



HIGH LEVEL RESPONSE TO THE RECOMMENDATIONS OF THE REVIEW OF REVENUE FORECASTING

The following table outlines the Department of Treasury's (Treasury) high level response to each of the recommendations of the Independent Review of Revenue Forecasting undertaken by Deloitte Access Economics (DAE) between October 2017 and February 2018. The final report of the Review was provided to Treasury on 21 February 2018 and is available at <https://www.treasury.wa.gov.au>.

DAE Recommendation	Treasury Response
Process	
1. Extension of cut-off date for final forecasts	Agreed in principle. The Budget timeframes will be reviewed and advice provided to Government in the lead up to the 2019-20 Budget.
2. Review briefing material and communication	Agreed.
3. Consider separation of macroeconomic and revenue forecasting responsibilities	Joint responsibilities for forecasting economic and revenue aggregates improves understanding of the linkages, and the Review acknowledges this. Indeed, the aggregates were previously forecast separately, but after being forecast jointly, there was an improvement in the analysis. Nevertheless, the review identified concerns with this approach of having a single analyst in that it limits the level of oversight and increases the potential for bias. These concerns may be able to be addressed in other ways. Treasury will consider alternative approaches as resourcing permits.
4. Establish a forecasting working group	Agreed for economic forecasts (as there are a number of other experienced economic forecasters in the public sector). However, there is not the same level of shared experience for revenue forecasts. Moreover, commodity prices can change rapidly, and could move substantially after being considered and agreed by a working group. Treasury will continue to consult with the Department of Mines, Industry Regulation and Safety (DMIRS) on royalty revenue forecasts and the Office of State Revenue in relation to selected tax revenue forecasts.

DAE Recommendation	Treasury Response
Capability	
5. Devote additional resources to economic and revenue forecasting	Subject to consideration by the Expenditure Review Committee as part of the annual Budget process.
6. Fill vacant positions in team structure	In-progress.
7. Embed career progression opportunities	Agreed. Level 5 position already created and filled.
8. Boost the profile of economic and revenue forecasting	Agreed.
Governance	
9. Conduct regular reviews	Agreed.
10. Formalise systems of internal review	Agreed.
11. Refine performance targets	Agreed.
12. Better documentation of forecasts and judgement	Agreed.
13. Improve model guides and other instructional documentation	Agreed. Will implement as priorities and resources allow.
Methods	
14. Internally consistent forecasts	Treasury considers that existing forecasts are internally consistent. Treasury is developing an integrated model for forecasting macroeconomic aggregates. This is a work in progress.
15. Prioritise consistency through time	Agreed in principle, but models are still being developed and will have to be continually refined as the economy and commodity markets are dynamic and subject to change. Note need to continually review forecasting approach in Recommendation 20.
16. Greater focus on economic risks at the margin	Agreed.
17. Enhanced scenario analysis	Agreed. Will implement as priorities and resources allow.
18. Structured model sensitivity tests	Agreed. Will implement as priorities and resources allow.

DAE Recommendation	Treasury Response
Iron Ore Royalties	
19. Update Visual Decision Support System (DSS) royalty forecasting database	Agreed in principle. Implementation subject to: agreement with DMIRS as the primary owner of the Visual DSS royalties model; investigation of alternative models; and availability of funding to update the model.
20. Continued review of forecast performance and approach	Agreed.
21. Greater government liaison	In-progress.
22. Enhance private sector liaison	In-progress.
23. Expand iron ore royalty scenario analysis	Agreed.
24. Mitigate against key person risk	Agreed.
25. Maintain resourcing requirements	Agreed.
Payroll Tax	
26. Move to the use of a single model when possible	Agreed (but note that benefit/cost of using a single model or multiple models when also applying judgement is contestable).
Transfer Duty	
27. Review of transaction volume forecasts	Agreed (noting this is a continuation of existing work in progress).
28. Review of house price forecasts	Agreed (noting this is a continuation of existing work in progress).
Land Tax	
29. Expand analysis of OSR data	Agreed (noting this is a continuation of existing work in progress).
30. Further explore the relationship between house prices and land values for forecasts beyond the Budget year	Agreed (noting this is a continuation of existing work in progress).