

Executive Summary

Since the Paris Agreement entered into force, climate and energy policy has played an increasingly strategic role in national policy-making. With the steady increase in the global concentration of greenhouse gases in the atmosphere and the associated negative effects of climate change, the relevance of the topic “climate, environmental and energy policies” in political discourse is also expected to increase further – and with that the significance of questions surrounding the financing of the transition. From a perspective that is based on considering the Austrian Federal Budget, it is clear that it is essential to reach the **goal of a cost-effective and socially acceptable transition that enables a successful economy that can compete globally** without losing sight of long-term sustainable finances. Therefore, it is necessary to adopt an integrated approach to both **budgetary and tax policies** as well as to **climate, environmental, and energy policies**.

In this context, the probability of a continued sustainable state budget in the long term increases when complying with the following target conditions:

- **Target condition 1:** Guarantee of a cost-effective compliance with the climate and energy goals agreed under international and EU law while (i) avoiding carbon leakage, (ii) taking into account the possible flexibilities (including in the context of the Effort Sharing Regulation) and (iii) using potentials for natural and technical capture, removal and/or storage of greenhouse gases.
- **Target condition 2:** Cost-effective increase of Austria’s resilience to the negative effects of climate change, among other things, by (i) avoiding incorrect or inadequate adjustments (maladaptation), (ii) gradually reducing the Stranded Asset risk for the state budget and (iii) avoiding Loss and Damage scenarios.
- **Target condition 3:** Budget-friendly compliance with the commitments to international climate finance under national, international, and EU law while maximising effectiveness of the existing budgetary programmes in the Austrian funding and incentive landscape.

As the compliance with those target conditions presupposes systematic considerations (and reforms) on all levels of government, it seems natural to define the budget process itself as a key lever in the **necessary cost-effective transition**. Therefore, it is more important than ever to examine instruments and resource allocations not only regarding their input (“*How much and for what purposes are resources provided?*”), but rather to put the main focus of budgetary considerations on the **relation between the resources**

provided and the results achieved (“Which effects are achieved with the use of funds/state intervention?”).

As a methodological framework for this novel perspective regarding the interface of budgetary and climate policy, this first module of the Spending Review cycle introduces a **“Green Budgeting” approach** in accordance with the Austrian Recovery and Resilience Facility (RRF).¹ The **Green Budgeting** methodology is designed to capture and analyse the positive, negative as well as neutral climate, energy and environmental impact of all budgetary, tax and regulatory measures and processes within the public sector in a **step-by-step approach**, taking into consideration all available data. This analysis incorporates both financial aspects (input considerations) as well as **assessments on their effects (impact considerations)**. This Spending Review and the methods developed in this report will provide key decision-making guidance with a view to ensuring compliance with energy and environmental goals agreed under national, international, and EU law.

Important **tools for “Green Budgeting”** therefore consist of:

- **Identifying and recording relevant cash flows or incomes and expenses** with a climate, energy, and/or environmental policy effect,
- **Identifying and recording** the climate, energy, and/or environmental policy’s **(direction of) impact or effects** (counter-productive, productive, or neutral),
- **Categorising** the relevant cash flows or incomes and expenses **according to their climate, energy, and/or environmental policy**, and
- Appropriately processing the recorded data in a **map of relevant measures and public interventions** (“Reporting”).

The terms climate neutrality, carbon capture and storage, carbon leakage, maladaptation, loss and damage, and climate policy stranded assets are defined in this report in order to fill in the gaps regarding specific definitions in the climate policy discourse on a national level.

By using the climate policy dimension as an example, the **systemic approach** of the federal government is subsequently presented. According to this systemic approach, policies such as subsidies, fiscal transfers, taxes and policies of a regulatory nature (bans, caps, standards, etc.) cannot be considered in isolation; rather their impact must be considered holistically. Clearly, a cost-effective compliance with the desired climate, energy and

¹ The previous relevant work of the OECD and the European Commission (EC) on green budgeting is taken into account accordingly.

environmental target conditions cannot be achieved by a single type of measure (regulatory, subsidy or tax policy) alone.

For compiling a map of the “climate and energy policy funding and incentive landscape”, a step-wise approach consisting of six steps is followed, in which steps 1-3 represent an analysis of the input-side and steps 4-6 are intended to analyse the impact dimension:

- (1) **Initial identification** of the relevant data (producing the “Raw list”), analysing all budget items
- (2) **Technical analysis and correction** of the identified budget items (producing the “Corrected list”)
- (3) **Categorisation** of the identified position based on the categories used in the Austrian transparency database (producing the “Input list”)
- (4) Analysis of the identified positions with regard to their **impact direction** (producing the “Impact list”)
- (5) Analysis of the identified positions to quantify (where possible) the **impact effect** (producing the “Quantified impact list”) and
- (6) **Analysis and reporting**

In line with the methodological developments of “Green Budgeting” (e.g. in the context of the OECD and the European Commission Green Budgeting frameworks), the mapping method will be continuously improved and expanded. The present analysis is thus the first step as part of a **learning system**.

Data from the **Federal Draft Budget Statement (BVA) 2022** (as of May 2022) was used to create the first version of this map. In that respect, 11.4% of expenses and 11.5% of revenues were identified to be related to climate, energy, or environmental policy. The identified budget items were further analysed to determine their relevance in line with the Green Budgeting Framework of the European Commission using the Austrian household information system (HIS). In a next step these allocated budget items were categorised based on the categories of the Austrian transparency database.

For the analysis of the impact side, a six-level **Green Budgeting scorecard system** was developed, which enables the first classification of the payment flows’ direction of impact in the Austrian Federal budget. The levels are defined as follows:

- Intended counter-productivity (Score: “-2”)
- Counter-productivity as a side-effect (Score: “-1”)
- No impact (Score: “0”)
- Productivity as a side-effect (Score: “+1”)

- Intended productivity (Score: “+2”)
- Unclear impact (Score: “99”)

Using the budget chapter “Climate, Environment, & Energy” of the Federal budget 2022 as an example (as of May 2022) productivity and counter-productivity of cash flows for a standard budget chapter are graphically presented.. Section 4.4 focuses is on the impact of climate and environmentally related taxes and levies, which for the first time also includes a list of negative incentive measures in the tax and levy system. As the map is designed to evolve and adapt continuously, further developments are foreseen to occur along these lines:

- (1) In autumn 2022, the Green Budgeting methodology will be presented in the following document for the first time:
 - **Module 1 of the Spending Review** in the RRF, finalised in September 2022.
 - **Budget Report on Climate and Environment** in accordance with the Austrian Federal Budget (BVA 2023) with the aim of presenting the method and relevant results of the Spending Review Module 1.
- (2) After its presentation in the Budget Report on Climate and Environment to the BVA 2023, the **Green Budgeting Method** will be evaluated in a **pilot phase on selective chapters** the by the Austrian Ministry of Finance and in collaboration with line ministries in order to implement the recommendations of this chapter.²
- (3) **Evaluation of the Green Budgeting Pilot and further development of the method.**
- (4) The Green Budgeting Method will then be **introduced in all departments and budget chapters** by winter 2023. At the same time, a further extension to other thematic contexts (such as dealing with carbon sinks³) will also be considered.
- (5) The current results of the application of the Green Budgeting methodology will be presented in the **annual Budget Report on Climate and Environment.**

All recommendations developed in this report (Module 1 of the Spending Review cycle) are listed in section 7.

² The selection of the budget chapters participating in the pilot phase is made in consultation and cooperation with the individual departments concerned.

³ This also includes the scope of the message from the European Commission about sustainable carbon cycles. https://climate.ec.europa.eu/system/files/2021-12/com_2021_800_en_0.pdf