Parliamentary Budget Office

Policy costing

Climate Resilience Fund		
Person/party requesting the costing:	Ms Zali Steggall OAM, MP, Member for Warringah	
Date costing completed:	17 March 2025	
Expiry date of the costing:	Release of the next economic and fiscal outlook report	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential~~ - Authorised for public release on 20 March 2025	☐ Not confidential

Summary of proposal:

The proposal aims to provide ongoing, sustainable funding for community climate adaptation and resilience.

- **Component 1** – Phase out and abolish the fuel tax credit (FTC) for all industries except agricultural businesses.
  - Current FTC cents per litre to be reduced by 1/3 each year.
- **Component 2** – Establish a $10 billion Climate Resilience Facility Fund over 3 years, which would be managed by government and administered by an appropriate government department or agency to provide grants to support the delivery of the National Climate Adaptation Plan.
  - Year 1: $1.5 billion, Year 2: $3.5 billion, Year 3: $5 billion.
  - The Climate Resilient Facility Fund is funded through the removal of FTC fossil fuel subsidies.

The policy would commence on 1 January 2026.

Overview

The proposal would be expected to increase the fiscal balance by around $2.8 billion and the underlying cash balance by around $1.5 billion over the 2024-25 Budget forward estimates period (see Table 1). The overall increase in the budget balances reflects a decrease in the value of administered expenditure (fuel tax credits), partially offset by a decrease in company tax collections relating to an increase in fuel-related deductions from companies, and the increased expenditure on the Climate Resilience Facility Fund.

The fiscal and underlying cash balances differ because of timing differences between when fuel tax credit expense liabilities arise and when the associated cash transactions occur. Liabilities arise entirely within the year that vehicle owners purchase fuel while they receive fuel tax credits after lodging their business activity statement, some of which are lodged in the next financial year.

The proposal would be expected to have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

The Parliamentary Budget Office (PBO) has not made any assessment as to whether the specified funding for the component 2 would be sufficient to meet the objectives of the proposal.

Table 1: Climate Resilience Fund – Financial implications ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	**Total to 2027-28**
Fiscal balance	-	210.0	746.2	1,817.5	**2,773.7**
Underlying cash balance	-	-50.0	306.2	1,287.5	**1,543.7**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
\- Indicates nil.

Uncertainties

The financial implications of this proposal are highly sensitive to a number of variables which are inherently difficult to predict. Factors such as the price of hydrocarbon fuels, technological developments and global events affecting investment in the mining sector will have an outsized impact on the cost of this policy.

The assumed trajectory of FTC is sensitive to fuel consumption patterns. Fuel consumption may be affected by the uptake of alternative fuel sources (e.g. hydrogen, electricity in electric vehicles) as well as behavioural changes in consumers reacting to changes in the price of fuel.

While it is possible that the removal of FTC from industry may result in a reduction in fuel use, the PBO has not accounted for this effect given that fuel consumption, particularly in industries such as transport and mining, is relatively price inelastic.

Removing FTC as specified in the proposal, could have negative effects on the economy, particularly for the mining and transport industries because it would increase the costs of production, affect investment decisions, and increase the prices paid by consumers. The PBO has not factored these effects into this response.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

Component 1

- The ratio of FTC expenditure on the Agriculture, Forestry and Fishing sector to all FTC expenditure since 2021-22 would remain constant through the forward estimates period and the medium term.
- Businesses would not change their fuel consumption as a result of the proposal because the demand for fuel is relatively inelastic over the medium term.
- Deductions for fuel expenses against a company's profit, and thus corresponding tax liability would increase after the reduction of, and then removal of FTC, leading to a significant decrease in company tax collections.
- 80% of companies claiming FTC are in a taxable position (for income tax) and this proportion would remain constant over the forward estimates and medium term.

Methodology

Component 1

- The FTC projections as at 2024-25 MYEFO were used as the baseline.
- Under the proposal, the FTC projections are modified gradually by reducing the weighted average FTC credit rate over the first 3 years.
- The administered cost is estimated by calculating the net projected FTC expenses under the proposal compared to the baseline over the medium term, with adjustments made to account for expected claims from agricultural entities.
  - As FTCs reduce fuel-related expenses that eligible entities can deduct, abolishing FTC would increase fuel-related deductions that entities would use to reduce their company tax liability, reducing the overall company tax liability.
- The costing takes into account the timing of tax collections.

Component 2

- The amount of the funding allocation is determined as specified in the proposal, and would be issued to applicants in the same year.
- The departmental costs related to setting up the fund, ICT investment, applications and compliance is estimated based on prior similar programs, and is in addition to the capped funding amount.

Financial implications were rounded consistent with the PBO's rounding rules.[1]

Data sources

The ATO provided information relating to fuel tax credits forecast model as at the 2024-25 MYEFO.

ATO de-identified 2022-23 Business Activity Statement (BAS) unit record for 2021-22.

Australian Taxation Office, Excise duty rates for fuel and petroleum products, accessed 12 March 2025.

Commonwealth of Australia (2024) *2024-25 Budget* Budget Paper No.*4,* Commonwealth of Australia.

The Department of the Treasury provided economic parameters as at the 2024-25 Mid-Year Economic and Fiscal Outlook (MYEFO).

[1] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Climate Resilience Fund – Financial implications

Table A1: Climate Resilience Fund – Fiscal balance ($m) [(a)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Revenue													
Administered tax													
Component 1 - Foregone revenue from abolishing fuel tax credits	-	*-540.0*	*-1,310.0*	*-2,120.0*	*-2,750.0*	*-2,790.0*	*-2,950.0*	*-3,010.0*	*-3,120.0*	*-3,240.0*	*-3,360.0*	***-3,970.0***	***-25,190.0***
Total – revenue	-	**-540.0**	**-1,310.0**	**-2,120.0**	**-2,750.0**	**-2,790.0**	**-2,950.0**	**-3,010.0**	**-3,120.0**	**-3,240.0**	**-3,360.0**	**-3,970.0**	**-25,190.0**
Expenses													
Administered													
Component 1 - Recouped administered funds from fuel tax credits	-	*2,300.0*	*5,600.0*	*9,000.0*	*11,700.0*	*11,900.0*	*12,600.0*	*12,800.0*	*13,300.0*	*13,800.0*	*14,300.0*	***16,900.0***	***107,300.0***
Component 2 - Climate Resilient Facility Fund	-	*-1,500.0*	*-3,500.0*	*-5,000.0*	-	-	-	-	-	-	-	***-10,000.0***	***-10,000.0***
Departmental													
Component 2 - Climate Resilient Facility Fund	-	*-50.0*	*-43.8*	*-62.5*	-	-	-	-	-	-	-	***-156.3***	***-156.3***
Total – expenses	-	**750.0**	**2,056.2**	**3,937.5**	**11,700.0**	**11,900.0**	**12,600.0**	**12,800.0**	**13,300.0**	**13,800.0**	**14,300.0**	**6,743.7**	**97,143.7**
Total (excluding PDI)	-	**210.0**	**746.2**	**1,817.5**	**8,950.0**	**9,110.0**	**9,650.0**	**9,790.0**	**10,180.0**	**10,560.0**	**10,940.0**	**2,773.7**	**71,953.7**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Climate Resilience Fund – Underlying cash balance ($m)[a]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Receipts													
Administered tax													
Component 1 - Foregone revenue from abolishing fuel tax credits	-	*-500.0*	*-1,250.0*	*-2,050.0*	*-2,700.0*	*-2,780.0*	*-2,940.0*	*-3,000.0*	*-3,110.0*	*-3,230.0*	*-3,350.0*	***-3,800.0***	***-24,910.0***
Total – receipts	-	**-500.0**	**-1,250.0**	**-2,050.0**	**-2,700.0**	**-2,780.0**	**-2,940.0**	**-3,000.0**	**-3,110.0**	**-3,230.0**	**-3,350.0**	-3,800.0	-24,910.0
Payments													
Administered													
Component 1 - Recouped administered funds from fuel tax credits	-	*2,000.0*	*5,100.0*	*8,400.0*	*11,200.0*	*11,600.0*	*12,200.0*	*12,500.0*	*13,000.0*	*13,500.0*	*14,000.0*	***15,500.0***	***103,500.0***
Component 2 - Climate Resilient Facility Fund	-	*-1,500.0*	*-3,500.0*	*-5,000.0*	-	-	-	-	-	-	-	***-10,000.0***	***-10,000.0***
Departmental													
Component 2 - Climate Resilient Facility Fund	-	*-50.0*	*-43.8*	*-62.5*	-	-	-	-	-	-	-	***-156.3***	***-156.3***
Total – payments	-	**450.0**	**1,556.2**	**3,337.5**	**11,200.0**	**11,600.0**	**12,200.0**	**12,500.0**	**13,000.0**	**13,500.0**	**14,000.0**	5,343.7	93,343.7
Total (excluding PDI)	-	**-50.0**	**306.2**	**1,287.5**	**8,500.0**	**8,820.0**	**9,260.0**	**9,500.0**	**9,890.0**	**10,270.0**	**10,650.0**	**1,543.7**	**68,433.7**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A3: Climate Resilience Fund – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Fiscal balance	-	..	..	*40.0*	*260.0*	*670.0*	*1,110.0*	*1,590.0*	*2,110.0*	*2,670.0*	*3,280.0*	***40.0***	***11,730.0***
Underlying cash balance	-	..	..	*30.0*	*210.0*	*570.0*	*1,000.0*	*1,470.0*	*1,980.0*	*2,530.0*	*3,130.0*	***30.0***	***10,920.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

[2] https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_budget_office/online_budget_glossary