



## PBO Guidance 02/2018

# Post-election report of election commitments: medium-term reporting

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This guidance note sets out how the Parliamentary Budget Office (PBO) will include the medium-term financial impacts of election commitments in the next post-election report.

In summary:

- the next post-election report will include the medium-term estimates of the financial impacts for:
  - the top ten policy proposals by dollar value
  - any proposal with an impact of over \$1 billion in a year
  - proposals with a materially different impact beyond the forward estimates
  - the overall election platform for each political party
- the default assumption for the purposes of the post-election report will be that all election commitments are ongoing over the medium term, unless otherwise stated by the political party
- the report will present the aggregate impact of all election commitments over the medium term as a proportion of gross domestic product (GDP) for each party and the resulting final levels of key budget aggregates as a proportion of GDP for each party. It will also show the impact of commitments to cap or otherwise limit total tax receipts.

## Context

Section 64MA of the *Parliamentary Service Act 1999* requires the Parliamentary Budget Officer to release a report within 30 days of the end of the caretaker period for a general election, outlining the financial impacts of all of the election commitments that have a material impact on the budget for all parliamentary parties with five or more members.

The post-election report is required to include the total combined impact of each party's election commitments on the budget for the current financial year and the following three financial years (the forward estimates period).

The *Parliamentary Budget Office Review 2016–17 – Report of the Independent Review Panel* recommended that the post-election report of election commitments should include the financial impacts over the medium term (that is, seven years in addition to the forward estimates period) of:

- i the top ten policy proposals by dollar value
- ii any proposal with an impact of over \$1 billion in a year
- iii proposals with a materially different impact beyond the forward estimates
- iv the overall election platform for each political party.

This recommendation is consistent with the approach undertaken by the Congressional Budget Office in the United States of America, where the impacts of mandatory measures (such as legislated taxes and social welfare payments) are presented over a 10-year horizon.

This guidance note outlines how the PBO will implement the recommendation in the PBO's next post-election report of election commitments.

The PBO notes that although it will bring its best professional judgement to estimating the medium-term financial impacts, some caution should be exercised in interpreting these results, as estimates beyond the forward estimates are inherently more uncertain and sensitive to parameter changes, with the level of uncertainty generally increasing over the projection horizon.

## Medium-term financial impacts for selected election commitments

In the PBO's next post-election report, the costing documentation will include the dollar value of the medium-term financial impacts for election commitments that fall into the following categories:

- the top ten proposals, by dollar value, over the eleven-year period<sup>1</sup>
- an impact of over \$1 billion in any given year across the eleven-year period
- proposals with a materially different impact beyond the forward estimates.

Proposals will be assessed against these categories based on the dollar value as set out in the PBO's costing of the commitment. The determination of 'materially different impact' will be determined by the PBO taking into account factors such as the proportional change in financial impact beyond the forward estimates period and the quantum of that change.

The reporting of the medium-term impacts of election commitments represents a change from the approach taken in previous elections. Every policy costing minute prepared by the PBO in response to a policy costing request from a parliamentarian has, since April 2017, included the impacts (in nominal dollar terms) of the policy over the medium term. Under our legislation, most of these have been provided to parliamentarians on a confidential basis at their request. For the purpose of the post-election report, medium-term projections will only be published for proposals that fall into one of the three categories outlined above, which will enable a focus on proposals that have material and materially different impacts on the aggregate medium-term projections. Table 1 in [Appendix A](#) provides a stylised example of the information that will be published in the post-election report.

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<sup>1</sup> The eleven-year period is the combined total of the forward estimates plus the medium term.

Consistent with previous post-election reports, any policy costings prepared by The Treasury or Department of Finance during the caretaker period at the request of a party leader will be analysed by the PBO prior to being included in the post-election report. This is to ensure that the Parliamentary Budget Officer is satisfied that those costings accurately reflect the budgetary impact of the election commitment.

In the circumstance where a policy costing prepared by The Treasury or Department of Finance during the caretaker period does not include the financial impacts over the medium term, the PBO will prepare a supplementary costing that includes the financial impacts over the medium term. Where the election commitment meets the criteria outlined above, the supplementary documentation covering the medium term will be included in the post-election report.

For the PBO to accurately cost election commitments over the medium term, parties will need to be transparent about their medium-term commitments. In particular, parties will need to advise whether the proposals would be ongoing or terminating over the medium term. Where a proposal is terminating, the termination date will need to be specified.

Where it cannot be determined from the policy announcement and related supporting material whether the commitment is ongoing or terminating, the PBO will adopt the default assumption that the proposal is ongoing for the purposes of estimating the medium-term impacts.

## **Financial impact of the overall election platform**

The PBO's next post-election report will publish the net impact of each party's election commitments on the key budget aggregates and the resulting final levels for the key budget aggregates.

The PBO uses the Pre-election Economic and Fiscal Outlook (PEFO) released by the Secretaries of The Treasury and Department of Finance as the baseline for the costing of election commitments included in the post-election report. Consistent with the presentation used in the Budget, the underlying cash balance is typically expressed in the PEFO in nominal dollar terms and as a proportion of GDP over the forward estimates period, and only as a proportion of GDP over the medium term. Estimates for the fiscal balance are typically only published over the forward estimates period, both in nominal dollars and as a proportion of GDP. The PBO will adopt this approach for the presentation of the underlying cash balance and fiscal balance in the post-election report, both in relation to the net impacts of each party's election commitments on the key budget aggregates and the resulting final levels for the key budget aggregates.

The PBO will also publish the net impacts of each party's election commitments on receipts, payments (excluding public debt interest) and public debt interest over the medium term, as well as the resulting final levels of receipts, payments and public debt interest. These will be published in nominal dollars and as a proportion of GDP over the forward estimates period, and only as a proportion of GDP over the medium term.

Table 2 in [Appendix A](#) provides a stylised example of the information that will be published in the post-election report.

## **Interaction with commitments to cap or otherwise limit total tax receipts**

If a party announces a policy of limiting receipts as part of their election commitments (for example a tax cap), the PBO will separately calculate and publish the financial impact of that policy. This is because a limit on tax receipts has been a well-established feature of medium- and longer-term budget projections in Australia for many years and the 2016 PEFO projections incorporated this limit as an assumption in the estimates of the underlying cash balance over the medium term.

Similarly, if government policy, as detailed in PEFO, includes a policy of capping tax receipts as a proportion of GDP and it is reflected in the underlying cash balance baseline, the PBO will publish the value of unspecified tax reductions included in the PEFO baseline that are required to ensure tax receipts do not exceed the cap. This PEFO baseline will form the benchmark against which the PBO will cost party election commitments and assess the aggregate impact of party policy platforms.

In the absence of a public statement by a party about an alternative limit on receipts or a policy to not apply a limit, the PBO's default approach will be to apply the tax cap that has been applied in the PEFO (which would be 23.9 per cent of GDP under current government policy) when calculating the net impact on the underlying cash balance of the overall election platform for that party.

## **Other medium-term budget assumptions**

The PBO will not treat other potential medium-term budget commitments or assumptions, such as a tax floor or a spending cap, in the same way as a commitment to limit receipts. Giving effect to such commitments tends to be more contested and risks artificially improving an assessment of the fiscal position.

If a party announces a commitment of this nature, the PBO will require a public announcement of how the commitment will be met. The PBO will then assess whether the commitment could reasonably be achieved, including taking into account any significant interactions with other election commitments.

These arrangements will also apply to any minor parties and independent parliamentarians that choose to opt in to the post-election report.

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# Appendix A

**Table 1: Underlying cash balance, including election commitments with a material medium-term impact**

	2018 -19	2019 -20	2020 -21	2021 -22	2022 -23	2023 -24	2024 -25	2025 -26	2026 -27	2027 -28	2028 -29	Total to 2021-22	Total to 2028-29
PEFO UCB baseline (\$b)													
Per cent of GDP													
Unspecified tax cuts due to tax-to-GDP cap (\$b)													
Per cent of GDP													
Unconstrained PEFO UCB baseline (\$b)													
Per cent of GDP													
<b>Party A</b>													
Election Commitment A with published medium-term impact (\$b)													
Election commitment B with published medium-term impact (\$b)													
Election commitment C with published medium-term impact (\$b)													
<b>Sum total of election commitments with a material medium-term impact (\$b)</b>													
<b>Per cent of GDP</b>													
Sum total of all other election commitments, including interactions (\$b)													
Per cent of GDP													
Unspecified tax cuts due to policy to constrain receipts (\$b)													
Per cent of GDP													
<b>Net impact of election commitments on the UCB (\$b)</b>													
<b>Per cent of GDP</b>													
<b>Final UCB (\$b)</b>													
<b>Per cent of GDP</b>													

Note: Figures will not be published for shaded cells.

**Table 2: Receipts, payments and public debt interest (PDI) for Party A, including impact of election commitments**

	2018 -19	2019 -20	2020 -21	2021 -22	2022 -23	2023 -24	2024 -25	2025 -26	2026 -27	2027 -28	2028 -29	Total to 2020-21	Total to 2028-29
PEFO receipts (\$b)													
Per cent of GDP													
PEFO payments – excluding PDI (\$b)													
Per cent of GDP													
PEFO PDI (\$b)													
Per cent of GDP													
<b>PEFO UCB baseline (\$b)</b>													
<b>Per cent of GDP</b>													
<b>Party A</b>													
Net impact of election commitments on receipts (\$b)													
Per cent of GDP													
Net impact of election commitments on payments – excluding PDI (\$b)													
Per cent of GDP													
Net impact of election commitments on PDI (\$b)													
Per cent of GDP													
<b>Net impact of election commitments on the UCB (\$b)</b>													
<b>Per cent of GDP</b>													
Final receipts (\$b)													
Per cent of GDP													
Final payments – excluding PDI (\$b)													
Per cent of GDP													
Final PDI (\$b)													
Per cent of GDP													
<b>Final UCB (\$b)</b>													
Per cent of GDP													

Note: Figures will not be published for shaded cells.