Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: **BET 447-449**

Topic: **Clean Energy Finance Corporation**

Hansard Page: Written

Senator BUSHBY asked:

The Clean Energy Finance Corporation (CEFC) is to be given income tax exemption under s 50-25 of the 1997 Tax Act. It will be exempt as a public authority.
Under its Bill the CEFC's functions include an investment function, which it must perform in an efficient and effective manner.
Noting that the following government corporations are specifically not exempt from tax – the Australian Postal Corporation; the Export Finance and Insurance Corporation:

447. Can Treasury explain how an income tax exemption would contribute to the CEFC performing its investments efficiently and effectively?

448. The CEFC's investment mandate requires it to consider risk and return. Can Treasury explain if an income tax exemption implies lower risk and return criteria than a commercially based financier?

449. Treasury's Portfolio Budget Statement notes that approx $57m will be spent over 3 years for the establishment of the CEFC (once its set up, the funding transfers to the CEFC). Can Treasury provide details regarding the supplies covered by this expenditure.

Answer:

447. The CEFC is classified by the ABS as being in the general government sector (GGS), unlike Australia Post and EFIC's commercial account. The income tax exemption is consistent with the general principle that entities within the GGS are not subject to income tax. Revenue and expenses for entities within the GGS are consolidated with all other government accounts.

448. The Government will set expectations of risk management and a target rate of return in the investment mandate. The target rate of return will be a net return on its investments deducting expenses and any write-downs.

Unlike private sector financiers, the CEFC has a public policy purpose and values any positive externalities being generated. Consequently it has different risk/return requirements. Where there are positive externalities recognised by the CEFC, for a given financial return, it may take on higher risk and for a given level of risk may accept a lower financial return.

The intention is that a project with higher risk will have the prospect of a higher overall return, however in determining the extent of any concessionality the CEFC Board will have regard to any positive externalities from a project.

449. Around $57 million will be appropriated over 3 years to 2014-15 to assist in the establishment of the CEFC. It is expected that the CEFC will be self-sufficient after this time and not require additional support.

These funds will be used by the CEFC to support operational costs. As such the Corporation will use the funds for employee expenses, and supporting infrastructure such as accommodation and IT. The CEFC will be required to benchmark its operating expenses against other similar institutions.