



# The PBO: Who We Are and What We Do

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OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET

**Rod Story**

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# Why have a PBO?

- In simplest terms, Parliament's primary function is to approve the raising of revenue (taxation) and then use this revenue to fund services (appropriations)
- The public service supports the executive (cabinet) in this financial decision making
- The rest of parliament doesn't have access to detailed financial decision making information
- The PBO fills this void by providing public, independent, & detailed financial information



# PBO Legislation & Mandate

- PBO created via the *Federal Accountability Act* in 2006 (under the *Parliament of Canada Act*)
- PBO's role is 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



# PBO Background

- The parliamentary budget officer serves at the pleasure of the governor in council
- This differs from independent officers of the government of Canada like the Auditor General which do not serve at pleasure
- Legislation states that the PBO is entitled to financial or economic data only
- No express remedies in the event of noncompliance



# PBO history and status

- First PBO was Kevin Page
  - appointed March 2008 and served to March 2013
- Current PBO is Jean-Denis Fréchette
  - appointed September 2013
- Budget = \$2.8 million
- Size = currently 19 including 3 on contract
- All reports, data, and information requests publicly available on PBO website



# PBO as a concept

- The most well known budget office is the Congressional Budget Office (CBO) in the United States
  - Created in 1974 and has a staff of 220
- CBO not the first
  - Netherlands-1945, Denmark-1962
- More recently: South Korea-2003
- More budget offices being created in order to obtain IMF funding (e.g. Greece)





# Functions of the PBO

- Economic & Fiscal Analysis
  - Fiscal Sustainability Report (annual)
  - Economic and Fiscal outlook (3-4 times per year)
  - Pre-budget outlook (annual)
  - Assessment of the Federal Budget (annual)
  - Plus occasional reports (e.g. balanced budget legislation, federal transfers to the provinces and territories, labour market assessment, employment insurance financing, etc.)



# Functions of the PBO

- Expenditure & Revenue Analysis
  - Research into the government's estimates
    - Integrated Monitoring Database
    - Estimates Monitor- regular analysis of in-year government spending
    - Interim financial reporting
    - Plus occasional reports (e.g. Revenue and distribution analysis of federal tax changes, personal income tax tool, analysis of performance budgeting, etc.)





# Functions of the PBO

- Expenditure & Revenue Analysis
  - Costing of Government and Private Member's Bills
    - Cost of the mission in Afghanistan (~\$9B to 2008)
    - Total ownership cost of F-35 fighter jets (PBO-\$29B & DND-\$15B both in 2011, AG-\$25B & KPMG-\$45B in 2012)
    - Joint Support Ships (PBO-\$4.1B & DND-\$2.6B in 2013)
    - Cost of the criminal justice system (\$20.3B in 2012)
    - Cost of the federal contaminated sites (\$3.9B vs \$1.8B)
    - Annual funding requirements for First Nation school infrastructure (\$290M vs \$120M actual in 2009)



# Overview of Costing

- Costing takes time
  - 1 year to cost contaminated sites
  - 8 months to cost the criminal justice system
- Methodology has to be created
- Datasets have to be found and/or created
- Creative thinking with regards to proxies
- Data is often very messy and needs to be “sanitized” – this is time consuming

# US Government Accountability Office Cost Estimating Process

## Initiation and research

Your audience, what you are estimating, and why you are estimating it are of the utmost importance

## Assessment

Cost assessment steps are iterative and can be accomplished in varying order or concurrently

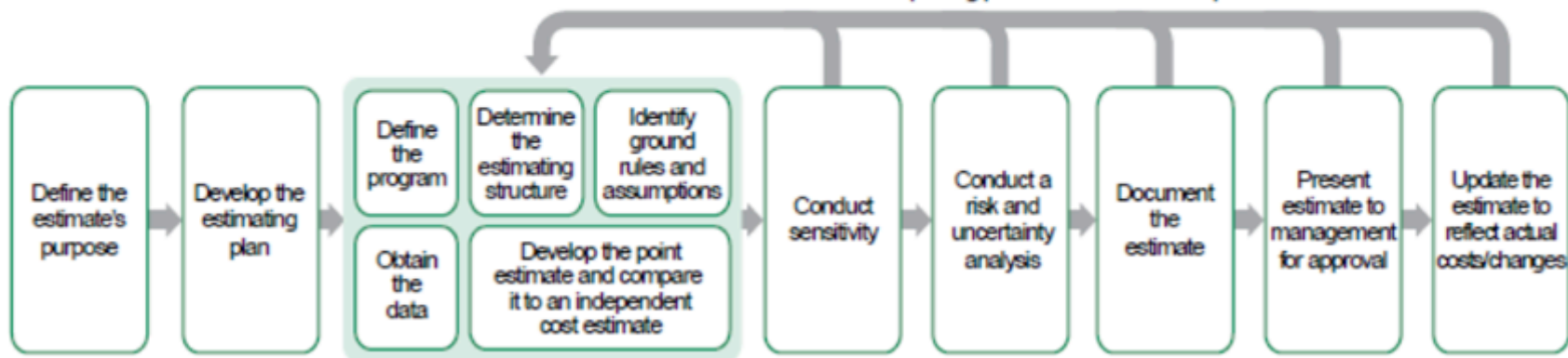
## Analysis

The confidence in the point or range of the estimate is crucial to the decision maker

## Presentation

Documentation and presentation make or break a cost estimating decision outcome

Analysis, presentation, and updating the estimate steps can lead to repeating previous assessment steps



Source: GAO.



# Treasury Board Secretariat Process

- 7 Step Process

1. Cost purpose
2. Cost object: What is being costed?
3. Cost base: Which costs are relevant?
4. Cost classification: Direct and indirect costs
5. Cost assignment: Methodology for assigning costs
6. Calculate, validate, and confirm
7. Sign-off



# Comparing GAO and TBS processes

- The 2 processes are quite similar except for one important thing:
  - The GAO process has sensitivity analysis as well as risk and uncertainty analysis of the cost estimate built into it as opposed to being mentioned as a good idea deep in an Annex
    - This is important. Cost estimates are “estimates”, they are not the actual cost! This often gets forgotten.



# Sample of PBO Real Property Costing Projects

- Three projects:
  - First Nations School Infrastructure Funding Requirements: British Columbia
  - Federal Contaminated Sites
  - Toll pricing for the new Champlain bridge in Montréal





# B.C. First Nation School Infrastructure

- Released July 11, 2013
- Follow-up to a 2009 PBO report that investigated the funding of First Nation Schools in Canada
- Using a new dataset, estimate the funding required to sustain the First Nation school infrastructure in B.C.



# First Nation School Background

- Funding for First Nation schools come from Aboriginal Affairs and Northern Development Canada (AANDC)
- No specific parliamentary appropriation to fund First Nations school infrastructure
- Funding pressures result in “premature rust-out of assets”

# Infrastructure Costing Methodology

PBO Capital Budgeting Framework			
Major Inputs	Minor Inputs		
Asset Replacement Value	Area	Unit Cost	
	Major recapitalization values	Inspection dates	Geographic location
	AANDC Asset Replacement Values	FNESC Asset Replacement Values	
Estimated Remaining Life	Year of construction	Known capital deficiencies	Months in operation
	Design Life	Maintenance Adequacy	Building Materials
	AANDC Inspector comments	Building Condition	School officials' comments
Recapitalization Expense	AANDC Recapitalization Funding	PBO-FNESC Recapitalization Funding	
Operating & Maintenance	AANDC Operating & Maintenance Funding	PBO-FNESC Operating & Maintenance Funding	

Major Inputs		
Line	Item	Formula
(1)	<i>Asset Replacement Value<sub>i</sub></i>	Figure 3-2
(2)	<i>Estimated Remaining Life<sub>i</sub></i>	Figure 3-5
(3)	<i>Minor Recapitalization Expense per unit of ARV<sub>i</sub></i>	2.9%
(4)	<i>O&amp;M Expense per unit of ARV<sub>i</sub></i>	2.9%

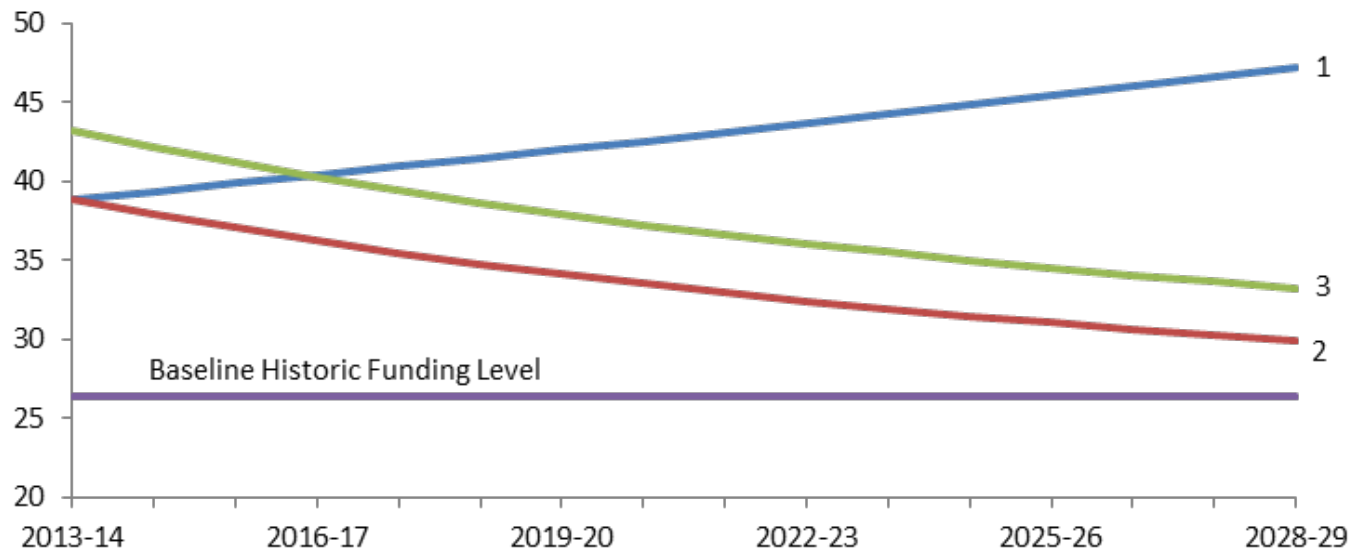
Calculations		
Line	Item	Formula
(5)	<i>Major Recapitalization Expense<sub>i</sub></i>	(1) ÷ (2)
(6)	<i>Minor Recapitalization Expense<sub>i</sub></i>	(1) x (3)
(7)	<i>Operating &amp; Maintenance Expense<sub>i</sub></i>	(1) x (4)
(8)	<i>Annual Funding Requirement<sub>i</sub></i>	(5) + (6) + (7)

- Average age of first nation school 23 years
- Average age of B.C. public schools 18 years



# Infrastructure Costing Results

millions of dollars, real



1 = Required funding for current population growth and current floor space per student

2 = Required funding for current population growth and comparable B.C. Ministry of Education floor space per student (requires change management and funding)

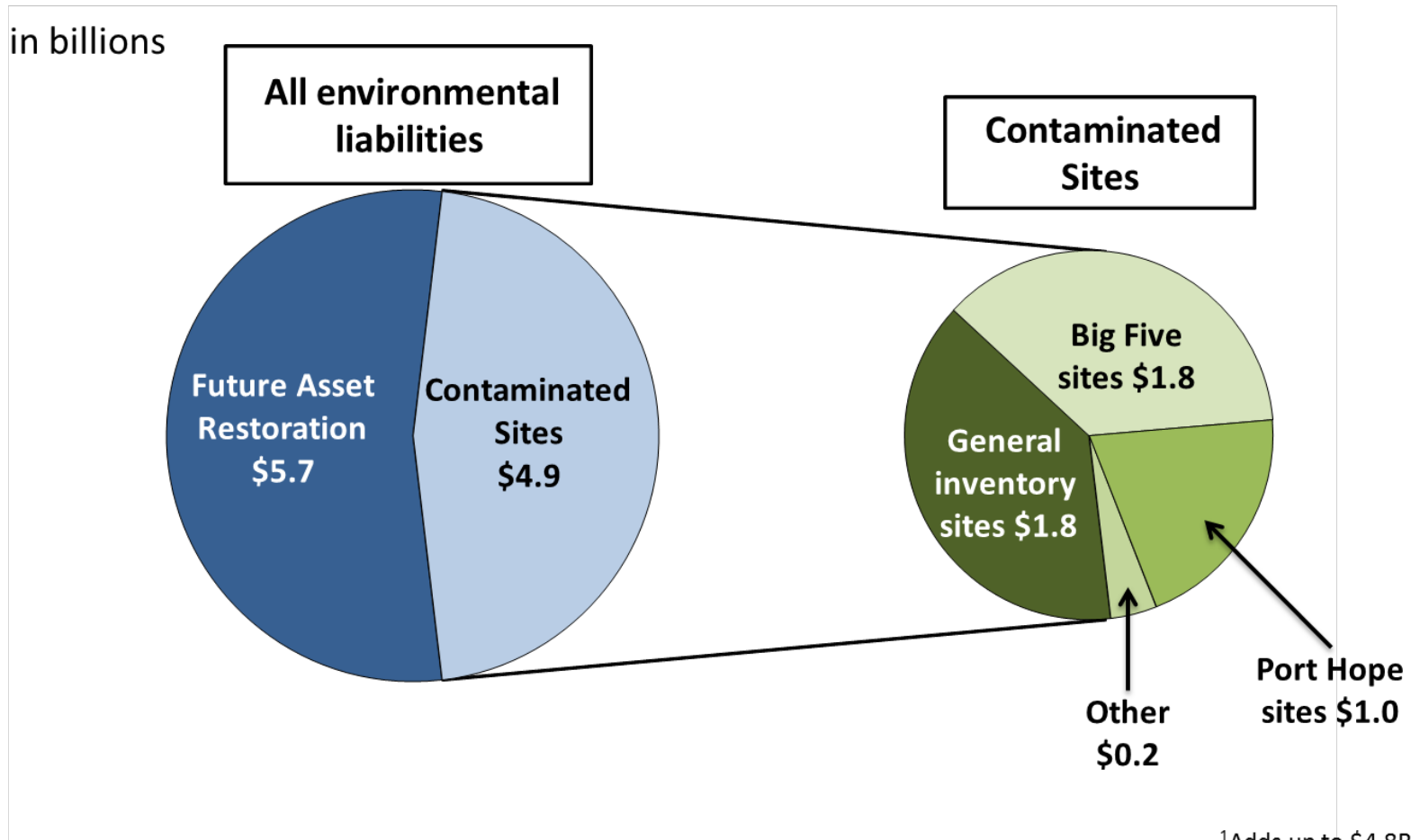
3 = #2 plus investing \$4 million/year to reduce average age to that of other B.C. schools



# Federal Contaminated Sites

- Released April 10, 2014
- What will be the ultimate cost of remediating the federal government's contaminated sites?
- Liability recognized in public accounts
  - Based on the public sector accounting standards: only when a reasonable estimate can be made
- PBO estimate is higher since includes sites that haven't been assessed or identified plus increase in costs for sites in remediation

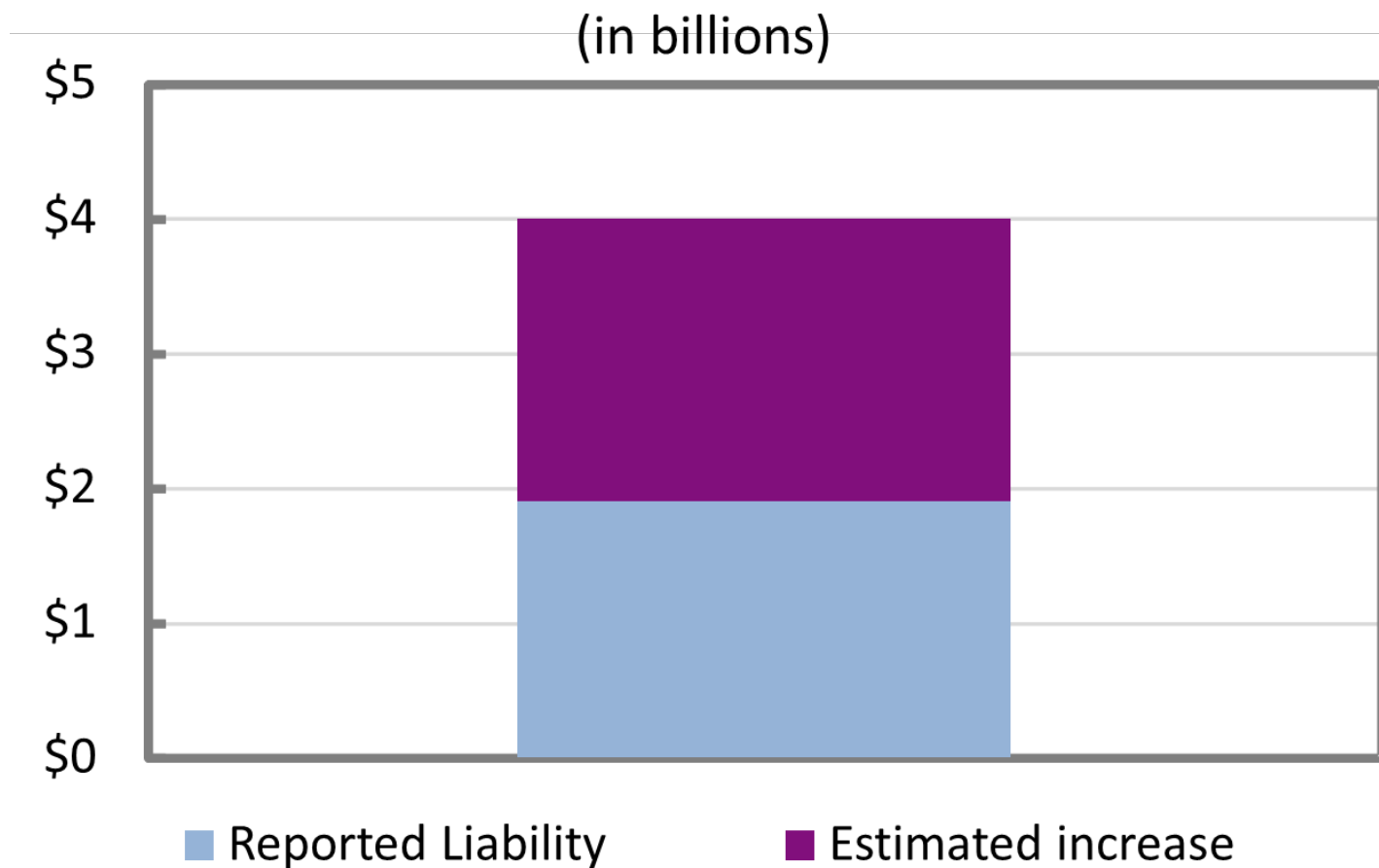
# Current Contaminated Site Liabilities



<sup>1</sup>Adds up to \$4.8B due to rounding

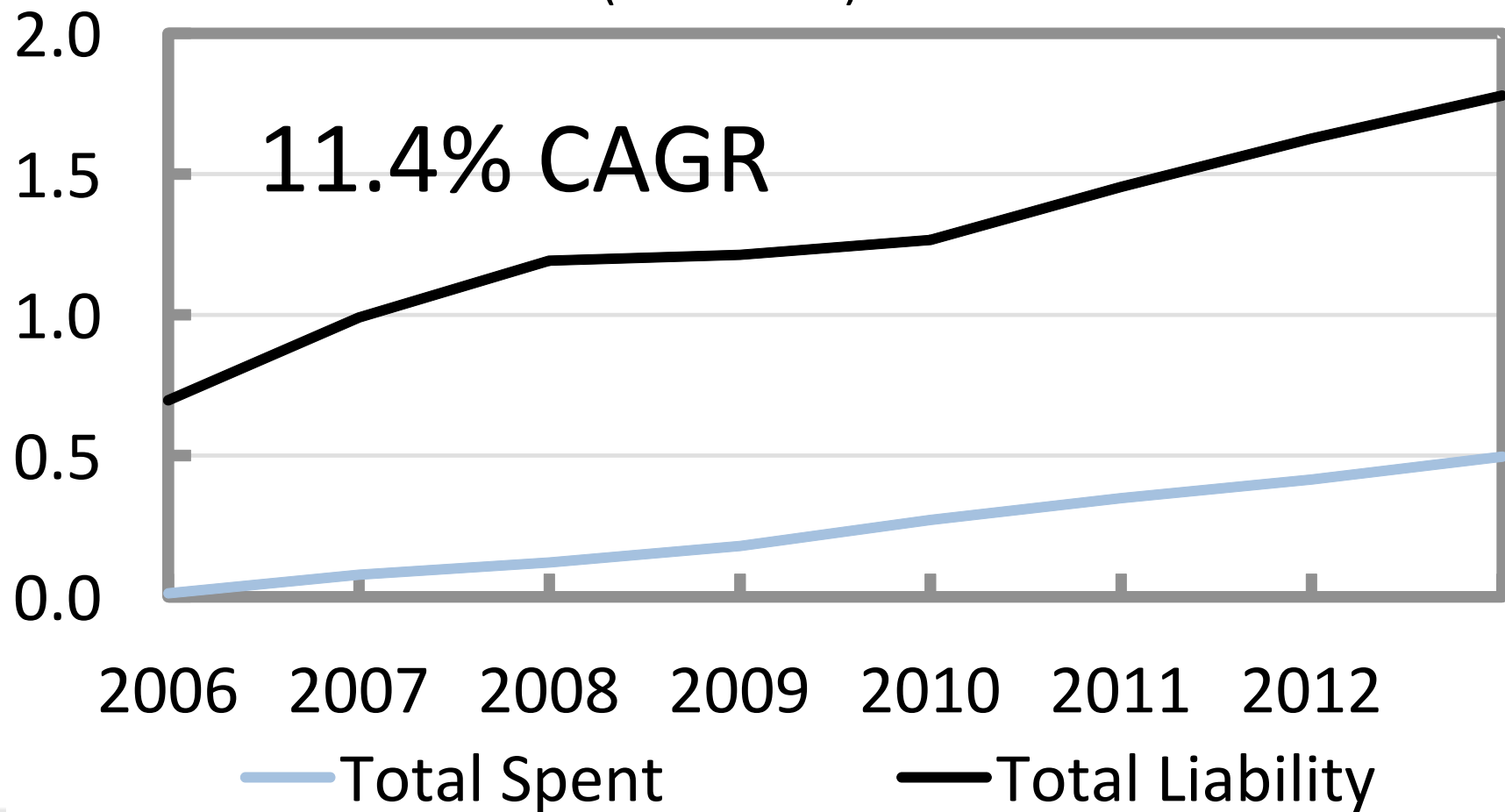


# Increase for General Inventory



# Big Five Sites

(in billions)





# New Champlain Bridge Tolls

- Released September 17, 2014
- What should the toll price be to cover the cost of building and operating the bridge (30-year life)?
- What would be the revenue-maximizing toll?
- New bridge scheduled to be in operation 2018
- Request for proposals released July 2014
- Estimated design/construction cost: \$3B-\$5B

# Toll Calculation Methodology

- Using concept of ‘willingness to pay’ and setting this as a reservation price
- Concept of time value of money for commuter



# Cost Recovery Toll Rates

<b>Scenario</b>	<b>Toll</b>	<b>Total Revenue (Billions)</b>	<b>Traffic Diversion (%)</b>
<b>O&amp;M only</b>	\$0.80	\$1.5	1.4%
<b>Construction, O&amp;M</b>	\$1.40	\$2.5	2.3%
<b>\$3B project cost, O&amp;M</b>	\$2.60	\$4.4	3.4%
<b>\$5B project cost, O&amp;M</b>	\$3.90	\$6.2	10.6%
<b>Revenue-maximizing</b>	\$9.10	\$10.7	37.9%