



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

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, *Protecting the environment* (letter of 5 September 2013).

The response to this request will be released on the PBO website (<http://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

5 September 2013

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	Protecting the environment
Summary of proposal:	The proposal would establish a range of new regulatory and procedural changes, and provide additional resources, that will assist in enhancing the national environmental legal framework. The proposal would also see no new unconventional gas or coal mines approved as well as reverse budget cuts to the Caring for our Country program. See Attachment A for full details of the components of this proposal. The proposal would take effect from 1 July 2014 with the exception of restoring Caring for our Country cuts and no new coal or coal seam gas which would take effect immediately.
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	5 September 2013
Date costing completed:	5 September 2013
Date of public release of policy:	3 September 2013
Agencies from which information was obtained:	Not applicable

Costing overview

The proposal is expected to decrease both the underlying cash and fiscal balances by \$1.77 billion over the 2013-14 Budget forward estimates period. This impact reflects an increase in expenses of \$469.8 million and a reduction in revenue of \$1.3 billion.

The reduction in revenue reflects lower company tax paid by the companies affected by the prohibition on new unconventional gas or coal mine approvals. This represents a lower bound estimate of the cost of this proposal, particularly as the estimate does not include the impact of reduced taxes on employment income. The negative revenue impact of this proposal would grow significantly beyond the forward estimates period.

Departmental expenses are to be met from within the capped funding amount as per the costing request.

The financial impact of this proposal includes a number of components; a detailed breakdown of the components of the costing are included at [Attachment A](#) which, as per the costing request, reflects amounts and assumptions specified in previous costing requests.

POLICY COSTING – ELECTION CARETAKER PERIOD

All elements of this costing, other than the element regarding no approvals of new unconventional coal or gas mines, are considered to be of high reliability as they are based on capped funding amounts and the reversal of specific funding cuts. The costing of the proposal for no new coal or unconventional gas projects is considered to be of very low reliability. It is based on limited data, forecasts of expected future coal and gas prices and production volumes and only includes one element of the likely negative revenue impact.

The estimates for the cost of the proposal differ from those in the costing request due to the impact of parameter variations on the cost of the proposal for no new unconventional gas or coal mines.

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

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-50.8	-262.2	-549.9	-906.9
Fiscal balance (\$m)	-50.8	-262.2	-549.9	-906.9

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenses in cash terms.

Key assumptions

All elements other than no new unconventional gas or coal mines

The PBO assumes that the reversal of the cuts to the Caring for our Country program would result in the full reinstatement of savings included in the 2013-14 Budget and the 2013 Economic Statement (including the savings identified in 2012-13). As per the costing request all other elements are consistent with the capped amounts provided in the previous costing requests.

No new unconventional gas or coal mine approvals

Price estimates for coal seam gas (CSG) over the forward estimates period were sourced from the World Bank, Development Prospects Group's *Commodity Price Forecast Update – Released: May 14, 2013*. US dollar values were converted to Australian dollars using Treasury's Pre-election Economic and Fiscal Outlook (PEFO) parameters. Coal prices were sourced from the PBO's Minerals Resource Rent Tax (MRRT) model based on PEFO parameters.

The costing assumes that the impact of the prohibition on new coal and CSG extraction does not have a significant impact on Petroleum Resource Rent Tax or MRRT revenues over the forward estimates period.

The costing does not include any estimate of compensation that may be payable to individuals or companies affected by the prohibitions.

Methodology

Reversal of cuts to Caring for our Country program

The costs of reversing cuts to the Caring for our Country program were derived by reversing the savings identified in the 2013-14 Budget and the 2013 Economic Statement, including re-profiling any 2012-13 impacts into 2013-14.

POLICY COSTING – ELECTION CARETAKER PERIOD

No new unconventional gas or coal mine approvals

Production of coal and CSG from projects yet to receive final approval was estimated using the Bureau of Resources and Energy Economics' *Resources and Energy Major Projects April 2013* publication. Projects yet to receive final approval were identified and assigned a probability of progressing to completion. The expected output from the projects was multiplied by the probability of completion to estimate the production volumes.

The costing was completed using an aggregate model of coal and CSG production. The estimated decrease in production volumes as a result of each prohibition and price estimates were used to calculate the decrease in company profits and in company tax revenue. This element of the costing is rounded to the nearest \$10 million.

Data sources

Reverse cuts to the Caring for our Country program

- 2013-14 Budget Paper No. 2 Measure, Caring for our Country – redirection of funding (page 256)
- 2013 Economic Statement Table B2: Expense measures since the 2013 14 Budget (page 62)

No new unconventional gas or coal mine approvals

- World Bank, Development Prospects Group – Commodity Price Forecast Update – Released: May 14, 2013
- Bureau of Resources and Energy Economics – Resources and Energy Quarterly, March Quarter 2013
- Bureau of Resources and Energy Economics – Resources and Energy Major Projects, April 2013
- Australian Taxation Office – Taxation Statistics 2009-10

POLICY COSTING – ELECTION CARETAKER PERIOD

ATTACHMENT A: BREAKDOWN OF COSTS BY COMPONENT

	2013-14 (\$m)	2014-15 (\$m)	2015-16 (\$m)	2016-17 (\$m)
1. Establish a Sustainability Commissioner	-	-50.0	-40.0	-40.0
2. Establish an accreditation scheme (with audit and compliance mechanisms) for all environmental impact professionals	-	-13.0	-8.0	-8.0
3. Greatly improve compliance and audit under the <i>Environment Protection and Biodiversity Conservation Act 1999</i> , including 20 extra staff	-	-20.0	-20.0	-20.0
4. Establish a community information unit	-	-0.5	-0.5	-0.5
5. Ensure Federal Departments have responsibility for all aspects of the environment when the impact is significant	-	-20.0	-20.0	-20.0
6. Change court costs rules to prohibit costs orders in public interest cases	-	-0.5	-0.5	-0.5
7. Require Ministerial Decisions taken under our national environment laws to be consistent with the precautionary principle	-	-	-	-
8. Remove the power to delegate federal approval powers under our national laws to state governments from the act	-	-	-	-
9. Funding to protect World Heritage area	-	-1.5	-20.5	-20.5
10. No new unconventional gas or coal mines	-10	-130	-400	-760
11. Reverse budget cuts to the Caring for our Country program	-40.8	-26.7	-40.4	-37.4
TOTAL	-50.8	-262.2	-549.9	-906.9