



Policy costing

Expand the Clean Energy Finance Corporation and provide concessional loans to small businesses for battery storage

Party:

Australian Greens

Summary of proposal:

This proposal would provide an additional \$10 billion evenly over five years from 1 July 2021 for the Clean Energy Finance Corporation (CEFC). As part of this expansion, the CEFC would be directed to provide concessional loans to small businesses until 2023-24, to assist with the installation of battery storage. These loans would be up to \$15,000 per business in 2021-22, tapering down to \$9,300 in 2023-24, and would be repayable over a 10-year period.

Costing overview

This proposal would be expected to decrease the fiscal balance by \$59 million, increase the underlying cash balance by \$14 million and decrease the headline cash balance by \$1,038 million over the 2019-20 Budget forward estimates period.

The proposal would be expected to have financial implications beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications over the period from 2019-20 to 2029-30 is provided at [Attachment A](#).

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, public debt interest expense impacts have been included in this costing because the concessional finance provided under this proposal involves financial asset transactions.

The fiscal, underlying cash and headline cash balance impacts differ due to how they treat the loan's concessional interest rate, and the flow of loan principal and interest repayment amounts. Only the fiscal balance includes an estimate of the concessional loan discount expense and associated unwinding income. Only the headline cash balance includes changes in loans issued and principal repayments. A note on the accounting treatment of concessional loans is included at [Attachment B](#).

The estimates of the financial implications in this costing are highly sensitive to assumptions regarding the funding profile, the availability and timing of appropriate projects that would be eligible for financing under this proposal, and the financial performance of the portfolio. The estimates of the value of the concession are sensitive to the assumed market rates for loans.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	-	-22	-36	-59
Underlying cash balance	-	-	4	10	14
Headline cash balance	-	-	-348	-688	-1,038

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

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

- Indicates nil.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- The funding commitment and deployment under this proposal, including the split between loans and equity investments, would reflect the CEFC's investment profile as at the 2019 Pre-election Economic and Fiscal Outlook.
- The contributions to be made under this proposal would be drawn down from the Special Account only when they are ready to be deployed. The CEFC would enter into \$2 billion of commitments each year for five years. These \$2 billion commitments would each be deployed evenly over five years. For example, \$400 million would be deployed in the first year of the proposal, \$800 million in the second, and so on.
- Loans would be issued to investment-grade institutions and default rates would be relatively low at 1.5 per cent.
 - This would include the proposed loans to small businesses to assist with the installation of battery storage, which would be made via commercial banks as per the CEFC's existing arrangements. As such, they would not materially alter the CEFC's overall financial performance as the lending would occur as part of the CEFC's business-as-usual operations.
- The average maturity of concessional loans would be seven years, with principal repayments being reinvested in subsequent loans on an annual basis.
- Projects financed via equity injections would provide rates of return and payments of dividends consistent with the CEFC's projections over the 2019-20 Budget forward estimates period. These would not be expected to mature over the medium term (to 2029-30), and hence would not return any principal over that period.
- All interest rates (concessional, market and return on equity investment) used in this costing would move in line with the five-year government bond rate projection.
- Additional departmental funding would be required while the contribution is being made and when the CEFC starts expanding its portfolio by drawing on the proposed new contributions.

Methodology

A concessional loan model was developed to estimate the financial implications of this proposal. The model is based on the Department of Finance Accounting for Concessional Loans policy guidelines. The model incorporates relevant aspects of the CEFC's modelling as at the 2019 Pre-election Economic and Fiscal Outlook, including investment profiles, loan terms, the concessional interest rate, and principal reinvestment.

All estimates have been rounded to the nearest \$1 million.

Data sources

The Department of the Environment and Energy provided costing models relating to the CEFC as at the 2019 Pre-election Economic and Fiscal Outlook.

The Treasury provided economic parameters and yield curves as at the 2019 Pre-election Economic and Fiscal Outlook.

Department of Finance 2016. *Accounting for concessional loans*, Resource Management Guide No. 115. [Online] Available at <https://www.finance.gov.au/sites/default/files/rmg-115-accounting-forconcessional-loans.pdf> [Accessed 24.04.2019].

Parliamentary Budget Office, 2015. *Public Debt Interest (PDI) payments in PBO costings*, PBO Guidance 02/2015, Canberra: PBO.

Reserve Bank of Australia, 2019. *Statistical Tables: Indicator Lending Rates – F5*. [Online] Available at <https://www.rba.gov.au/statistics/tables/> [Accessed 25.04.2019].

Reserve Bank of Australia, 2018. *Financial Stability Review October 2018*. [Online] Available at <https://www.rba.gov.au/publications/fsr/2018/oct/pdf/financial-stability-review-2018-10.pdf> [Accessed 05.03.2019].

Attachment A – Expand the Clean Energy Finance Corporation and provide concessional loans to small businesses for battery storage – financial implications

Table A1: Expand the Clean Energy Finance Corporation and provide concessional loans to small businesses for battery storage – Fiscal balance (\$m)^{(a)(b)}

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
Revenue													
<i>Income from unwinding concessional loan discounts</i>	-	-	8	24	47	79	118	150	175	192	200	31	993
<i>Loan interest accrued</i>	-	-	9	26	63	121	205	281	346	398	432	35	1,882
<i>Equity investment dividends</i>	-	-	1	2	4	7	10	12	14	15	15	3	81
Total – revenue	-	-	18	52	114	207	333	443	535	605	647	69	2,956
Expenses													
<i>Administered</i>													
<i>Concessional loan discount expense</i>	-	-	-33	-70	-113	-161	-217	-214	-211	-208	-199	-103	-1,427
<i>Write downs</i>	-	-	-	-	-	-	-	-	-5	-11	-18	-	-33
Total – administered	-	-	-33	-70	-113	-161	-217	-214	-216	-219	-217	-103	-1,460
<i>Departmental costs</i>													
Total – expenses	-	-	-37	-78	-125	-178	-238	-214	-216	-219	-217	-115	-1,522
Total (excluding PDI)	-	-	-19	-26	-11	29	95	229	319	386	430	-46	1,434
PDI impacts	-	-	-3	-10	-27	-58	-103	-149	-184	-204	-210	-13	-948
Total (including PDI)	-	-	-22	-36	-38	-29	-8	80	135	182	220	-59	486

(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.

- Indicates nil.

Table A2: Expand the Clean Energy Finance Corporation and provide concessional loans to small businesses for battery storage – Underlying cash balance (\$m)^{(a)(b)}

	2019– 20	2020– 21	2021– 22	2022– 23	2023– 24	2024– 25	2025– 26	2026– 27	2027– 28	2028– 29	2029– 30	Total to 2022–23	Total to 2029–30
Receipts													
<i>Loan interest received</i>	-	-	9	26	63	121	205	281	346	398	432	35	1,882
<i>Dividends on equity investments</i>	-	-	1	2	4	7	10	12	14	15	15	3	81
Total – receipts	-	-	10	28	67	128	215	293	360	413	447	38	1,963
Payments													
<i>Departmental costs</i>	-	-	-4	-8	-12	-17	-21	-	-	-	-	-12	-62
Total – payments	-	-	-4	-8	-12	-17	-21	-	-	-	-	-12	-62
Total (excluding PDI)	-	-	6	20	55	111	194	293	360	413	447	26	1,901
PDI impacts	-	-	-2	-10	-26	-55	-99	-146	-181	-203	-210	-12	-933
Total (including PDI)	-	-	4	10	29	56	95	147	179	210	237	14	968

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

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

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

- Indicates nil.

Table A3: Expand the Clean Energy Finance Corporation and provide concessional loans to small businesses for battery storage – Headline cash balance (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
<i>Loan repayments</i>	-	-	48	149	314	553	876	1,198	1,517	1,784	1,984	196	8,423
<i>Interest repayments received on loans</i>	-	-	9	26	63	121	205	281	346	398	432	35	1,882
<i>Equity repayments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Dividends on equity investments</i>	-	-	1	2	4	7	10	12	14	15	15	3	81
Total – receipts	-	-	58	177	381	681	1,091	1,491	1,877	2,197	2,431	234	10,386
Payments													
<i>Administered</i>													
<i>Loans made</i>	-	-	-339	-719	-1,172	-1,697	-2,300	-2,288	-2,266	-2,234	-2,145	-1,058	-15,160
<i>Equity investments</i>	-	-	-61	-128	-176	-217	-252	-188	-132	-83	-39	-190	-1,278
Total – administered	-	-	-400	-847	-1,348	-1,914	-2,552	-2,476	-2,398	-2,317	-2,184	-1,248	-16,438
<i>Departmental costs</i>	-	-	-4	-8	-12	-17	-21	-	-	-	-	-12	-62
Total – payments	-	-	-404	-855	-1,360	-1,931	-2,573	-2,476	-2,398	-2,317	-2,184	-1,260	-16,500
Total (excluding PDI)	-	-	-346	-678	-979	-1,250	-1,482	-985	-521	-120	247	-1,026	-6,114
PDI impacts	-	-	-2	-10	-26	-55	-99	-146	-181	-203	-210	-12	-933
Total (including PDI)	-	-	-348	-688	-1,005	-1,305	-1,581	-1,131	-702	-323	37	-1,038	-7,047

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

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

- Indicates nil.

Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program are an example of concessional loans offered by the Commonwealth.

Budget impact¹

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans. The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.² (Table B1 provides information about the detail provided in a costing.) The provision of concessional loans decreases the Commonwealth Government's net worth if the liabilities issued (the value of Commonwealth Government Securities (CGS) issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. None of the measures capture the direct impact on net worth of the loans not expected to be repaid. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'Other economic flows' which are reflected in net worth but not in the budget aggregates.

Table B1: Components of concessional loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

¹ The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

² This is in accordance with PBO Guidance 02/2015 and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.