Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: Treasury
Question: AET 17
Topic: Clean Energy Finance Corporation
Reference: Hansard page no. 46 - 25 February 2015
Senator: Canavan, Matthew

Question:

Senator CANAVAN: Can I just question you about your expecting to be profitable and about the level of risk that you are taking on when making loans or concessional agreements? This question would actually be more for Mr Ray—sorry to interrupt you there, Mr Ray—because I note that, when the bill went through originally and the guidelines under which you operate now were being considered by the parliament, the explanatory memorandum outlined—and I presume these figures were from Treasury—that this bill would have a net negative impact on the fiscal balance of more than $1 billion over the forward estimates and more than $300 million on an underlying cash basis. The EM goes on to say:
Wednesday, 25 February 2015 Senate Page 47
ECONOMICS LEGISLATION COMMITTEE
The fiscal and underlying cash balance impacts include a prudent recognition that some investments will not be recovered, and interest revenue.
In the context of what Mr Yates has just said though: did Treasury expect this organisation to be profitable in that sense or to make returns lower than a commercial bank would expect?
Mr Ray: You are testing my memory. Those costings were agreed with the Department of Finance back in 2012—
Senator CANAVAN: Yes, that is right.
Mr Ray: and subsequently have been revised. The exact nature of that revision I would need to take on notice.
Senator CANAVAN: So you would expect them to not make losses then?
Mr Ray: Included in the costing was exactly as you have just described: an allowance for some level of bad loans. So, in the fiscal balance, it is a question of concessionality and that concessionality then gets unwound; it does not affect the cash balance but it does affect the fiscal balance. Those two things were in the original costings. Subsequently, the Department of Finance has reviewed those estimates with us and I think an estimates variation was taken. I would need to take on notice exactly when.

Answer:

- On 10 July 2011, the Australian Government announced that it would establish the Clean Energy Finance Corporation (CEFC), as part of its Clean Energy Future Package, to drive innovation through commercial investments in clean energy through loans, loan guarantees and equity investments.

- The estimated impact on the Government's underlying cash and fiscal balance from the establishment of the CEFC was included in the 2011-12 Mid-Year Economic and Fiscal Outlook.

  - The Government estimated that the CEFC would have a net negative impact on its fiscal balance of $943.8 million over the forward estimates period and a net negative impact on its underlying cash balance of $312.0 million over the same period.

- The *Clean Energy Finance Corporation Act 2012* establishing the CEFC was proclaimed on 3 August 2012. The Explanatory Memorandum to this Act provided an updated estimate of the impact of the CEFC on the Government's fiscal and underlying cash balance.

  - The Government estimated that the CEFC would have a net negative impact on the fiscal balance of $1,346.4 million over the forward estimates and a net negative impact on the underlying cash balance of $321.2 million over the same period.

  - The Act highlighted that these figures differed from the Mid-Year Economic and Fiscal Outlook 2011-12 due to the inclusion of an additional forward estimate year (2015-16).

- The Government then issued the CEFC's investment mandate on 24 April 2013, giving cause for the Government to update its previous estimates of the impact of the CEFC on its fiscal and underlying cash balance. The mandate provided the CEFC Board with the Government's broad expectations for how the CEFC's funds will be invested and managed. Specifically, the mandate stipulated that the CEFC will apply commercial rigour to its investment decisions, seek to make a commercial return for taxpayers and limit any concessionality to $300 million in any one financial year.

  - Accordingly, the 2013-14 Budget Estimates contained a positive adjustment to the fiscal balance reflecting the $300 million limit on concessionality. Previously, there was no explicit limit on the concessionality of the loans offered by the CEFC.

  - Further, it was previously assumed that 15 per cent of the investments being made on the renewable energy side of the CEFC's investment portfolio would ultimately not be repaid and hence deemed to be grants by the ABS. In light of the issuing of the CEFC's investment mandate, the Department of Finance and Deregulation and the Treasury advised that this provision was no longer required. The removal of this assumption was reflected in a positive adjustment to both the estimates of the Government's fiscal and underlying cash balance.