

APPENDIX A: COSTING REPORT — PRO-FORMA

Name of policy costed:	Reintroduction of indexation of the fuel excise – savings measure
Person making the request:	Senator Brown, Leader of the Australian Greens
Date received from Prime Minister's office:	11 November 2010
Summary of policy:	The proposal that fuel tax to be indexed to CPI.
Additional information requested (including date):	Not applicable
Additional information received (including date):	Not applicable

FINANCIAL IMPLICATIONS (Outturn prices)(a)

Impact on	2010-11	2011-12	2012-13	2013-14	2014-15
Underlying Cash Balance (\$m)	0	350	850	1350	1650
Fiscal Balance (\$m)	0	350	850	1350	1650

(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 positive number for the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Costing assumptions.

This policy has been costed assuming no behavioural response to indexation. Whilst the price elasticity of demand for fuel is non-zero, CPI indexation is a minor change to which we would assume minimal adjustment.

Qualifications.

Limited specifications of the policy were provided.

As such, it was assumed that *all fuels*, including alternative fuels would be subject to indexation. Further, it was assumed that the indexation would occur twice per year, on 1 February and 1 August (as occurs with tobacco).

This costing is *heavily reliant* on these assumed policy specifications. Altering these would markedly affect the costing.

Further information

- The costing is growth in net revenue (revenue less the expense components such as Fuel Tax Credits and Cleaner Fuels Grants)
- Excise clearance and CPI forecasts were used to cost the increase in revenue that would be assumed under the policy.
- Expenses were assumed to grow at the same rate as revenue.