



Parliament of Australia
Parliamentary Budget Office

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Senator Christine Milne
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request, *Carbon pricing* (letter of 29 August 2013).

The response to this request will be released on the PBO website (www.aph.gov.au/pbo).

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

2 September 2013

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	Carbon pricing
Summary of proposal:	The proposal would reverse the Government's decision to move to a floating carbon price regime from 1 July 2014 and reverse the cuts to the following programs: • the biodiversity fund • carbon farming futures • clean technology programs, and • public service efficiencies. The proposal would take effect in the 2013-14 financial year.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	29 August 2013
Date costing completed:	2 September 2013
Date of public release of policy:	14 July 2013
Agencies from which information was obtained:	• Department of Finance and Deregulation • The Treasury

Costing overview

This proposal is expected to increase the underlying cash balance by \$4.20 billion and increase the fiscal balance by \$2.52 billion over the 2013-14 Budget forward estimates period.

This impact reflects an increase in revenue from the carbon pricing mechanism of \$5.15 billion on an underlying cash balance basis and \$3.47 billion on a fiscal balance basis and an increase in expenditure of \$960 million on both an underlying cash and fiscal balance basis from reversing the program cuts.

The PBO estimates that departmental expenses for the Clean Energy Regulator (CER) would be around \$10 million lower in 2013-14 and slightly lower in 2014-15 as a result of this proposal. This reverses the increased funding to the CER that was related to the increased volume of carbon permits that would have been auctioned for the floating price regime in 2014-15.

This proposal would have an ongoing impact that extends beyond the forward estimates period as some of the announced program cuts have impacts beyond that time.

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The underlying cash balance impact of this proposal differs from the fiscal balance impact because of timing differences associated with the receipt of carbon revenue and the issue of free permits. A detailed breakdown of the components of the costing is included at [Attachment A](#).

This costing is considered to be of medium reliability as it based on assumptions around future market carbon prices.

Table 1: Financial implications (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-310	3,030	1,650	-170
Fiscal balance (\$m)	-70	3,080	-320	-170

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms. A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance an increase in expenses or net capital investment in cash terms. Figures have been rounded to the nearest 10 million.

Key assumptions

Assumptions outlined in the costing request:

- The proposal would take effect in the 2013-14 financial year.

The PBO has made the following assumptions:

- For the purposes of this costing, the other savings associated with the Government's announcement to move to a floating carbon price – reforms to fringe benefit tax for cars, the adjustment to the Coal Sector Jobs package, ending the energy security fund early and deferring funding to the Carbon Capture and Storage Flagship Program – have been retained.
- The carbon price in 2014-15 for this proposal is \$25.40 - the 2013-14 Budget fixed price for 2014-15 before the Government's decision to move to a floating price one year earlier.
- The carbon prices in 2015-16 and 2016-17 used to undertake this costing are the same as in the Pre-election Economic and Fiscal Outlook (PEFO) (\$12.50 in 2015-16 and \$18.90 in 2016-17). As noted in PEFO, in the projections years of 2015-16 and 2016-17 the carbon price is projected using a linear transition from the market price in 2014-15 to the longer-term modelled price of \$38 in 2019-20 from the *Strong Growth, Low Pollution* report.
 - As noted in PEFO "the carbon price path to 2020 is subject to considerable uncertainty".

Methodology

The impact of not proceeding with the move to a floating carbon price was estimated by comparing total revenue and expenditure from the carbon pricing mechanism under the current PEFO carbon price forecasts with those anticipated under a fixed price of \$25.40 in 2014-15. The costs of reversing cuts to the four specified programs were calculated by reversing the savings outlined by the Government.

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Data sources

- Program costs for the four programs being retained were obtained from the Department of Finance and Deregulation.
- 2013 Pre-election Fiscal and Economic Outlook.

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ATTACHMENT A: DETAILED FINANCIAL IMPLICATIONS

The following tables show the change in revenue and expenditure as a result of this proposal, relative to the 2013 PEFO estimates.

Table 1: Financial implications^(a)

Not proceeding with the move to a floating carbon price 1 year earlier				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-240	3,420	1,970	-
Fiscal balance (\$m)	-	3,470	-	-
Biodiversity fund				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-30	-60	-60	-60
Fiscal balance (\$m)	-30	-60	-60	-60
Carbon farming futures				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-30	-30	-40	-40
Fiscal balance (\$m)	-30	-30	-40	-40
Clean technology programs				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	20	-240	-140	-
Fiscal balance (\$m)	20	-240	-140	-
Public service efficiencies				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-40	-60	-80	-70
Fiscal balance (\$m)	-40	-60	-80	-70
Departmental costs – Clean Energy Regulator				
Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	10	..	-	-
Fiscal balance (\$m)	10	..	-	-

(b) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms. A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance an increase in expenses or net capital investment in cash terms. ‘..’ means not zero, but rounded to zero.