Notwithstanding the idiosyncratic elements within each country, there are common features that should inform the potential Canadian approach. Specifically:

- *Strong Modelling Capacity.* Each jurisdiction invests in building and maintaining models and tools that allow the PBO to respond to costing requests in a standardized, rapid manner both during and outside of electoral platform costing periods.
- *Linkages with the Executive Branch.* Each jurisdiction maintains formal (that is, signed memoranda of understanding) and informal linkages with executive branch ministries to leverage their expertise and capacity where possible.
- *Additional Election-Related Budgetary Allocations.* Each jurisdiction reported that during the election period, additional costs are incurred for employee overtime expenses, specialised consulting contracts and other administrative costs.

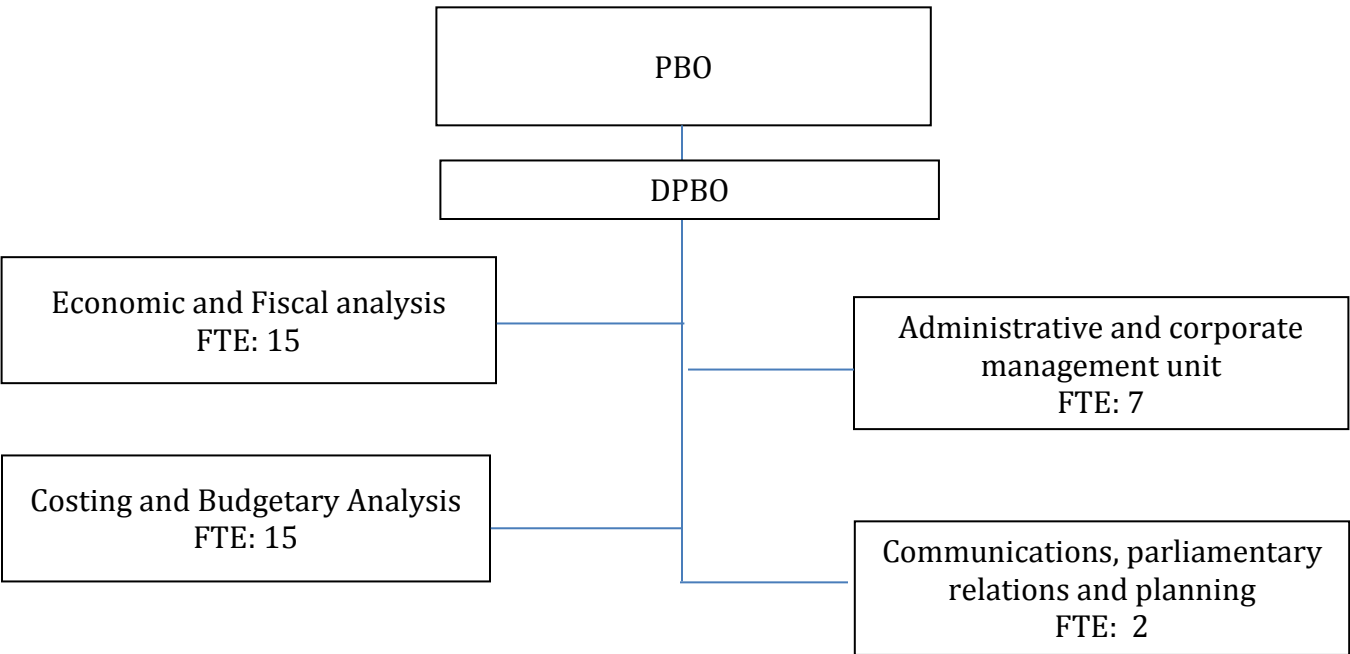
Electoral platform costing will place significant demand on PBO’s resources, albeit for a time limited period, leading to additional budgetary requirements during election years. There are two general approaches to address these cyclical surges in work. First, the PBO could choose to retain temporary staff during the election period. Alternatively, the PBO could choose to make more of an ongoing investment in its models and tools allowing it to improve its efficiency to turn around costing requests – both during and outside of electoral periods – more efficiently and effectively. Although departments could provide direct assistance to the PBO during the caretaker period, the terms under which the assistance is to be provided remains “at the discretion” of the Deputy Minister. It is therefore expected that the electoral platform costing will place uncertainty and potential conflicts that may have to be solved by the Speaker of the Senate and the Speaker of the House of Commons.

IV. The New Structure

The approach for the new OPBO will address the legislative requirements set out in the *Act* and will meet the service level expectations of parliamentarians.

The new structure of the OPBO would have approximately 41 full-time equivalent personnel at full maturity, with an ongoing annual cost of \$6.5 million.

Figure 1. Proposed OPBO



The overall size of the proposed OPBO is benchmarked against legislative budget offices in other jurisdictions which have similar mandates to that of the Canadian PBO. Analysis published by the International Monetary Fund (IMF) indicates that a legislative budget office that undertakes forecasting, costing and analysis should have at least 40 employees.¹⁰

To address the new service level pressures the PBO would need to expand its existing analytical capacity, which would be based on three critical functions:

- The “Management” group would consist of the PBO and a Deputy PBO.
- The “Economic & Fiscal Analysis” group would be responsible for providing economic and fiscal projections (short- medium – and long-term), analysis of key economic and fiscal issues relevant for parliamentarians, as well as analysis of federal government documents (for example, the Budget Plan, Economic Statements and Update and Fiscal Sustainability Reports). Further, upon request by a named Committee, the group would be responsible for providing research and analysis of matters relating to the nation’s finances or economy. In addition, the group would develop, maintain and improve models and databases that will be used for projections and simulations.
- The “Costing and Budgetary Analysis” group would include costing of existing and proposed government programs and analysis of the Estimates. In addition, this group would be the lead for election platform costing and would collaborate with the economic and fiscal analysis group to ensure that economic and fiscal projections are consistent with the program costs it has estimated (both during and outside of electoral periods). Moreover, this group would also prepare cost estimates of Private Members’ Bills (PMBs). In addition, the group would develop, maintain and improve models and databases that would be used for costing.

It is expected that resources and expertise would be shared among these groups to fulfill the competing demands of parliamentarians and emerging priorities. The increase in resources will allow the new OPBO to:

- Better meet the service level expectations of parliamentarians;
- Address the new legislative imperative that all requests “shall” be responded to; and,
- Fulfill the requirements for electoral platform costing.

With respect to the latter, additional resources will be devoted to building and maintaining new models, databases and tools. As noted earlier, having this capacity in place prior to the next election will be essential for ensuring the PBO is able to meet its statutory obligations in a manner that meets the expectations of political parties. Compared to the alternative of retaining short-term expertise, this approach is anticipated to be more cost effective and produce higher quality products. As a result, the PBO will need a recurring increase in funding during election years to address the surge of requests resulting from the platform costing.

To mitigate potential cost pressures and improve the quality of service for parliamentarians, the PBO will attempt, with the support of the Speaker of the Senate and the Speaker of the House of Commons, to negotiate formal memoranda of understanding governing data access and collaboration with the public service.

Functions Indirectly Related to Fulfilling the PBO's Mandate

- The "Administrative and Corporate Management Unit" would be responsible for coordinating strategic human resources, finance, procurement and contracting as well as the office administrative support.
- The "Communications, Parliamentary Relations and Planning Unit" would be responsible for the production and publication of all the reports required by both Houses as well as media relations and outreach activities. This includes the annual work plan (and updates), annual report and the monitoring of all parliamentary business.

V. Budgetary Requirements for the new OPBO

On the basis of the foregoing organizational structure, the PBO estimates that the amount funding required on an ongoing annual basis during non-election years would be \$6.5 million plus statutory requirements for the employee benefits plan (EBP)

Approximately \$4.9 million would relate to employee salaries. The balance would relate to other operating expenses, such as equipment, subscriptions to datasets and analytical software, training and travel (\$1.6 million).

Over the transition period from 2017 to 2019, \$1.6 million will be needed to help the PBO to transition from the old organization to the new one.

For the subsequent fiscal year (2019-20), the PBO would require an additional \$500,000 to prepare election platform costing. As noted earlier, these expenses pertain to other non-recurring administrative expenses.

Table 3: Recommended Funding Profile for the New Office of the Parliamentary Budget Officer (\$s)

	<u>2017-18*</u>		<u>2018-19**</u>		<u>2019-20***</u>		<u>Ongoing</u>	
	<i>Salary</i>	<i>Operating</i>	<i>Salary</i>	<i>Operating</i>	<i>Salary</i>	<i>Operating</i>	<i>Salary</i>	<i>Operating</i>
Funding request	2,342,000	1,397,000	4,148,000	2,835,000	4,831,000	2,185,000	4,903,000	1,617,000
Total	3,739,000		6,983,000		7,016,000		6,520,000	

Notes: *Figure for 2017-18 includes the notional \$2.6 million already provided to the Library of Parliament for existing PBO functions. **Figure for 2018-19 includes non-recurring administrative expenses related to transition. ***Figure for 2019-20 includes non-recurring administrative expenses related to election platform costing.

Approved by:

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