

Guidelines for managing requests from a political party for costing of its own policies*

September 2018

* In accordance with section 2.70 of the 2018 *Guidelines on the Caretaker Conventions*

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The Department of Treasury and Finance acknowledges the contribution of the Commonwealth Treasury and Department of Finance in the development of these policy costing guidelines through their provision of the Charter of Budget Honesty Policy Costing Guidelines (source: licensed from the Australian Government Department of the Treasury and the Department of Finance under a Creative Commons Attribution 3.0 Australia Licence).

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Foreword

The *Guidelines on the Caretaker Conventions* ('the caretaker conventions'), issued by the Department of Premier and Cabinet (DPC) in May 2018, outline circumstances whereby the Department of Treasury and Finance (DTF) may be called upon to cost policies at the request of a political party.

The caretaker conventions are available in full at www.dpc.vic.gov.au. The relevant 'policy costings' section pertaining to DTF is as follows:

2.70 *It remains open for government and non-government parties to seek costings of their own election policies from DTF. DTF will undertake the costings in conjunction with relevant departments, provided any assumptions necessary for the costings are identified for the departments or do not require departments to undertake extensive policy research. After an election policy is costed, DTF will advise the relevant party of the costing, and publish the costing and material assumptions used in its preparation on its website.*

In preparing itself to manage any such requests, DTF has developed this document; *Guidelines for managing requests from a political party for costing of its own policies* ('the policy costing guidelines') based on guidelines that operated in 2014.

The pre-election budget update, to be released within 10 days of the issuing of the writ for the 2018 Victorian election, will be the primary point of reference for costing policies including relevant economic parameters.

The policy costing guidelines are intended to inform those requesting policy costing of the general methodology that is to be applied, what information will need to be supplied when requesting a policy costing and what will be produced.

David Martine
Secretary

Department of Treasury and Finance

1. Process: context, timing and outcome

1.1 Summary of process

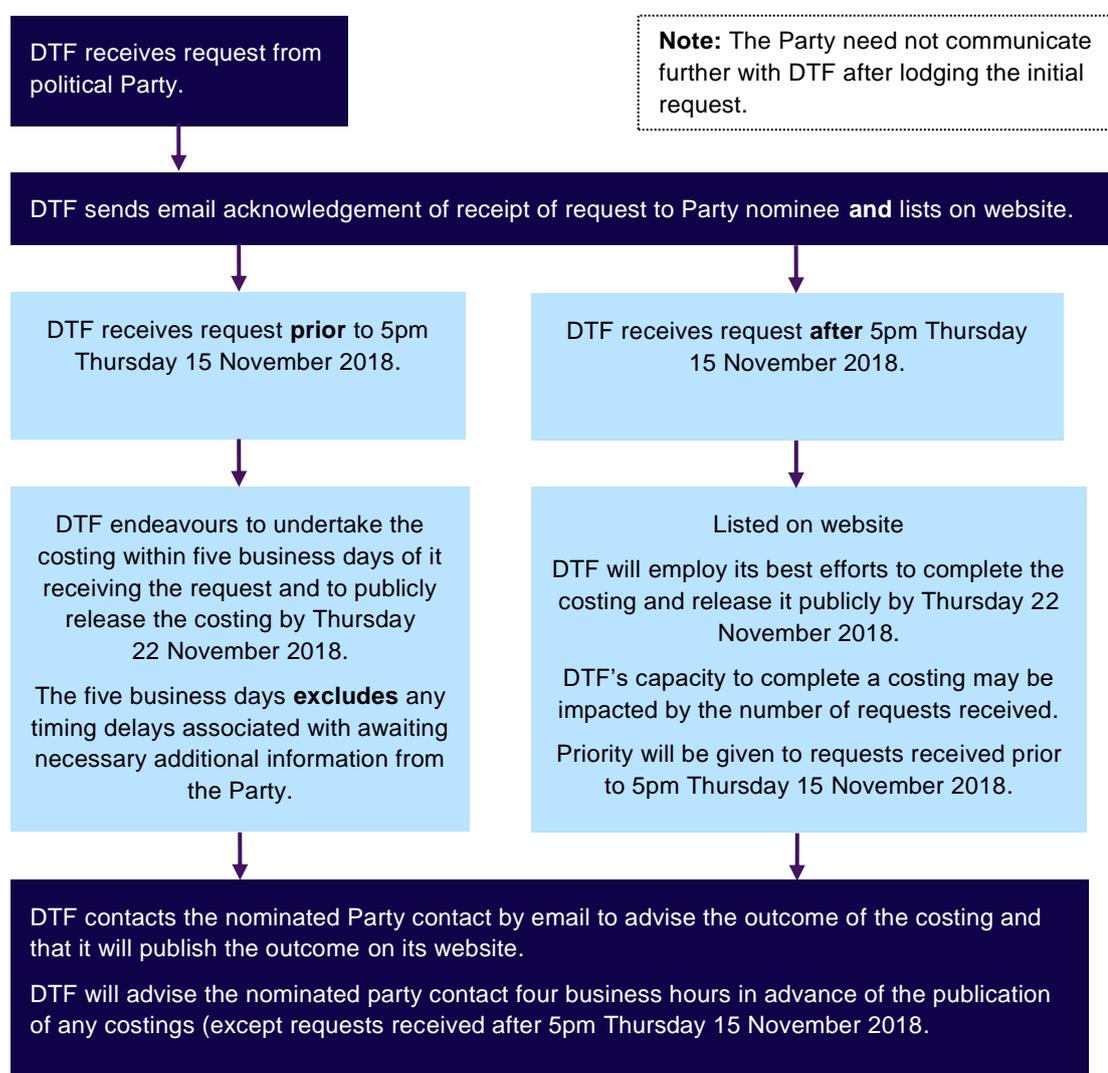
1. The following list outlines key elements of the process:
2. The caretaker conventions issued by DPC remain the authoritative guide regarding the role and responsibilities of the Victorian public sector during the caretaker period¹. As outlined in the foreword, the policy costing guidelines explain in further detail a discrete section of the caretaker conventions.
3. During the caretaker period, DTF may be asked by a political party to cost its own policies.
4. A request by a political party to cost its own policies must:
 - be made no earlier than 6pm on Tuesday 30 October 2018 (the start of the caretaker period);
 - be made in writing to DTF (refer to **Appendix B**):
 - fully outlining the policy to be costed, giving relevant details including stating assumptions sufficiently to enable costings;
 - stating the purpose or intention of the policy; and
 - nominating a contact person and including that person's contact details.
5. The relevant DTF contact will be Mr Mark Johnstone, Executive Director, Budget and Finance Division², who will acknowledge receipt via email to the person nominated in the request and list the request on the DTF website at www.dtf.vic.gov.au/2018-victorian-election-costings at the next available opportunity. Please refer to **Section 1.2** of this document for a flow chart outlining the timing of this process.
6. DTF will endeavour to complete costings and communicate its completion to the nominated party contact within five business days of receiving a costing request.
7. After a policy has been costed, DTF will advise the nominated party contact by email of the outcome of the costing and that it will publish the outcome on the DTF website.
8. DTF will advise the nominated party contact four business hours in advance of the publication of costings.
9. Policy costing requests should be made no later than 5pm on Thursday 15 November 2018 to allow five working days for the costing to be completed and allow public release of the costing on the Thursday prior to polling day.
10. For any policy costings submitted after 5pm on Thursday 15 November 2018, DTF will utilise best endeavours to complete costings to allow for public release by the Thursday prior to polling date. DTF notes that it may not be possible to provide four business hours' notice prior to publication for these costings.

¹ In 2018, the caretaker period is expected to commence at 6pm on Tuesday 30 October 2018 and continue until the result of the election is clear, or, if there is a change of Government, until the new Government is appointed.

² costing.request@dtf.vic.gov.au

11. Where required, DTF may seek assistance in costing policies from other departments or agencies.
12. If necessary, in order to fully cost a policy, DTF may request more information from the requesting party, through the nominated party contact. Where additional information is required, the five working days will exclude the time taken to obtain the additional information. Additional information requested (and responses provided) will also be published at the time the DTF response is provided.
13. DTF will advise the nominated party contact in all circumstances where a costing was not able to be completed. The reason for not completing the costing (e.g. time constraints or insufficient information) will also be published on the DTF website, along with the originally submitted request.

1.2 Timing flow chart



2. Aims, methodology and assumptions for policy costings

2.1 Aims

DTF aims to be as clear, transparent and timely in costing policies as possible and will therefore:

- provide its best estimate of the full cost of a policy;
- complete the costing in the shortest time possible, generally within five working days;
- cost policies in a manner consistent with methodologies used to prepare the annual Budget statements, the pre-election budget update (PEBU) and other financial reports;
- cost all policies across all parties in a consistent manner;
- only provide fiscal costings, and not provide policy advice or assessments of the economic impact of policies; and
- produce a self-contained written report on the costing that explains the published costings, and material assumptions used in arriving at the conclusions.³

2.2 Methodology

The costings will be produced in a manner consistent with normal costing practice. A list of standard policy costing conventions is provided in **Appendix A**.

Policy costings will estimate the financial impacts of the proposal concerned. The focus of costings will be on initial (first round) effects and the direct budgetary consequences of policies.

Policy costings will, generally, not account for the impact on State debt interest payments, unless:

- it is an explicit policy objective to affect the level of interest payments; or
- the policy involves a financing type transaction where the major Budget impact is through State debt interest payments.

In the case of costing a policy package (comprising a related set of initiatives, possibly across several portfolios), both the cost of individual components and the overall cost of the package will be undertaken.

Where a party submits a final aggregated package of all its election commitments and funding sources to DTF for costing, DTF will comment on the net financial impact of the overall policy package on the operating result (net result from transactions) and net debt.

³ This report, as well as the original request and any other material provided by the contact person, satisfies DTF's obligations under section 2.70 of the caretaker conventions.

2.3 Assumptions

In relation to the assumptions to be used, the caretaker conventions state that 'DTF will undertake the costings in conjunction with relevant departments, provided any assumptions necessary for the costings are identified for the departments or do not require departments to undertake extensive policy research.'

Any economic data or forecasts used in costing policies will be consistent with the most recent publicly released estimates as contained in the PEBU⁴.

The nature of any assumptions used will be made clear by DTF when releasing costings and any caveats associated with the assumptions will be outlined.

Assumptions regarding behavioural responses of the people affected by policies will be taken into account where it is normal practice to do so. Where there are significant behavioural effects, the assumptions used in the costing will be clearly identified in the publicly released costing report.

Moreover, while costings will generally be the best assessment of the cost of a policy, in cases where assumptions are particularly uncertain, costings may be provided as a range of possible outcomes.

3. Request process, detail and time required and security

3.1 Request process

Requests for policy costings should be made to DTF via email to costing.request@dtf.vic.gov.au.

3.2 Detail

The provision of fulsome information at the time of submitting the request to cost the policy will help to minimise unnecessary delays. **Appendix B** provides a template outlining the type of information normally required for a timely policy costing to be prepared.

A request should fully outline the design features of the policy, including the intention of the policy. It will assist in the preparation of costings if detailed information is provided on the assumptions that parties may have used in making their own costing assessments. However, DTF will still endeavour to undertake a costing even where the party has not provided its own costing assessments. It should be noted that material assumptions used by DTF in the costing will be made clear at the time of release of the costing. Where there is an inconsistency between the stated intention of the policy and its design features, the policy will be costed on the basis of its design features.

⁴ Pursuant to section 27C of the *Financial Management Act 1994*, the Secretary of the Department of Treasury and Finance is required to release the pre-election budget update (PEBU), within 10 days after the issue of the writ for the 2018 Victorian election.

3.3 Time required

DTF will endeavour to complete a costing within five working days of having received a request. However, this may not be possible in the case of complex costing requests or where data is difficult to obtain.

If DTF considers that further information is required, it will request it in writing from the nominated party contact. DTF will endeavour to ask for any additional information it requires within two working days of it receiving the policy costing request. The further information should be forwarded to DTF in writing.

Where additional information is required, the five working days will exclude the time taken to obtain the additional information.

DTF will release completed costings up until 5pm Thursday 22 November 2018. DTF will not release costings after this time.

See **Section 1.2** for a summary of process timing.

3.4 Security

Security and confidentiality arrangements will be consistent with those applied to budget preparation, and the Victorian Protective Data Security Standards (VPDSS).

DTF will disclose that it has received a policy costing request and its current status on the DTF website.

4. Constraints and public release

4.1 Constraints

The policy costing guidelines require that policy costings be provided to the nominated party contact as soon as is practicable after a costing request has been made.

Where a policy costing is not possible, DTF will advise the nominated party contact to that effect.

The non-release of a policy costing may be due to:

- time constraints that prevent the policy being costed by 5pm Thursday 22 November 2018;
- the provision of insufficient information about the policy to allow DTF to properly cost it; or
- there being insufficient data available to reliably cost the policy.

4.2 Public release

The Department's arrangements for public release of a policy costing will be:

1. DTF will advise the nominated party contact four business hours in advance of the publication of any costings.
2. The costing will be published on the DTF website www.dtf.vic.gov.au/2018-victorian-election-costings.
3. The costing methodology and the material assumptions used in costing the policy will be disclosed.

Costings will not include policy advice or assessments of the economic impact of policies, but will include:

- an outline of the specific costing methodology and assumptions used (including economic and any behavioural assumptions) in sufficient detail to allow an understanding of how the costing was determined; and
- a table setting out the financial impact against the current financial year and forward estimates period (the following three financial years) or in terms of total estimated investment.

A sample of the form in which a policy costing will be publicly released is provided in **Appendix C**.

5. Parliamentary Budget Office (PBO)

5.1 Establishment

The *Parliamentary Budget Officer Act 2017* received Royal Assent on 27 June 2017, enabling the establishment of an independent Parliamentary Budget Office (PBO). The PBO has been established as a permanent standing body to provide policy costings and advice to Members of Parliament.

5.2 Role

The caretaker conventions contain a section outlining the PBO's role, as follows:

- 2.69** *The PBO is empowered to perform policy costings under the Parliamentary Budget Officer Act 2017. Once the PBO is operational, relevant parliamentary leaders may request the PBO to prepare a costing of an election policy. The relevant period within which requests of the PBO may be made is set out in Part 3 of that Act.*

5.3 Differences between PBO and DTF

Government and non-government parties will still be able to seek costings of their election policies from DTF.

Upon completing an election policy costing, DTF will publish the costing and material assumptions used on its website. This is different from the approach of the PBO, which may only publicly disclose costings and advice at the request of a parliamentary leader who has commissioned the election policy costing.

Appendix A: Standard policy costing conventions

The following are standard conventions for the preparation of policy costings:

- Costings will be produced in a manner that is consistent with normal costing practice and are based on any effect on the State's financial statements.
- Costings will generally reflect the marginal change of undertaking the requested function or activity (in accordance with the costing request) and will include consideration of whether the request relates to:
 - a new function or activity of government;
 - cessation of an existing function or activity of government; and
 - a change to, or extension of, an existing function or activity of government.
- Costings will be provided on an annual basis for the Budget and Forward Estimates period, or in the case of an asset investment, in terms of total estimated investment (TEI). For the 2018 election, the budget and forward estimates period is 2018-19 to 2021-22.
- Full-year, part-year and one-off effects will be distinguished.
- Costings are generally to the best point estimates; however, costing ranges will be provided if they are considered appropriate.
- Where relevant, the revenue, expense and asset components of a policy costing will be identified separately.
- Assumptions in the costing request will be reviewed for reasonableness in terms of cost, potential demand and the implementation period.
- Assumptions used in costings will be based on the best professional judgement of DTF.
- Assumptions used for one policy costing will generally be used again to cost similar policies for consistency.
- Costings provided will reflect the net cost of a policy proposal.

Appendix B: Sample request template

The following template outlines the type of information required from a political party in a request to DTF for costing an election policy.

Name of policy:

Party requesting costing (and nominated party contact/s details):

Date of public release of policy (including source of party statement/media release):

Summary of policy (please attach copies of relevant policy documents):

Intention of policy:

Description and scope of policy – please outline the basis/data sources of all assumptions informing the inputs provided:

What is the scope of the initiative?

List any key assumptions (for example, timing of implementation, start/completion date, if a policy is ongoing, expected demand etc)

What are the expected administrative costs?

Specify any asset and output components required.

Outline the estimated financial impact of the policy if known (cost impacts by year and/or total estimated investment (TEI) for asset initiatives) over the budget year and forward estimates (2018-19 to 2021-22).

Will other parties external to the Victorian Government (e.g. the Commonwealth) contribute to funding this policy?

Are there any associated savings, revenue impacts or offsets to fund the proposal?

Appendix C: Sample costing release template

Type of information to normally be included in the public release of an election policy costing

Party making the request:	
Name of policy:	
Description of policy:	
Date of public release of policy:	
Date of receipt of request:	
Additional information requested (including date):	
Additional information received (including date):	
Costing methodology used: <ul style="list-style-type: none"> • scope of initiative; • costing techniques; • policy parameters; • statistical data used; and • behavioural assumptions used (as appropriate). 	

The cost of the proposed output initiative for the **budget and forward estimates period** is set out below:

	(\$ million)				
	2018-19	2019-20	2020-21	2021-22	Four-year total (2018-19 to 2021-22)
DTF costing of output initiative					

Note – where a four-year costing estimate that includes 2022-23 is requested, DTF will provide a costing figure for 2022-23 where possible. Where a 2022-23 costing is possible, the table above will remain unchanged and the costing will be addressed using the following text:

The [xxxx Party] has included an estimate for 2022-23 of \$x million. DTF has undertaken a costing of this figure and considers \$y million to be a reasonable estimate for 2022-23 and notes that this would bring the total estimated cost of the proposal to \$ z million over five years.

Where a 2022-23 costing is not possible, the following text will be included:

The [xxxx Party] has included an estimate for 2022-23 of \$x million, however, it has not been possible to undertake a costing of this estimate.

When costing an asset initiative, the outcome will be shown as follows:

The cost of the proposed asset initiative is set out below:

	TEI
DTF costing of asset initiative	

Where a party submits a final aggregated package of all election commitments and funding sources to DTF for costing, DTF will comment on the net financial impact of the overall policy package on the operating result (net result from transactions) and net debt.

Where DTF completes a costing of a policy package, any surplus and net debt impacts may be addressed using the following table:

	2018-19	2019-20	2020-21	2021-22
Aggregate increase/decrease in net result from transactions for the general government sector				
Aggregate increase/decrease in net debt for the general government sector				

DTF comments section

Where relevant, separate identification will be included of revenue, expense, asset and liability components.	
Where appropriate, a range for the costing or sensitivity analysis will be included.	
Caveats or qualifications to the costing.	
Associated material: Copy of request as received by DTF and any additional information requested by DTF from party.	



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