

Appendix E: Budget summary

The introduction of the Carbon Pollution Reduction Scheme (the Scheme) will for the first time place a limit, or cap on the amount of carbon pollution an industry can emit. It will require affected businesses to buy a pollution permit for each tonne of carbon they contribute to the atmosphere. This will create a significant new source of revenue which the Government has committed to use to help Australian households and businesses adjust to the Scheme and invest in clean energy options.

E.1 Impact of the Scheme on the Fiscal Balance

The Australian Government will use every cent it receives from the sale of pollution permits to help Australian households and businesses adjust to the Scheme and invest in clean energy options. The net impact on budget, taking into account assistance provided, will be neutral over the forward estimates — therefore meeting the Government's commitment.

Table E.1: Impact on Fiscal Balance of the Carbon Pollution Reduction Scheme and Related Measures

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Revenue from the issuing of permits	-	-	11.5	12.0
Households Assistance Measures				
Assistance for Low and Middle Income Households	-	-	-3.9	-6.0
Fuel Tax Adjustment	-	-	-2.4	-2.0
Industry Assistance Measures				
Assistance to Emissions Intensive Trade Exposed Industries	-	-	-2.9	-3.1
Assistance to Strongly Affected Industries	-	-	-0.7	-0.7
Climate Change Action Fund		-0.3	-0.7	-0.7
Transitional assistance to firms participating in the Greenhouse Gas Reduction Scheme (GGAS)	*	*	*	*
Net Impact of Revenue and Assistance Measures	-	-0.3	0.8	-0.5
Implementation Measures	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
Establishing the Regulatory Environment	*	*	*	*
Detailed Design and Implementation of the Scheme	*	-	-	-
Total	*	*	*	*

* Final costs will be published in the 2009-10 Budget.

The impacts on the underlying cash balance and fiscal balance are not the same for the Scheme revenue and many of the expenditures.

The budget will recognise cash receipts from permits as they are sold, while the accrual treatment will recognise revenue when firms' emissions are confirmed. This difference in budget accounting treatment means that cash receipts and accrual revenue streams will vary. For example, cash receipts will be recorded for the sale of permits that will be auctioned in early 2010 before the Scheme starts, creating a one-off timing difference between revenue and assistance measures in cash terms in 2009-10.

Similarly, expenditure will be recorded differently in cash and accrual terms, consistent with long standing budget practices. Administrative allocations of permits will be recognised as an expense reducing the fiscal balance, with no cash payment impact on the underlying cash balance. This is because the administrative allocation of permits does not change the amount of the emitters' obligations under the Scheme (which is the basis for the accrual revenue estimates) but does result in the Government not collecting cash receipts for those permits.

The underlying cash balance net impacts of the Scheme are shown in Table E.2.

Table E.2: Impact on Underlying Cash Balance of the Carbon Pollution Scheme and Related Measures

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Revenue from the sale of permits	-	2.9	7.4	8.1
Households Assistance Measures				
Assistance for Low and Middle Income Households	-	-	-3.6	-6.0
Fuel Tax Adjustment	-	-	-2.4	-2.0
Industry Assistance Measures				
Assistance to Emissions Intensive Trade Exposed Industries	-	-	0.0	0.0
Assistance to Strongly Affected Industries	-	-	0.0	0.0
Climate Change Action Fund	-	-0.3	-0.7	-0.7
Transitional assistance to firms participating in the Greenhouse Gas Reduction Scheme (GGAS)	*	*	*	*
Net Impact of Revenue and Assistance Measures	-	2.6	0.5	-0.6
Implementation Measures				
Establishing the Regulatory Environment	*	*	*	*
Detailed Design and Implementation of the Scheme	*			
Total	*	*	*	*

* Final costs will be published in the 2009-10 Budget.

E.2 Specific Measures

Table E.3: Revenue—Sale of Carbon Pollution Reduction Scheme Permits

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-	11.5	12.0

Actual revenue received in each year will depend on the carbon price, which will be determined by the market. Therefore, the White Paper assumes that the price is \$25 (in 2010 nominal terms), which is consistent with Treasury modelling.

For industry, should the carbon price be lower or higher, the vast majority of assistance will move with the carbon price automatically since it is provided through an administrative allocation of permits. To give households confidence that they will be properly compensated for the price impacts resulting from the Scheme, the compensation will not be scaled back should the permit price be lower. Should the permit price be higher the Government has made it clear that it will review the adequacy of household compensation at Budget each year.

Table E.4: Assistance for Low and Middle Income Households

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-	-3.9	-6.0

The Government will provide financial assistance to certain households to assist them with cost of living increases flowing from the Scheme, with effect from 1 July 2010. The measure has an ongoing cost to revenue of \$4.2 billion over the forward estimates period. The measure is also expected to increase Government expenditure by \$5.7 billion over this period.

To deliver on its commitments to households (see Chapter 17), from 1 July 2010, the Government will increase a range of payments and reduce certain taxes. This includes increasing all income support payments, maximum rates of Family Tax Benefit Part A and Part B by 2.5 per cent (including upfront indexation), and the Low Income Tax Offset by \$390. The measure affects other government support programs such as Seniors Concession Allowance and the Dependency Tax Offsets will also be changed. A one-off transitional payment will be available to some low-income households.

The measure will provide above automatic indexation for income support recipients and meet the cost of living increase for low-income households. The measures help meet the cost of living increase for middle-income households. Final costs will be published in the 2009-10 Budget.

Table E.5: Fuel Tax Adjustment

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-	-2.4	-2.0

The Government will make an across the board cut to fuel tax on 1 July 2010 for all fuels currently subject to the general rate of 38.143 cents/litre. The tax cut will be based on the

impact of emissions pricing on diesel prices. The adequacy of the fuel tax cut(s) will be automatically assessed every six months on 30 June and 31 December through a legislated process for three years. After 1 July 2013, the Government will make a final assessment and, if needed, a final fuel tax cut will take effect from 1 August 2013.

The Government will provide transitional assistance to the agriculture, fishing and heavy on road transport industries through a new ‘CPRS fuel credit’ scheme. The CPRS fuel credit will be equal to the fuel tax cuts. It will be payable to agriculture and fishing businesses for three years and heavy on-road transport for one year. The Government will review these measures at the time that each measure is due to cease.

LPG, LNG and CNG are substitutes for petrol and diesel and lie outside the fuel tax system. To ensure that the CPRS tax arrangements maintain neutrality between these fuels and petrol and diesel the Government will provide a CPRS fuel credit to LPG for three years and to CNG and LNG, which are predominantly used by heavy vehicle road users, for one year. The credit will vary between fuels and will be less than the fuel tax cuts because these fuels have substantially lower carbon emissions than petrol or diesel. The Government will review these measures at the time that each measure is due to cease. Final costs will be published in the 2009-10 Budget.

Table E.6: Assistance to Emissions-Intensive Trade-Exposed Industries

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-	-2.9	-3.1

The Government has decided to provide assistance to Emissions Intensive Trade Exposed (EITEs) firms to guard against the risk of carbon leakage and provide some transitional assistance, while also encouraging these industries to make a contribution to Australia’s emissions reductions. This assistance will be in the form of an administrative allocation of permits.

This assistance is designed to target activities within the Australian economy that have the most significant exposure to a carbon price and would be unable to pass through cost increases due to international trade.

The extent of EITE assistance provided to each firm will be determined using an allocation mechanism based on a function of output (or production levels) of individual entities. The level of assistance provided per unit of output to eligible entities will gradually decline over time. The structure of the assistance will ensure that business have incentives to adopt low carbon technologies. Final costs will be published in the 2009-10 Budget.

Table E.7: Assistance to Strongly Affected Industries

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-	-0.7	-0.7

The Government has decided to provide assistance to some existing coal-fired generators to ameliorate the risk of adversely affecting the investment environment. This assistance will be provided through the Electricity Sector Adjustment Scheme (ESAS).

Assistance in the form of an administrative allocation of permits will be provided over 5 years to generation assets that were either planned or in operation on 3 June 2007, based on a 'once and for all' upfront assessment subject to a windfall gain review after 3 years.

Units will be issued by the Scheme regulator on the basis of emissions intensity and historical energy output. This provides a simple and transparent method of delivering assistance. Final costs will be published in the 2009-10 Budget.

Table E.8: Climate Change Action Fund

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	-	-0.3	-0.7	-0.7

The Government has decided to establish the Climate Change Action Fund (CCAF). This fund will assist in smoothing the transition for businesses, community sector organisations, workers, regions and communities to an operating environment that includes a price on carbon.

The CCAF will provide assistance through a variety of measures including:

1. providing information to business and community service organisations about the Scheme and how they can minimise the expected financial impacts;
2. providing financial assistance to small business and community organisations to invest in energy efficiency equipment that meets established energy saving criteria and providing competitive grants funding for low emissions technologies, production methods, supply chain improvements and high energy savings projects with long pay back periods;
3. structural adjustment assistance to underground coal mining operations with high fugitive emissions; and
4. general structural adjustment assistance to affected communities.

Detailed scope, program guidelines and eligibility criteria for assistance will be developed in the first half of 2009 following consultation with stakeholders. Final costs will be published in the 2009-10 Budget.

Table E.9: Transitional assistance to firms participating in the Greenhouse Gas Reduction Scheme (GGAS)

	2008-09 \$b	2009-10 \$b	2010-11 \$b	2011-12 \$b
Impact on Fiscal Balance	*	*	*	*

The Government will consider providing some limited assistance to the NSW Government to allow them to assist participants in the termination of the Greenhouse Gas Reduction Scheme (GGAS). These schemes, while providing significant greenhouse abatement, are inconsistent with the introduction of the Scheme.

Any assistance offered will ensure that businesses and holders of unused New South Wales Greenhouse Gas Abatement Certificates that will be adversely affected by the cessation of GGAS and introduction of the Carbon Pollution Reduction Scheme are appropriately compensated and encouraged to continue emissions abatement for the original life of GGAS.

The Government will work cooperatively with the NSW and ACT Governments to assist in their development of appropriate transitional arrangements. The value of any assistance provided under this measure will be determined by the Government in the context of other policy priorities and in agreement with the NSW Government. Funding will be included in the budget estimates. Final costs will be published in the 2009-10 Budget.

E.3 Implementation Measures

Table E.10: Establishing the Regulatory Environment

	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
Impact on Fiscal Balance	*	*	*	*

The Government will establish a new agency, the Australian Climate Change Regulatory Authority (ACCRA), which will be responsible for the oversight and administration of the Scheme. Additionally, the functions and resources of the Greenhouse and Energy Data Officer (GEDO) and the Renewable Energy Regulator (RER) will also be merged with ACCRA to reduce the regulatory burden on business.

The ACCRA will be responsible for:

- Managing the auction or allocation of other permits (including the collection of revenue);
- Maintaining a registry to record the ownership of emissions permits;
- Assessing the liabilities of eligible entities using information provided under the National Greenhouse and Energy Reporting (NGER) Act 2007;
- Promoting and enforcing compliance with the Scheme.
- Providing public education about the Scheme; and
- Calculating and allocating permits to eligible entities under Emissions Intensive Trade Exposed (EITE) and Electricity Sector Adjustment Scheme (ESAS).

The Department of Climate Change will be responsible for establishing supporting infrastructure prior to ACCRA being established through the passage of the Scheme's enabling legislation. Final costs will be published in the 2009-10 Budget.

Table E.11: Detailed Design and Implementation of the Scheme

	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
Impact on Fiscal Balance	*	-	-	-

The Government will provide additional funding to the Department of Climate Change to undertake detailed design activities supporting the Scheme's implementation and to make consequential amendments to the National Greenhouse and Energy Reporting regime.

This work will allow participants to plan within a certain environment in advance of the Scheme commencing. Final costs will be published in the 2009-10 Budget.