

ATTACHMENT A: RECOMMENDATIONS OF THE 2005 FORECASTING REVIEW

Conservative Bias in the Nominal Economy or Taxation Revenue Forecasts	
<p><u>Recommendation(s)</u></p> <p>The Executive Board should provide direction as to:</p> <ul style="list-style-type: none"> • whether there should be any conservative biases in Treasury’s forecasts; • if so, the extent of the biases, and where they should be incorporated — in the economic or revenue forecasts (or both); and • whether any conservative bias should be made public (as with the Contingency Reserve provided for in the expense estimates). 	<p><u>Implementation</u></p> <p>The Executive Board decided to maintain longstanding practice not to incorporate conservative biases in Treasury’s forecasts.</p>
Revenue Forecasting: Taxation Data	
<p><u>Recommendation(s)</u></p> <p>Treasury and the Australian Taxation Office (ATO) should review the data needed to forecast taxation revenue. These data would include:</p> <ul style="list-style-type: none"> • measures-adjusted series, on a consistent accounting basis, for aggregate revenue and its associated revenue heads; and • complete histories of taxation return data at an aggregate level (and by industry for corporate and unincorporated taxation return data, with the industry data aggregated, where necessary, to protect the confidentiality of individual taxpayers). <p>Processes should be put in place for ongoing maintenance of revenue databases, including the regular post implementation review of policy measure costings.</p> <p>The Executive Board should give consideration to the publishing of this revenue data for the purposes of transparency and fostering academic research.</p> <p>To implement these recommendations, a new team should be established with the aim of significantly improving the quality of the taxation revenue data. The new team would consist of about four people and be led by an EL2. In order to make significant progress, it is thought that the new team may need to be off-line for perhaps a year.</p>	<p><u>Implementation</u></p> <p>Implemented</p> <p>Implemented</p> <p>Implemented for revenue databases</p> <p>Not implemented. Recommendation of the 2012 Review.</p> <p>Implemented</p>

Revenue Forecasting: Skill Sets of Revenue Forecasters	
<p><u>Recommendation(s)</u></p> <p>Analysts should be swapped between the Domestic Economy Division (DED) and Tax Analysis Division (TAD) on a systematic basis, say one person per year in each direction, which, given the special circumstances, should be considered outside the bulk round process. Consideration should be given to the possibility of similar exchange arrangements (possibly on a temporary basis) between TAD and the Revenue Analysis Branch of the ATO.</p> <p>TAD should commence developing a training program to improve the analytical skills of analysts, which could be implemented as the revenue data sets become available.</p>	<p><u>Implementation</u></p> <p>There have been a number of movements of staff between DED and TAD.</p> <p>Implementation in progress</p>
Revenue Forecasting: Forecasting Methodology	
<p><u>Recommendation(s)</u></p> <p>Reinvigorate the parameter reviews by:</p> <ul style="list-style-type: none"> • providing greater management backing to improve the quality of outcomes: • the reviews should be made formally cross group, with teams guided by a steering committee of senior managers from each group; • inviting the ATO to formally participate in the parameter reviews; and • moving staffing resources off-line to ensure that higher priority outputs do not distract analysts. <p>TAD should review its revenue head models with a view to ensuring that they are consistent with the estimated longer-run elasticity of taxation revenue with respect to nominal GDP of 1.2. Consideration should also be given to incorporating short-run dynamics into these models to make them consistent with a short-run aggregate revenue elasticity of around 1.7.</p> <p>The estimated underlying aggregate revenue models should be used to benchmark Treasury’s revenue forecasts. When these forecasts are put together, some weight should be placed on the predictions of the aggregate estimated models in all forecast years, but particularly for revenue forecasts in the projection years.</p>	<p><u>Implementation</u></p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

Revenue Forecasting: Relationship between the Costings and Revenue Forecasting Areas	
<u>Recommendation(s)</u>	<u>Implementation</u>
<p>Consideration should be given to ways to improve the interaction between the revenue forecasting and costing areas. Plans for collocation on the same floor will help and should proceed apace. One possible restructure for TAD would be along team lines, to maximise synergies between the costings and revenue forecasting functions.</p> <ul style="list-style-type: none"> Under this proposal, teams would be created on a head of revenue basis, with responsibility for costing of policy measures and revenue forecasts associated with that head of revenue. Teams would report to different managers tasked with responsibility for forecasting revenue and costing policy measures. <p>Revenue policy measures should be costed on a more comprehensive basis. For example, discussions with TAD indicate that it should be possible to provide costings, perhaps in the form of a range rather than a point estimate, for many measures currently deemed unquantifiable.</p>	<p>Not implemented</p> <p>Not implemented</p>
Budget Documentation: Adequacy of Budget Documentation of the Economic and Revenue Forecasts	
<u>Recommendation(s)</u>	<u>Implementation</u>
<p>The Budget discussion of the economic forecasts should cover nominal GDP, and possibly include some discussion of the components of the GDP deflator and the components of nominal GDP most relevant to forecasting revenue — the taxation parameters.</p> <p>The Budget discussion of the revenue forecasts should place greater emphasis on economic and other drivers.</p> <ul style="list-style-type: none"> Ideally, empirical estimates of elasticities for aggregate revenue (and, if possible, for the major revenue heads) should be included in the Budget discussion, along with analysis of why revenue forecasts differ from those implied by the elasticities. <p>The 2005-06 Budget Papers should include more detailed analysis of the relationship between revenue and the nominal economy, to provide an intellectual framework for subsequent years.</p> <p>The Budget, FBO and MYEFO should attempt to reconcile variations in revenue forecasts with variations in the forecast growth of the nominal economy, as well as in policy costings and other factors.</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>

Economic Forecasting: Allocation of Resources on Domestic Economy Forecasting	
<p><u>Recommendation(s)</u></p> <p>Greater emphasis should be given to the nominal economy forecasts by senior forecasters, including adopting a more holistic approach to preparing forecasts of the real and nominal sides of the economy. This would be expected to lead to some additional investment into aspects of the nominal economy forecasts, and should include the development of an econometrically estimated equation for the GDP deflator, but need not involve significant additional resources.</p> <p>Greater management backing should be provided to the parameter review process which will, as a by-product, improve the allocation of resources devoted to producing the economic parameters.</p>	<p><u>Implementation</u></p> <p>Implemented. That said, the 2012 Review recommends that Treasury should invest relatively more resources in forecasting GDP deflator growth and its components, in particular, commodity prices.</p> <p>Implemented</p>
Links between Revenue and Economic Forecasting: Communication between TAD & DED	
<p><u>Recommendation(s)</u></p> <p>The General Managers of TAD and DED should consider ways to increase information flows between the two divisions through, for example, a joint seminar series.</p> <p>TAD analysts should attend relevant DED sectoral meetings and DED analysts should attend relevant discussions of revenue head forecasts.</p> <p>The JEFG Revenue Sub Committee should be given a seat at the JEFG meeting, with the contribution of the sub-committee to JEFG evolving as the understanding of the analytical relationship between revenue collections and the macro-economy improves.</p>	<p><u>Implementation</u></p> <p>Implemented</p> <p>Implemented</p> <p>Implemented</p>
Links between Revenue and Economic Forecasting: Relationship between Treasury and the Australian Office of Financial Management	
<p><u>Recommendation(s)</u></p> <p>The AOFM should be provided with a copy of revenue briefings to the Treasurer to better assist them in their function of cash management.</p> <p>Treasury should investigate whether the AOFM's transactions data sources would assist analysis.</p>	<p><u>Implementation</u></p> <p>Implemented</p> <p>Not Implemented</p>
Links between Revenue and Economic Forecasting: The Integration of the Economic and Revenue Forecasts	
<p><u>Recommendation(s)</u></p> <p>Senior forecasters in RAU and DED should meet prior to the finalisation of the revenue forecasts to discuss the balance and interaction of risks surrounding the economic and revenue forecasts, in order to reach a consistent treatment.</p>	<p><u>Implementation</u></p> <p>Implemented</p>