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The federal government's net zero budget blowout

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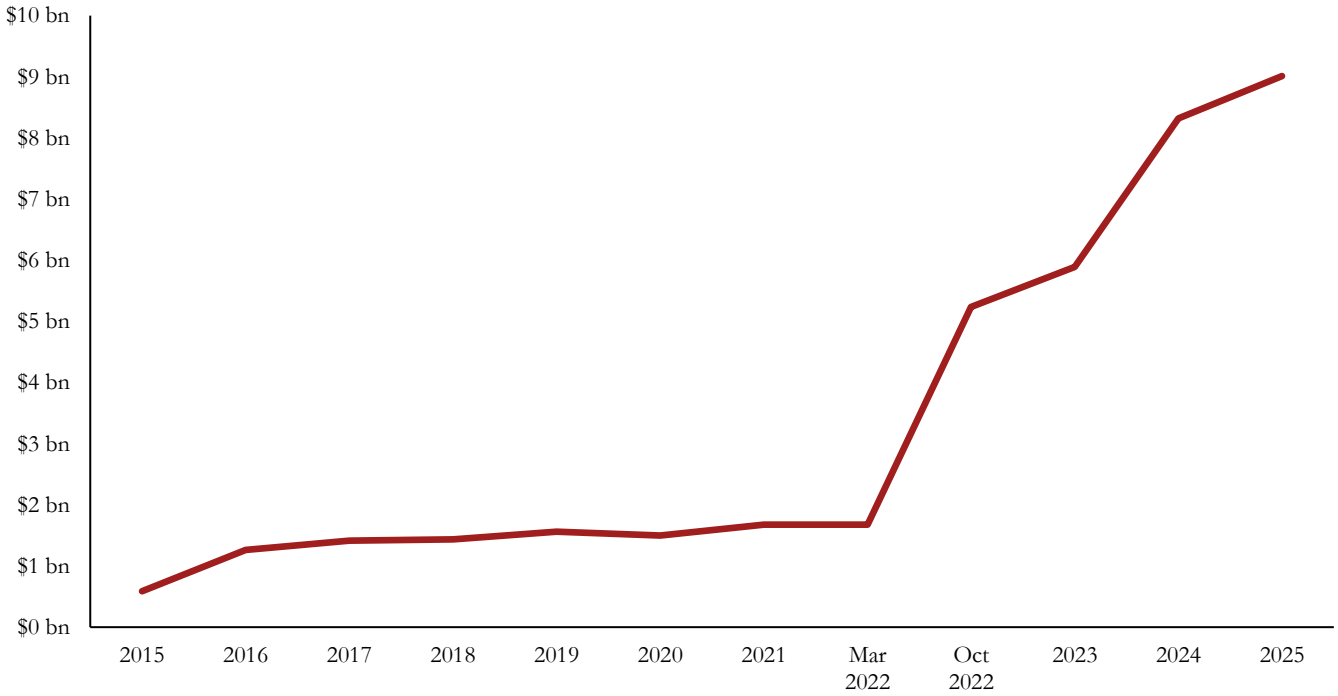
Key findings

- Federal spending commitment to 'climate change' and 'net zero' programs, as defined in government budgets, has increased 15-fold over the last decade, to over $9 billion per year.
- Were such spending consolidated into a single program it would be one of the 20 most expensive federal government programs, around the level currently attributed to 'air force capabilities'.
- While both Labor and Coalition governments have supported policies to achieve 'net zero' by 2050, funding accelerated after the election of the Albanese government in 2022 from $1.7 billion in the March 2022 budget to just over $9 billion in the most recent federal budget (+437 per cent).
- The focus on climate change in federal budgets, based on mentions of key terms, collapsed after the Rudd-Gillard government, before exploding once again with the election of the Albanese government in 2022; it has since subsided.

Figure 1: *Government spending commitments related to net zero and climate change in federal budgets since 2015*



Source: IPA analysis of Commonwealth budget papers. Years refer to the year budget was released

Background

Australia's legislated goal of achieving 'net zero' emissions by 2050 will require an immensely costly restructuring of the Australian economy. The share of fossil fuels used in producing energy, around 90 per cent in 2023 according to the International Energy Agency, will have to fall to almost zero.

The costs of replacing such energy sources with wind, solar, and batteries have always been difficult to estimate because forecasting prices, economic behaviour and technological developments well into the future cannot be undertaken with much confidence. Furthermore, they fall directly on households and businesses, first through higher energy and other business input prices combined, and second via the direct and opportunity costs of regulations that require the purchase of emissions-free, non-nuclear energy. These costs don't appear in a consolidated way in federal or state government budgets, as do most costs of government policy.

Past research had inevitably focussed on the broader costs of net zero, given the negligible reported direct public expenditures. For instance, Net Zero Australia, a collaborative effort among four universities, estimated the total cost of achieving net zero across the economy to be between $7 trillion and $9 trillion by 2060, including the phasing out of fossil fuel exports and the mass rollout of electric vehicles.[1]

But the quantum of federal spending commitment on net zero, and the number of programs related to it, has increased significantly in recent years. And this could in turn be dwarfed by the potentially very significant liabilities that could fall on the government because of the Capacity Investment Scheme, a program to induce a rapid increase in renewable energy generation by guaranteeing private investors minimum rates of return.

Analysis

The evolution of 'net zero' spending

The spending commitment on climate change-related matters was relatively small in the first decade of the century. In Peter Costello's final budget speech in 2007 the then-Treasurer noted how the Howard government had "invested $2 billion to develop practical responses to counter and reduce climate change" since 1996. This was equivalent to less than $200 million a year over almost 11 years.[2]

The election of the Rudd government later in 2007 would signal the direction of climate change and emissions reduction-related spending in the years ahead. Treasurer Wayne Swan budgeted for "measures totalling $2.3 billion over five years to help reduce Australia's greenhouse emissions, adapt to climate change, and ensure we show global leadership in the transition to a low emissions economy".[3] This equated to planned spending of around $450 million per year on average, double that of the Howard government.

The new Coalition government in its first 2014 budget foreshadowed what it termed 'climate spending' of $3.2 billion over the four-year forward estimate period. It introduced a new standardised budget table that would aggregate 'climate spending' in each of the seven remaining Coalition budgets. The second Abbott government budget expected 'climate spending' to fall to $2.4 billion over the four-year forward estimate period, an annual average rate of around $590 million.

The subsequent Turnbull and Morrison governments, however, raised the spending commitment again. The average annual spending commitment rose to $1.44 billion in the 2018 budget, further increasing to $1.68 billion per year in the final Morrison government budget, handed down in March 2022. These annual expenditures related largely to disbursements from the Emissions Reduction Fund, the Climate Solutions Fund— including programs to kick start a 'green hydrogen' industry—and other expenditures overseen by three federal agencies: the Clean Energy Finance Corporation (CEFC), the Clean Energy Regulator (CER), and the Australian Renewable Energy Agency (AREA).

Labor's election in the second half of 2022 triggered a massive increase in planned expenditure on climate change-related programs. The October 2022 budget committed $24.9 billion of spending to climate change between the 2023 and 2030 financial years, including $23.5 billion on "supporting the transition to net zero". Later budgets confirmed this was indeed "new spending", implying that the annual average spending commitment was in addition to that provided for in the Coalition's last budget of around $5.2 billion.[4]

Labor's second budget, for the 2024 financial year, committed an additional $4.6 billion in spending to 2030, including $3.97 billion on "reducing emissions", bringing the annualised rate to $5.9 billion, around ten times the level planned in the first Abbott government seven years earlier.

The 2025 budget added another $24.3 billion in climate related spending over a decade (including $21.6 billion on reducing emissions), ahead of another $6.9 billion added in the 2026 budget. Together, these additions have brought the annual rate of spending commitment to a little over $9 billion per year.[5]

If the spending commitment on climate change (which has become overwhelmingly related to 'net zero') were a single line item of expenditure, it would now be among the 20 most expensive federal programs, roughly equivalent to annual expenditure on 'air force capabilities', which is forecast to attract $9.5 billion in spending this financial year.[6]

The list of programs sustained by climate change spending was relatively short under the Coalition, including disbursements from and 'investments' in various 'funds' for Emissions Reduction, Grid Reliability, Climate Solutions, and Technology Co-Investment.

The change of government in 2022 prompted a vertiginous increase in annual outlays on climate change, and prompted a similarly remarkable proliferation of new 'funds' and programs, including:

- Driving the Nation Fund.
- Powering the Regions Fund.
- Rewiring the Nation.
- Carbon Farming Outreach Program.
- Commonwealth Climate Risk and Opportunity Management Program.
- National Health Sustainability and Climate Unit.
- Household Energy Upgrades Fund.
- Hydrogen Headstart.
- National Reconstruction Fund.
- Future Made in Australia.
- Southeast Asia Investment Financing Facility.

As before, much of this new spending has been overseen by CEFC, CER, and the AREA, with the government adding a new agency in 2024, the Net Zero Economy Authority.

Changing focus on climate change

The number of mentions in budget papers of the terms "climate change', "net zero", "emissions" and "renewable energy superpower" over the years offers an insight into the ebb and flow of climate change spending and ambitions by successive governments.

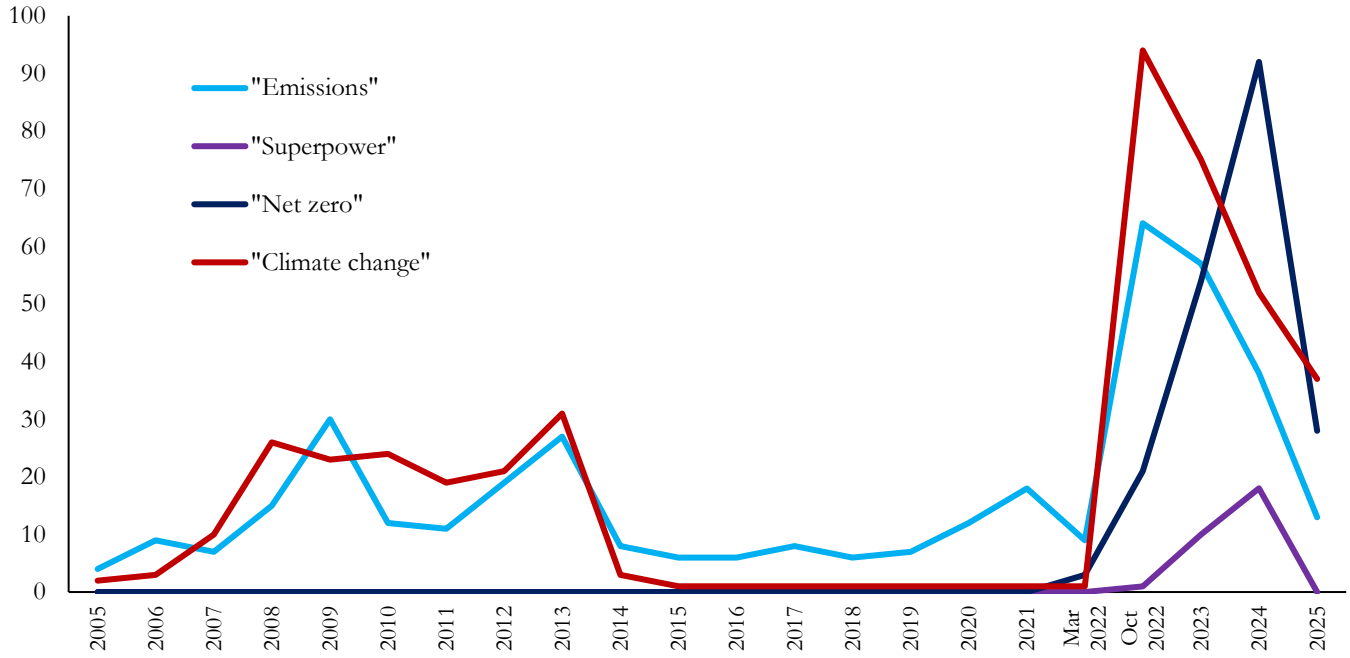
The Coalition government endorsed the Paris Climate Agreement in 2016 and undertook to reduce relevant emissions by 26-28 per cent by 2030 from 2005 levels, but 'emissions' were barely mentioned in any of the Coalition's eight budgets between 2014 and 2022.

A modest increase in focus on emissions is evident in the Coalition's final budget, including the first ever mention of 'net zero' in any federal budget, still fell well short of the rhetorical attention these issues received in the budgets of the earlier Rudd-Gillard governments.

References to 'emissions' and 'net zero' exploded after Labor returned to office in 2022, including 92 for 'net zero' in the 2025 budget alone, which followed the government's embrace of 'net zero by 2050' and toughening Australia's emissions reduction target to 43 per cent down from 2005 levels by 2030.

Interestingly, Labor's budgets also revealed a sharp rise and then collapse in references to Australia's becoming a renewable energy 'superpower'. Superpower references soared from a single mention in Labor's first budget in late 2022 to 18 by its 2024-25 budget. The term then vanished entirely in the 2025-26 budget handed down in March 2025. Mentions of emissions, climate change and net zero have fallen markedly too over the government's last two budgets, potentially pointing to declining enthusiasm among Treasury officials and relevant ministers, or embarrassment by references to ideas such as "superpower".

***Figure 2**: Keywords related to climate change and net zero mentioned in Commonwealth budget papers*



Source: IPA analysis of Commonwealth budget papers. Years refer to the year budget was released

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End Notes

1. Net Zero Australia, *How to make net zero happen* (Mobilisation Report, July 2023).
2. Commonwealth, *Parliamentary Debates*, House of Representatives, 8 May 2007, 60 (Peter Costello).
3. Commonwealth, *Parliamentary Debates*, House of Representatives, 13 May 2008, 2605 (Wayne Swan).
4. "This summary (of climate-related spending) does not include ongoing expenditure that was initiated in previous years, or new non-financial measures": Budget Paper No 1, Budget 2022-23, 109.
5. "The total commitment includes spending, balance sheet and tax expenditure measures and therefore presents a broader view than the impact on the underlying cash balance": Budget Paper No 1, Budget 2025-26, 83.
6. Budget Paper No 1, Budget 2025-26, 119.