



## Policy costing

Establish the Australian Local Power Agency	
Person/party requesting the costing:	Dr Helen Haines MP, Member for Indi
Date costing completed:	16 September 2020
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>This proposal would establish a new Commonwealth Agency – Australian Local Power Agency (ALPA) to deliver the following schemes:</p> <ul style="list-style-type: none"><li>• The <b>Local Power Scheme</b> would establish 50 local power hubs to support renewable energy projects in regional communities.<ul style="list-style-type: none"><li>– Each hub would be provided \$500,000 a year for 5 years for establishment and administration costs.</li><li>– These hubs would also receive administered funding each year, for 10 years, to distribute up to:<ul style="list-style-type: none"><li>◆ 10 seed grants of up to \$10,000 per grant for small-scale renewable energy projects by new or early-stage community groups</li><li>◆ five enablement grants of up to \$50,000 per grant for non-capital costs of new projects</li><li>◆ two forgivable development loans of up to \$150,000 each, at an annual concessional interest rate of 1 per cent for renewable energy projects by communities and eligible organisations. Loans for unsuccessful projects will be written off.</li></ul></li></ul></li><li>• The <b>Underwriting New Community Investment Scheme</b> (UNCI Scheme) would guarantee a minimum return for eligible community-owned renewable energy generation and storage projects for up to 10,000 gigawatt hours each year for 10 years.<ul style="list-style-type: none"><li>– Under this scheme, the government would subsidise eligible energy projects the gap between the average annual wholesale electricity price and the target price of \$80 per megawatt hour, when the average wholesale price falls below the target price.</li><li>– The eligible energy projects for this scheme are those that:<ul style="list-style-type: none"><li>◆ can generate or store from 1 to 10 megawatts of electricity</li><li>◆ are at least 51 per cent community-owned through local individuals, organisations or councils, with the remainder funded through private investment</li><li>◆ are community-driven, have broad local support, and deliver tangible benefits to the region</li><li>◆ demonstrate technical benefits to the grid consistent with the <i>Integrated Systems Plan</i>.</li></ul></li></ul></li></ul>	

- The **Community Renewable Investment Scheme** (CRIS) would require any new large-scale renewable development to offer 20 per cent of the project equity to local communities within 30 kilometres of the project. To administer this scheme, the ALPA would be provided on-going funding to:
  - develop guidelines for the scheme
  - assess whether developers meet those guidelines
  - award approvals once developers have completed co-investment funding rounds.

The proposal would take effect from 1 July 2021. All grants, loan principal amounts and the target price under the UNCI Scheme would be indexed annually by the Consumer Price Index.

## Costing overview

This proposal would decrease the fiscal balance by \$113.0 million, the underlying cash balance by \$111.4 million, and the headline cash balance by \$118.1 million over the 2019-20 Budget forward estimates period. The financial implications are predominantly driven by increased administered expenses to provide grants, loans and wholesale electricity price subsidies.

The proposal would have an ongoing impact beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications over the period to 2030-31 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 loans provided under this proposal involve financial asset transactions.

The impacts on the fiscal, underlying cash and headline cash balances differ primarily due to the treatment of the concessional nature of the loans, and the flow of loans and principal repayments. They also reflect the lag in providing price subsidies to generators for eligible electricity generation in the previous year. Only the fiscal balance captures the estimates of expenses and unwinding income relating to the concessional loan discount, and only the headline cash balance captures changes in loans issued and principal repayments. A note on the accounting treatment of concessional loans is included at [Attachment B](#).<sup>1</sup>

The financial implications of this proposal are uncertain and highly sensitive to assumptions about the uptake of grants and loans, the extent of loan write-offs, loan repayment patterns, expected activities under the proposed schemes and wholesale electricity prices.

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<sup>1</sup> In relation to this costing it should be noted that, because of the standards applied to forgivable loans, the concepts and methodology outlined in Attachment B apply only to those loans that are not expected to be forgiven (expected to be 30 per cent – see *Key assumptions*).

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	-	-	-55.7	-57.3	<b>-113.0</b>
Underlying cash balance	-	-	-54.7	-56.6	<b>-111.4</b>
Headline cash balance	-	-	-58.2	-59.8	<b>-118.1</b>

(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 Parliamentary Budget Office has made the following assumptions in costing this proposal.

- Take-up rates for the development loans would grow steadily from 90 per cent in 2021-22 to 100 per cent in 2023-24 and remain constant at that level throughout the medium term. This assumption reflects the generous terms under the proposal while accounting for the uncertainties around the economic outlook in the near term due to the impact of the current pandemic.
- Around 70 per cent of loans issued would be forgiven. This is informed by the average failure rate of around 50 to 70 per cent for small businesses discussed in various research publications. It also reflects the heightened uncertainties in the economic outlook and the forgivable feature of the proposed loans.
- Average loan maturity would be around seven years, consistent with the Clean Energy Finance Corporation's (CEFC's) loan management experience to date.
- There would be around five new projects eligible each year for the UNCI Scheme, consistent with investment trends reported in the latest *Project Tracker* published by the Clean Energy Council.
  - Annual electricity generation for each of these projects would average around 31,000 megawatt hours, consistent with observed renewable energy capacity factors published by the Australian Energy Council and the CSIRO, as well as the capacity range for medium-scale projects.
  - Only around half of the expected electricity generation would be subject to price subsidies based on trends in wholesale electricity prices across states over the previous 13 years.

## Methodology

Administered expenses for the Local Power and UNCI Schemes were largely determined by the specifications provided by the requestor with the estimates subsequently taking into account:

- the assumed take-up rate for the development loans outlined in *Key assumptions*
- the assumed write-off of 70 per cent of the proposed loans, which were then treated as grants as per the accounting standards provided by *AASB 120 – Accounting for Government Grants and Disclosure of Government Assistance*. The remaining 30 per cent were costed based on the concessional loan model, consistent with the relevant accounting guidelines published by the Department of Finance

- projected wholesale electricity price movements across states, as discussed in *Key assumptions*
- projected electricity generation under the UNCI Scheme, informed by historical data on renewable energy capacity factors and market shares across states

Departmental expenses for the Local Power Scheme were costed based on the ratio of departmental expenses to funds managed for the CEFC in 2018-19, allowing for a 50 per cent increase in 2021-22 to reflect additional start-up costs.

Departmental expenses for the CRIS and the UNCI Scheme were estimated based on administration costs observed for similar grants in 2018-19, in the Business Grants Hub model provided by the Department of Industry, Science, Energy and Resources.

Estimates are rounded to the nearest \$100,000.

## Data sources

Departmental expense and finance deployment data was taken from the *CEFC Annual Report 2018-19*, accessed online on 3 August 2020 at: <https://annualreport2019.cefc.com.au/>.

The Department of Industry, Science, Energy and Resources provided a Cost Base Determination Model for the Business Grants Hub.

Information on energy production and investment, and prices was taken from the:

- Australian Energy Council – accessed online on 18 August 2020 at: <https://www.energycouncil.com.au/analysis/capacity-factors-understanding-the-misunderstood/>
- Australian Energy Regulator – accessed online on 18 August 2020 at: <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/annual-volume-weighted-average-spot-prices-regions>
- Clean Energy Council – accessed online on 18 August 2020 at: <https://www.cleanenergycouncil.org.au/resources/>
- Commonwealth Scientific and Industrial Research Organisation – accessed online on 18 August 2020 at: <https://publications.csiro.au/rpr/download?pid=csiro:EP189502&dsid=DS1>.

Economic parameters used in the model were provided by the Departments of Treasury and Finance as part of the *Mid-Year Economic and Fiscal Outlook 2019-20*.

Small business survival rates were taken from publications by the:

- US Bureau of Labor Statistics – accessed online on 3 August 2020 at: <https://www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm>
- Small Business Administration Office of Advocacy – accessed online on 3 August 2020 at: <https://www.sba.gov/sites/default/files/Business-Survival.pdf>
- Australian Small Business and Family Enterprise Ombudsman – accessed online at 3 August 2020 at: <https://www.asbfeo.gov.au/sites/default/files/documents/ASBFE0-small-business-counts2019.pdf>
- Reserve Bank of Australia – accessed online at 3 August 2020 at: <https://www.rba.gov.au/publications/confes/2015/nicholls-orsmond.html>.

## Attachment A – Establish the Australian Local Power Agency – financial implications (\$m)

**Table A1: Establish the Australian Local Power Agency – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2022–23	Total to 2030–31
<b>Revenue</b>													
<i>Unwinding concessional loan discount</i>	-	0.1	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.4	5.4
<i>Interest accrued on loans</i>	-	..	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.6
<b>Total – Revenue</b>	-	<b>0.1</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>0.5</b>	<b>6.9</b>
<b>Expenses</b>													
Administered													
<i>Local power hubs</i>	-	-25.0	-25.6	-26.3	-26.9	-27.6	-	-	-	-	-	-50.6	-131.4
<i>Seed grants</i>	-	-5.0	-5.1	-5.3	-5.4	-5.5	-5.7	-5.8	-5.9	-6.1	-6.2	-10.1	-56.0
<i>Enablement grants</i>	-	-12.5	-12.8	-13.1	-13.5	-13.8	-14.1	-14.5	-14.9	-15.2	-15.6	-25.3	-140.0
<i>Electricity wholesale price subsidies</i>	-	-0.5	-0.9	-1.1	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	-1.5	-1.3	-13.2
<i>Development loan write-offs</i>	-	-9.4	-10.2	-11.0	-11.3	-11.6	-11.9	-12.2	-12.5	-12.8	-13.1	-19.7	-116.0
<i>Concessional loan discount</i>	-	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-1.2	-7.0
<b>Total - Administered expense</b>	-	<b>-52.9</b>	<b>-55.2</b>	<b>-57.4</b>	<b>-59.1</b>	<b>-60.7</b>	<b>-34.0</b>	<b>-34.9</b>	<b>-35.7</b>	<b>-36.4</b>	<b>-37.2</b>	<b>-108.1</b>	<b>-463.6</b>
Departmental													
<i>Australian Local Power Agency</i>	-	-2.8	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.9	-5.3	-26.9
<b>Total - Departmental expense</b>	-	<b>-2.8</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.6</b>	<b>-2.6</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-5.3</b>	<b>-26.9</b>
<b>Total – Expenses</b>	-	<b>-55.8</b>	<b>-57.6</b>	<b>-59.9</b>	<b>-61.7</b>	<b>-63.4</b>	<b>-36.7</b>	<b>-37.6</b>	<b>-38.5</b>	<b>-39.3</b>	<b>-40.1</b>	<b>-113.4</b>	<b>-490.5</b>
Public debt interest	-	..	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.1	-2.4
<b>Total</b>	-	<b>-55.7</b>	<b>-57.3</b>	<b>-59.5</b>	<b>-61.2</b>	<b>-62.8</b>	<b>-36.1</b>	<b>-37.0</b>	<b>-38.0</b>	<b>-38.7</b>	<b>-39.6</b>	<b>-113.0</b>	<b>-486.0</b>

- (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.
  - .. Indicates rounded to zero.

**Table A2: Establish the Australian Local Power Agency – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2022–23	Total to 2030–31
<b>Receipts</b>													
<i>Interest received on loans</i>	-	..	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.6
<b>Total – Receipts</b>	-	..	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.6
<b>Payments</b>													
Administered													
<i>Local power hubs</i>	-	-25.0	-25.6	-26.3	-26.9	-27.6	-	-	-	-	-	-50.6	-131.4
<i>Seed grants</i>	-	-5.0	-5.1	-5.3	-5.4	-5.5	-5.7	-5.8	-5.9	-6.1	-6.2	-10.1	-56.0
<i>Enablement grants</i>	-	-12.5	-12.8	-13.1	-13.5	-13.8	-14.1	-14.5	-14.9	-15.2	-15.6	-25.3	-140.0
<i>Electricity wholesale price subsidies</i>	-	-	-0.5	-0.9	-1.1	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	-0.5	-11.8
<i>Development loan write-offs</i>	-	-9.4	-10.2	-11.0	-11.3	-11.6	-11.9	-12.2	-12.5	-12.8	-13.1	-19.7	-116.0
<b>Total - Administered payments</b>	-	-51.9	-54.2	-56.5	-58.2	-59.9	-33.2	-34.1	-35.0	-35.7	-36.5	-106.1	-455.2
Departmental													
<i>Australian Local Power Agency</i>	-	-2.8	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.9	-5.3	-26.9
<b>Total - Departmental payments</b>	-	-2.8	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.9	-5.3	-26.9
<b>Total – Payments</b>	-	-54.7	-56.6	-59.0	-60.8	-62.5	-35.8	-36.8	-37.8	-38.6	-39.4	-111.4	-482.1
<i>Public debt interest</i>	-	..	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.1	-2.4
<b>Total</b>	-	-54.7	-56.6	-59.0	-60.8	-62.6	-35.9	-37.0	-37.9	-38.8	-39.6	-111.4	-482.9

- (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.
  - .. Indicates rounded to zero.

**Table A3: Establish the Australian Local Power Agency – Headline cash balance (\$m)<sup>(a)(b)</sup>**

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2022–23	Total to 2030–31
<b>Receipts</b>													
<i>Interest received on loans</i>	-	..	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	1.6
<i>Loan principal repayments</i>	-	0.6	1.2	1.8	2.5	3.3	4.0	4.8	4.9	5.1	5.2	1.7	33.3
<b>Total – Receipts</b>	-	<b>0.6</b>	<b>1.2</b>	<b>2.0</b>	<b>2.7</b>	<b>3.4</b>	<b>4.2</b>	<b>4.9</b>	<b>5.1</b>	<b>5.3</b>	5.4	<b>1.8</b>	<b>34.9</b>
<b>Payments</b>													
Administered													
<i>Local power hubs</i>	-	-25.0	-25.6	-26.3	-26.9	-27.6	-	-	-	-	-	-50.6	-131.4
<i>Seed grants</i>	-	-5.0	-5.1	-5.3	-5.4	-5.5	-5.7	-5.8	-5.9	-6.1	-6.2	-10.1	-56.0
<i>Enablement grants</i>	-	-12.5	-12.8	-13.1	-13.5	-13.8	-14.1	-14.5	-14.9	-15.2	-15.6	-25.3	-140.0
<i>Electricity wholesale price subsidies</i>	-	-	-0.5	-0.9	-1.1	-1.4	-1.5	-1.6	-1.6	-1.6	-1.6	-0.5	-11.8
<i>Development loans- loan principal</i>	-	-4.1	-4.4	-4.7	-4.9	-5.0	-5.1	-5.2	-5.4	-5.5	-5.6	-8.4	-49.7
<i>Development loan write-offs</i>	-	-9.4	-10.2	-11.0	-11.3	-11.6	-11.9	-12.2	-12.5	-12.8	-13.1	-19.6	-116.0
<b>Total - Administered payments</b>	-	<b>-56.0</b>	<b>-58.6</b>	<b>-61.2</b>	<b>-63.1</b>	<b>-64.8</b>	<b>-38.3</b>	<b>-39.3</b>	<b>-40.3</b>	<b>-41.2</b>	<b>-42.1</b>	<b>-114.5</b>	<b>-504.9</b>
Departmental													
<i>Australian Local Power Agency</i>	-	-2.8	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.9	-5.3	-26.9
<b>Total - Departmental payments</b>	-	<b>-2.8</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.6</b>	<b>-2.6</b>	<b>-2.7</b>	<b>-2.7</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-5.3</b>	<b>-26.9</b>
<b>Total – Payments</b>	-	<b>-58.8</b>	<b>-61.0</b>	<b>-63.7</b>	<b>-65.6</b>	<b>-67.5</b>	<b>-40.9</b>	<b>-42.1</b>	<b>-43.1</b>	<b>-44.0</b>	<b>-45.0</b>	<b>-119.8</b>	<b>-531.8</b>
Public debt interest	-	..	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.1	-2.4
<b>Total</b>	-	<b>-58.2</b>	<b>-59.8</b>	<b>-61.9</b>	<b>-63.1</b>	<b>-64.3</b>	<b>-37.1</b>	<b>-37.4</b>	<b>-38.4</b>	<b>-39.2</b>	<b>-40.0</b>	<b>-118.1</b>	<b>-499.3</b>

(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.
- .. Indicates rounded to zero.

## 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 impact<sup>2</sup>

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.<sup>3</sup> (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.

<sup>2</sup> The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

<sup>3</sup> 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.