

## Chapter 2

### Review of selected reports

2.1 This chapter examines in detail the annual reports of the Climate Change Authority and Low Carbon Australia.

#### **Climate Change Authority**

2.2 The 2012–13 report was the inaugural annual report of the Climate Change Authority. The message from the Chair gives a brief but informative overview of the remit, establishment and work to date of the Authority. It describes the key recommendation of the review of the Renewable Energy Target, which was the first major review undertaken by the Authority. It also outlines the work undertaken in the Reducing Greenhouse Gas Emissions: Targets and Progress Review, which was ongoing at the time of publication of the annual report.

2.3 The Chief Executive Officer's review expands on the points raised by the Chair, providing information on achievements, ongoing work and stakeholder engagement. Of particular note is the completion of the first review of the Renewable Energy Target within six months of the Authority's establishment, including a significant level of stakeholder engagement, and acceptance by the Minister of the majority of the Authority's 34 recommendations.

2.4 The Chief Executive Officer clearly states five actions the Authority will undertake to complete the Reducing Greenhouse Gas Emissions: Targets and Progress Review, which are:

- review Australia's progress towards emissions reduction targets;
- recommend a 2020 emissions reduction target;
- recommend a national emissions budget;
- discuss how Australia might meet emissions reductions goals; and
- recommend caps on emissions.<sup>1</sup>

2.5 The committee notes that in the final report of the Reducing Greenhouse Gas Emissions: Targets and Progress Review, released in February 2014, the Authority had achieved this undertaking.

#### *Performance reporting*

2.6 The annual report emphasises the independent role of the Climate Change Authority in providing advice to government. Notwithstanding this independence, the report illustrates well the compliance mechanisms under which the Authority operates. The Authority was required to develop its corporate plan and governance structures in 2012–13. In the interim, it ensured performance and governance compliance as follows:

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1 *Climate Change Authority Annual Report 2012–13*, p. 7.

...the Authority drew on the specific requirements of the *Climate Change Authority Act 2011* and the Climate Change Authority Section of the Climate Change and Energy Portfolio Budget Statement 2012–13 for guidance on the operations of the Authority, its outputs and timetable for delivering those outputs.

These documents, along with the governance, direction and compliance requirements of the *Financial Management and Accountability Act 1997* and the *Public Service Act 1999*, provided the Authority with a strong corporate governance environment in the first year of its operation.<sup>2</sup>

2.7 The corporate plan was published in June 2013, as required by the *Climate Change Authority Act 2011*. The Authority also established an audit committee, developed a strategic risk profile and undertook a fraud risk assessment in its first year of operation.

2.8 The *Climate Change Authority Act 2011* requires the Authority to describe in its annual report its objectives and assess the achievement of those objectives against performance indicators. The 2012–13 annual report clearly lays out the outcome structure, program objective, deliverables and key performance indicators (KPIs) for the Authority. It describes in adequate detail the review of the Renewable Energy Target and assesses the Authority's performance in conducting the review against the KPIs. The assessment section, while satisfactory, would benefit from reference to more in-depth information. For example, more specific detail on the activities undertaken as part of the Renewable Energy Target (RET) review could have been provided. The committee notes that the Authority's publications and website provide evidence of the extensive research and consultations undertaken in the RET review. More detail on this in the annual report would have been helpful.

2.9 While the Chair's message and the Chief Executive Officer's review refer to the Authority's ongoing work, this work has not been included in the performance assessment section of the annual report. Although the work is not complete, more detail on it could have been provided and it could have been provisionally assessed against the KPIs. For example, the Authority's work on the Reducing Greenhouse Gas Emissions: Targets and Progress Review could have been assessed against KPI 3, which covers the transparency and accessibility of the public consultation process. At the time of publication of the annual report, the Authority had published an issues paper on the Targets and Progress Review and the draft report was due for release. The Chair's message states:

In its work to date, the Authority has made a point of consulting widely on its work...<sup>3</sup>

2.10 By including information on, and assessment of, the consultation process and analysis carried out for the Targets and Progress Review, the Authority could have further strengthened the performance reporting sections of its annual report.

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2 *Climate Change Authority Annual Report 2012–13*, p. 16.

3 *Climate Change Authority Annual Report 2012–13*, p. 2.

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### *Financial performance*

2.11 The committee notes the statement that the Climate Change Authority is a not-for-profit entity and that the 2012–13 financial statements show a retained surplus.<sup>4</sup> The annual report states that the surplus is because the Authority has maintained unallocated appropriation to meet commitments made in 2012–13 that will be paid for in the following financial year.<sup>5</sup>

2.12 The financial statements in the annual report are comprehensive and accessible. The clear layout of the statements not only greatly assists the reader but integrates them into the body of the report. This clarity also extends to the notes to the financial statements.

2.13 The Authority carries out ongoing analysis of its financial status. The discussion of financial performance states:

The Authority has a monthly reporting and variance analysis process in place to monitor progress against budget. As a result of the above, the Authority has no known or expected risks to its financial sustainability.<sup>6</sup>

2.14 The Climate Change Authority's financial statements received an unqualified audit from the Australian National Audit Office.

### *Overall assessment*

2.15 The Climate Change Authority 2012–13 annual report meets all the mandatory requirements. It is well presented, clearly laid out and succinct. Slightly expanding the information on the Authority's ongoing work and providing a provisional assessment of that work would enhance the report.

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4 *Climate Change Authority Annual Report 2012–13*, pp 19 and 38.

5 *Climate Change Authority Annual Report 2012–13*, p. 19.

6 *Climate Change Authority Annual Report 2012–13*, p. 18.

## Low Carbon Australia

2.16 The 2012–13 Low Carbon Australia annual report was the company's final one. The Chairman's report summarises the circumstances in which Low Carbon Australia (LCA) found itself in 2012–13. In April 2012, all staff of LCA were transferred to the Clean Energy Finance Corporation (CEFC), with the expectation that the company's operations would be integrated with those of the CEFC and the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education. However, at the time of presenting its annual report for 2012–13, LCA was awaiting confirmation of the integration. The Chairman's report states:

At the time of writing, Low Carbon Australia remains a legal entity. After the reporting period, following the change of government, after the election held on 7 September 2013, the Minister for the Environment, the Hon Greg Hunt MP directed the Company's Board to cease any winding up of the entity.<sup>7</sup>

2.17 In acknowledgement of these circumstances, the Minister for the Environment, the Hon Greg Hunt, granted LCA an extension of time to present its annual report.<sup>8</sup> The transfer of operations and winding up of the company will be finalised in 2014–15.

2.18 In the annual report, the Chief Executive Officer of Low Carbon Australia expands on the Chairman's overview by describing in more detail the activities of LCA. The CEO's report is informative and well structured, containing suitable examples and analysis—for example, LCA's consultations with peak bodies such as the AiGroup, the Property Council of Australia, and the Refrigerated Warehouse and Transport Association of Australia. The Chief Executive Officer's report states:

Another continued focus was our outreach to business, including through industry associations and peak sectoral groups to communicate both the benefits of energy efficiency investment and the availability of our finance targeted towards such projects...

The result was a solid uptake of Low Carbon Australia finance amongst agribusiness, allied industry, manufacturers and local government.<sup>9</sup>

### *Performance reporting*

2.19 The annual report divides the performance reporting into two sections. The first applies to the Energy Efficiency Program. The committee notes that Low Carbon Australia's funding deed was changed in 2012–13, allowing the company to broaden its investment in energy efficient projects. Its key performance indicators (KPIs) for the year were:

- deliver cost-effective carbon savings;

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7 *Low Carbon Australia Annual Report 2012–13*, p. 17.

8 *Journals of the Senate*, No. 1, 12 November 2013, p. 40.

9 *Low Carbon Australia Annual Report 2012–13*, p. 21.

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- leverage private investment;
  - be additional to business as usual;
  - minimise delivery risk;
  - catalyse future activities; and
  - contribute to Low Carbon Australia's financial sustainability.<sup>10</sup>

2.20 The committee notes LCA's informative presentation on the KPIs. Also worthy of note is the report's presentation of the company's outcomes and the measures used to gauge those outcomes. Quantitative information and precise explanations give credence to the information. For example, against the KPI 'leverage private investment', the annual report states that the measure used is:

Leverage at least \$1 of non-Low Carbon Australia funding for each \$1 of Low Carbon Australia investment.<sup>11</sup>

2.21 The 2012–13 outcome clearly shows that the company exceeded that KPI:

**\$2.79** attracted for each \$1 of Low Carbon Australia investment, of which **\$2** is private sector investment.<sup>12</sup>

2.22 Graphs and charts further aid the performance reporting narrative by illustrating LCA's investment allocation, investment by state and investment by sector. Projects funded in 2012–13 are set out in a comprehensive table, showing at a glance where they are located and how they are funded, as well as providing a brief description.

2.23 The second performance reporting section in the annual report applies to the Carbon Neutral Program. This is also a well-structured section. It provides a good mix of qualitative and quantitative information, including a table of participants in the program.

2.24 There are numerous case studies in the annual report. Although these lend a human interest aspect to the report, they describe the achievements of businesses that have received financial support from Low Carbon Australia and are not directly related to LCA's performance. The case studies take up 13 pages of the 2012–13 annual report, which is a considerable number. While the committee acknowledges that case studies illustrate the application of LCA funding, fewer could have achieved the same effect.

2.25 The annual report states that no reports of parliamentary committees examined the operations of LCA in 2012–13.<sup>13</sup> However, the committee notes that LCA provided a submission to the Senate Select Committee on Electricity Prices in October 2012 and that Mrs Meg McDonald, Chief Executive Officer of Low Carbon

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10 *Low Carbon Australia Annual Report 2012–13*, p. 25.

11 *Low Carbon Australia Annual Report 2012–13*, p. 25.

12 *Low Carbon Australia Annual Report 2012–13*, p. 25.

13 *Low Carbon Australia Annual Report 2012–13*, p. 75.

Australia, appeared at a hearing of the select committee and was questioned on LCA's operations.

2.26 On the company's funding obligations, Mrs McDonald stated:

We have a requirement in our funding deed with the Commonwealth to have our funds fully applied—that is, out in the marketplace—by the end of this financial year.<sup>14</sup>

2.27 The annual report confirms that this requirement has been met:

The Company continued to make investments during the 2011–12 and 2012–13 financial years and by close of the current year had fully applied the Fund.<sup>15</sup>

### *Financial performance*

2.28 Low Carbon Australia showed a profit of \$70 million in the 2012–13 financial year, largely from the release of a CAC Act body payment to net income.

2.29 While responsibility for LCA's programs and staff was transferred to the Clean Energy Finance Corporation in April and May 2013, the company's assets were not transferred until 1 July 2013. This is described in the financial statements in Note 2: Events after balance date:

Effective 1 July 2013 the Company agreed to transfer its net assets by way of a gift to the Clean Energy Finance Corporation—a related entity. These assets included a right to the Company's investment portfolio, cash to meet future obligations under loan agreements that are being novated to the Clean Energy Finance Corporation, furniture and fittings, office equipment and computer related equipment and software and a right to any surplus cash on wind-up of the Company.<sup>16</sup>

2.30 The complexity of meeting the funding requirement by the end of the financial year, while at the same time transferring operations from LCA to the CEFC, is reflected in the financial statements. The financial information is comprehensive, but it is necessary to delve into the accompanying notes to gain an accurate picture. The notes do not immediately follow the table they relate to, which adds a level of difficulty.

2.31 For example, the line 'sales of goods and services—related party' in the Statement of Comprehensive Income on page 86 is not explained until page 115 and is actually a description of payment received from the CEFC for the use of LCA staff in setting up its operations.

2.32 Low Carbon Australia's financial statements received an unqualified audit from the Australian National Audit Office (ANAO). The ANAO commented that the

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14 Mrs Meg McDonald, Chief Executive Officer, Low Carbon Australia, *Committee Hansard*, 9 October 2012, p. 21.

15 *Low Carbon Australia Annual Report 2012–13*, p. 24.

16 *Low Carbon Australia Annual Report 2012–13*, p. 99.

financial statements highlighted that LCA was not a going concern. The ANAO stated, however, that this had not caused it to modify its audit opinion.<sup>17</sup>

*Overall assessment*

2.33 The Low Carbon Australia 2012–13 annual report is comprehensive and generally well structured. It more than adequately demonstrates the company's performance. The report meets all the mandatory requirements.

**Senator Anne Ruston**  
**Chair**

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17 *Low Carbon Australia Annual Report 2012–13*, p. 122.

