



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Saving the Reef* (letter of 30 June 2016).

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

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

30 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Saving the Reef
Summary of proposal:	<p>The proposal includes the following components:</p> <p><u>Component 1 - Develop world-class water quality monitoring and reporting</u></p> <p>This component would provide \$15 million over four years (2016-17 to 2019-20) to the Great Barrier Reef Marine Park Authority (GBRMPA) to invest in robust, property-level water quality monitoring and reporting.</p> <p><u>Component 2 - Strengthen our Reef guardians and scientists</u></p> <p>This component would provide additional funding of \$80 million over four years (2016-17 to 2019-20) to GBRMPA to help the Reef deal with the impacts of global warming and coral bleaching, reduce local pressures like water pollution, coastal development and fishing, and to invest in research to reduce those local pressures.</p> <p><u>Component 3 - Stop illegal fishing and poaching in the protected “Green Zones”</u></p> <p>This component would provide \$5 million over four years (2016-17 to 2019-20) in grant funding for Vessel Monitoring Systems (VMS) for commercial fishing vessels.</p> <p><u>Component 4 - Reef Water Quality Program</u></p> <p>This component would provide additional grant funding of \$225 million over five years (2016-17 to 2020-21) under the Reef Water Quality Program to assist farmers to transition to more sustainable practices in relation to water quality pollution (would be administered by the Department of the Environment).</p>

	<p><u>Component 5 - Loan facility</u></p> <p>This component would establish a \$1,200 million concessional loan facility over five years (2016-17 to 2020-21) to help farmers transition to low-pollution farming methods. The expected loan terms would be 10 years and the loan provision would be \$240 million per annum. The facility would help highly leveraged farmers who may be at their credit limit to borrow money. GBRMPA would supervise this facility, but would draw on the expertise of the CEFC in project management and financing work. The loans would be made at the cost of government borrowing.</p> <p>The proposal would have effect from 1 September 2016</p>
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	9 June 2016
Date costing request received:	30 June 2016
Date costing completed:	30 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

The proposal would decrease the fiscal balance by \$456.8 million, the underlying cash balance by \$293.4 million and the headline cash balance by \$1,013.4 million over the 2016-17 Budget forward estimates period.

The proposal would have an impact that extends beyond the forward estimates. A breakdown of the financial implications for each component over the period 2016-17 to 2026-27 has been provided at [Attachment A](#). Further, while all components of the proposal would be fully committed by 30 June 2020-21, the concessional loan facility would continue to operate in order to receive loan repayments and interest payments.

The *Methodology* section provides information on how the impacts on each budget balance were calculated. As the proposal impacts on financial asset transactions the impact on Public Debt Interest (PDI) payments have been included in this costing.

This costing is considered to be of overall low reliability. While the grant components are considered to be of high reliability as they are based on specified capped amounts, there is considerable uncertainty around the concessional loan facility in relation to the timing and take up of the concessional loans. The reliability of the costing decreases the further into the future the estimates are projected.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-125.7	-118.1	-110.6	-102.4	-456.8
Underlying cash balance	-69.2	-71.2	-72.7	-80.2	-293.4
Headline cash balance	-285.2	-263.2	-240.7	-224.2	-1,013.4

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumption

The full allocation of funding and loans would be provided over the 10 months of 2016-17 from the commencement date of 1 September 2016.

Methodology

Component 1 - Develop world-class water quality monitoring and reporting / Component 2 - Strengthen our Reef guardians and scientists

Departmental expenditure estimates for both components are as specified in the request.

Component 3 - Stop illegal fishing and poaching in the protected “Green Zones” / Component 4 - Reef Water Quality Program

Administered expenditure estimates for the grants are as specified in the request.

Departmental expenditure estimates are based on other like programs and estimates account for the net effect of indexation parameters and the efficiency dividend, in accordance with the Department of Finance’s costing practices.

Component 5 - Concessional loan facility

The Parliamentary Budget Office (PBO) projected the gross cost of establishing the loan facility by applying concessional loan discount and interest calculations, based on the Department of Finance Accounting for Concessional Loans policy guides (see *Data sources*), to the \$240 million of loans that would be issued each year over five years.

The fiscal balance impact for each year is derived as follows:

- the departmental costs (negative impact)
- interest revenue that accrues (positive impact)
- the concessional loan discount expense (negative impact)
- the unwinding of the concessional loan discount expense (positive impact)
- the PDI/financing cost (negative impact).

The underlying cash balance impact for each year is derived as follows:

- the departmental costs (*negative impact*)
- interest receipts received by the Government from loan recipients (*positive impact*)
- the PDI/financing cost (*negative impact*).

The headline cash balance impact for each year is derived as follows:

- the departmental costs (*negative impact*)
- the loan principal advanced under the financing facility (*negative impact*)
- interest receipts received by the Government from loan recipients (*positive impact*)
- loan repayments (*positive impact*)
- the PDI/financing cost (*negative impact*).

The impact on departmental expenses for GBRMPA was based on departmental funding provided under the Northern Australia Infrastructure Facility, adjusted for the scale of the concessional loan facility.

Data sources

- The Department of Finance provided indexation and efficiency dividend parameters.
- Department of Finance, Accounting Policy Guides – RMG 115 – Accounting for concessional loans – <http://www.finance.gov.au/resource-management/reporting-accounting/accounting-guidance/>

Attachment A: Saving the Reef—financial implications

Table A1: Financial implications (outturn prices)—Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenses													
<u>Component 1 - Develop world-class water quality monitoring and reporting</u>													
Departmental	-3.8	-3.8	-3.8	-3.8	-15.0	-	-	-	-	-	-	-	-15.0
<u>Component 2 - Strengthen our reef guardians and scientists</u>													
Departmental	-20.0	-20.0	-20.0	-20.0	-80.0	-	-	-	-	-	-	-	-80.0
<u>Component 3 - Stop illegal fishing and poaching in the protected “Green Zones”</u>													
Administered	-1.2	-1.2	-1.2	-1.2	-4.8	-	-	-	-	-	-	-	-4.8
Departmental	-0.1	-0.1	-0.1	-0.1	-0.2	-	-	-	-	-	-	-	-0.2
<u>Component 4 - Reef Water Quality Program</u>													
Administered	-43.4	-43.4	-43.4	-43.4	-173.7	-43.4	-	-	-	-	-	-	-217.1
Departmental	-1.6	-1.6	-1.6	-1.6	-6.3	-1.6	-	-	-	-	-	-	-7.9
<u>Component 5 - Concessional loan facility</u>													
Administered: Concessional loan discount	-66.9	-67.1	-67.5	-58.1	-259.6	-52.8	-	-	-	-	-	-	-312.3
Departmental	-2.3	-3.0	-3.0	-3.0	-11.3	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-33.2
Total expenses	-139.1	-140.1	-140.5	-131.2	-550.9	-100.8	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-670.6

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue^(c) (Related to component 5)													
Unwinding loan discount	10.7	20.7	30.0	37.1	98.4	42.5	38.6	34.4	29.7	24.6	18.9	12.7	299.7
Interest received	6.6	12.6	17.8	24.7	61.7	32.2	28.3	24.4	20.5	16.6	12.7	8.8	204.9
Total revenue	17.3	33.3	47.8	61.8	160.1	74.6	66.9	58.7	50.2	41.1	31.6	21.5	504.6
Other													
Public debt interest ^(d)	-3.9	-11.3	-17.9	-33.0	-66.1	-46.6	-53.3	-52.5	-50.5	-47.5	-43.9	-42.5	-402.7
Total	-125.7	-118.1	-110.6	-102.4	-456.8	-72.8	10.5	3.1	-3.4	-9.5	-15.5	-24.2	-568.7

(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.

(b) Figures may not sum to totals due to rounding.

(c) Amounts relate to the loan facility component.

(d) Relates to all components.

- Indicates nil.

Table A2: Financial implications (outturn prices) - Underling cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenses													
<u>Component 1 - Develop world-class water quality monitoring and reporting</u>													
Departmental	-3.8	-3.8	-3.8	-3.8	-15.0	-	-	-	-	-	-	-	-15.0
<u>Component 2 - Strengthen our reef guardians and scientists</u>													
Departmental	-20.0	-20.0	-20.0	-20.0	-80.0	-	-	-	-	-	-	-	-80.0
<u>Component 3 - Stop illegal fishing and poaching in the protected “Green Zones”</u>													
Administered	-1.2	-1.2	-1.2	-1.2	-4.8	-	-	-	-	-	-	-	-4.8
Departmental	-0.1	-0.1	-0.1	-0.1	-0.2	-	-	-	-	-	-	-	-0.2
<u>Component 4 - Reef Water Quality Program</u>													
Administered	-43.4	-43.4	-43.4	-43.4	-173.7	-43.4	-	-	-	-	-	-	-217.1
Departmental	-1.6	-1.6	-1.6	-1.6	-6.3	-1.6	-	-	-	-	-	-	-7.9
<u>Component 5 - Concessional loan facility</u>													
Departmental	-2.3	-3.0	-3.0	-3.0	-11.3	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-33.2
Total expenses	-72.3	-73.0	-73.0	-73.0	-291.3	-48.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-358.2

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue^(c) (Related to component 5)													
Interest received	6.6	12.6	17.8	24.7	61.7	32.2	28.3	24.4	20.5	16.6	12.7	8.8	204.9
Other													
Public debt interest ^(d)	-3.6	-10.8	-17.4	-31.9	-63.8	-45.6	-52.8	-52.5	-50.6	-47.7	-44.2	-42.6	-399.8
Total	-69.2	-71.2	-72.7	-80.2	-293.4	-61.5	-27.6	-31.3	-33.3	-34.3	-34.7	-37.0	-553.1

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

(b) Figures may not sum to totals due to rounding.

(c) Amounts relate to the loan facility component.

(d) Relates to all components.

- Indicates nil.

Table A3: Financial implications (outturn prices) - Headline cash balance (a)(b)

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenses													
<u>Component 1 - Develop world-class water quality monitoring and reporting</u>													
Departmental	-3.8	-3.8	-3.8	-3.8	-15.0	-	-	-	-	-	-	-	-15.0
<u>Component 2 - Strengthen our reef guardians and scientists</u>													
Departmental	-20.0	-20.0	-20.0	-20.0	-80.0	-	-	-	-	-	-	-	-80.0
<u>Component 3 - Stop illegal fishing and poaching in the protected “Green Zones”</u>													
Administered	-1.2	-1.2	-1.2	-1.2	-4.8	-	-	-	-	-	-	-	-4.8
Departmental	-0.1	-0.1	-0.1	-0.1	-0.2	-	-	-	-	-	-	-	-0.2
<u>Component 4 - Reef Water Quality Program</u>													
Administered	-43.4	-43.4	-43.4	-43.4	-173.7	-43.4	-	-	-	-	-	-	-217.1
Departmental	-1.6	-1.6	-1.6	-1.6	-6.3	-1.6	-	-	-	-	-	-	-7.9
<u>Component 5 - Concessional loan facility</u>													
Administered: loan expenses	-240.0	-240.0	-240.0	-240.0	-960.0	-240.0	-	-	-	-	-	-	-1,200.0
Departmental	-2.3	-3.0	-3.0	-3.0	-11.3	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-33.2
Total expenses	-312.3	-313.0	-313.0	-313.0	-1,251.3	-288.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2	-1,558.2

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Revenue^(c) (Related to component 5)													
Interest received	6.6	12.6	17.8	24.7	61.7	32.2	28.3	24.4	20.5	16.6	12.7	8.8	204.9
Principal repayments	24.0	48.0	72.0	96.0	240.0	120.0	120.0	120.0	120.0	120.0	120.0	96.0	1,056.0
Total revenue	30.6	60.6	89.8	120.7	301.7	152.2	148.3	144.4	140.5	136.6	132.7	104.8	1,260.9
Other													
Public debt interest ^(d)	-3.6	-10.8	-17.4	-31.9	-63.8	-45.6	-52.8	-52.5	-50.6	-47.7	-44.2	-42.6	-399.8
Total	-285.2	-263.2	-240.7	-224.2	-1,013.4	-181.5	92.4	88.7	86.7	85.7	85.3	59.0	-697.1

(a) A positive number for the headline cash balance indicates an increase in cash flows. A negative number for the headline cash balance indicates a decrease in cash flows.

(b) Figures may not sum to totals due to rounding.

(c) Amounts relate to the loan facility component.

(d) Relates to all components.

- Indicates nil.