Submission to the Joint Committee of Public Accounts and Audit Inquiry into Commonwealth investments achieving policy objectives based on Auditor-General Reports 14, 26, 28 & 47 (2020–21)

The Inquiry

In September 2021, the Joint Committee of Public Accounts and Audit (JCPAA) commenced an Inquiry into Commonwealth investments achieving policy objectives, based on Auditor-General Reports:

- No. 14 (2020–21) *Decision making controls for NDIS Participants*
- No. 26 (2020–21) *Investments by the Clean Energy Finance Corporation*
- No. 28 (2020–21) *Administration of the National Housing Finance and Investment Corporation*
- No. 47 (2020–21) *Administration of Commuter Car Park Projects within the Urban Congestion Fund.*

On 6 September 2021, the Committee Secretariat wrote to the Clean Energy Finance Corporation (CEFC) inviting the Corporation to make a submission into the inquiry.

The CEFC very much welcomes the opportunity to contribute towards this inquiry. This submission deals solely with Auditor-General Report No 26 (2020-21) *Investments by the Clean Energy Finance Corporation*. The Corporation offers no comment in relation to the other Auditor-General Reports subject to this inquiry.

About the Clean Energy Finance Corporation

The CEFC is an independent Commonwealth statutory authority set up to facilitate increased flows of finance to the clean energy sector. It is not a policy making agency.

Since inception in 2013 to 30 June 2021, the CEFC has made investment commitments of more than $9.5bn through more than 220 direct clean energy transactions, including arrangements with 13 co-finance counterparties (that have delivered over 23,700 smaller transactions across Australia), together investing in projects worth over $32bn.

The CEFC works with businesses, institutional investors, and innovative entrepreneurs to accelerate Australia's transition to a low emissions economy. Our finance is central to filling market gaps – whether driven by technology, development, or commercial challenges.

The CEFC invests primarily for a public policy purpose and operates in a manner that seeks to crowd in private capital, not crowd out. While the business operates in a commercial manner that always lends at the maximum possible rate above the Government's cost of funds, the actual return achieved is typically a consequence of the CEFC's investment objectives rather than the primary driver, as it more commonly is in private sector organisations.

Auditor-General Report No 26 of 2020-21

Auditor-General Report No 26 (2020-21) *Investments by the Clean Energy Finance Corporation* was tabled in the Australian Parliament on 11 December 2020.

The CEFC has made various public comments welcoming the report which stated, among other things, that the Corporation was established to facilitate increased flows of finance into the clean energy sector, that the CEFC has facilitated increased funding into the clean energy sector and has suitable arrangements in place to assess and approve investments, as well as for their ongoing management.

This finding was consistent with the conclusion reached by Deloitte in conducting the 2018 Independent Statutory Review into the CEFC where it stated (p11) that:

"Our analysis through this review supports a finding that the CEFC has been effective in facilitating increased flows of finance into the clean energy sector projects it supported. The CEFC has invested its own capital in the sector, as well as attracted further private investment in the clean energy projects it supported. There is evidence to support a finding that in the absence of the CEFC a range of projects it supported may not have proceeded. However, given the nature and immaturity of a number of CEFC investments, it is difficult to measure the full impact of the CEFC's involvement on private investment in the clean energy sector more broadly."

In summary, the Audit Report found that the CEFC:

- Has facilitated increased funding into the clean energy sector, but the extent is unclear;
- Has met its legislative requirement to invest at least 50 per cent of funds into renewable technologies;
- Has suitable arrangements in place to assess and approve investments and for their ongoing management;
- Has not yet met either of the target medium to long-term benchmark rates of return set by the Investment Mandate; and,
- Has largely effective risk management processes in place.

The Auditor-General made 8 recommendations which were primarily administrative in nature. The CEFC accepted all but one of the recommendations contained in the Audit Report. The CEFC Board's Audit and Risk Committee was charged with overseeing the implementation of the report's various recommendations, the majority of which have now been actioned. These items will be independently verified by the CEFC's internal audit firm PwC Australia, which has been engaged for this purpose.

The one recommendation that the CEFC disagreed with had the potential to undermine the achievement of policy objectives by focussing the assessment of individual investments on a targeted portfolio rate of return, rather than against the maximum rate of return that can be achieved while ensuring achievement of the appropriate public policy outcome(s).

In considering whether the Commonwealth investments made by the CEFC are achieving policy objectives, the Committee's attention is also drawn to the following specific statements in the Auditor-General Report No 26 (2020-21) *Investments by the Clean Energy Finance Corporation*:

At 1.8:

> *A statutory review of the CEFC, commissioned by the Department of the Environment and Energy and published in October 2018, found that:*

- *the CEFC had been effective in facilitating increased flows of finance into the clean energy sector projects it supported although, given the nature and relative immaturity of a number of projects it supported, it was difficult to measure the full impact of the CEFC's involvement in the clean energy sector more broadly;*

At 2.53:

In addition to potential CO2 -e abatement outcomes, CEFC screening documents frequently tabulate other potential externalities and public policy outcomes under the heading 'Externalities/Public Policy Benefits'.

At 2.63:

The CEFC has efficiently implemented the protocols for the application of AIP Plans to investment projects.

At 3.68:

...The ANAO has acknowledged the "difficulty the CEFC has in balancing the achievement of the environmental policy outcomes with the benchmark rate of return" and the independent Deloitte 2018 Statutory Review Report noted, "That the CEFC did not meet the targeted portfolio benchmark return may indicate that the return expectation is not consistent with the current mandate, the returns available in the market or may not reflect the public benefit of the CEFC".

At 3.69:

Notwithstanding the current shortfall against the target PBR, it is important that readers of this Report understand that the CEFC still earns the taxpayer a financial return above the cost of Australian Government funds while achieving the policy objective of investing to abate carbon.

At 3.78:

In February 2019, in the course of the review, the CEFC formalised and recorded its risk appetite, setting the risk boundaries within which it operates, noting, among other things, that:

> *Excessive risk-taking will jeopardise our long-term financial sustainability, while an overly risk averse approach may inhibit the ability to maximise our public policy objective.*

At 3.110:

The CEFC policy and supporting controls comply with the requirements of the Fraud Rule and include elements of good practice in addition to the requirements of the Rule, such as annual reporting to the Institute of Criminology.

At 3.113:

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the marketplace. Concessions are sometimes needed where there are considered to be public policy benefits, such as significant carbon abatement, but where implementation or take-up of the technology cannot be financed at market rates, generally because of the higher level of risk involved. Under section 9 of the Investment Mandate, the CEFC must limit concessionality of its investments to no more than $300 million in any one year.

At 3.114:

> *In its policy statement, the CEFC states that its approach in relation to concessional loans is:*
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> - *the CEFC considers public policy benefits in making investment decisions and in determining when it is justifiable to offer any form of concessionality; and*
> - *offers of concessional finance will generally be limited to avoid unintended market impacts, distortions in the efficient operation of the capital markets, or other government policies and programs.*

Further detail on the implementation of the Audit Report recommendations and the recommendation that was not accepted is provided in Appendix 1.

The CEFC makes itself available should the Committee wish to seek further information on the CEFC's implementation of the various ANAO recommendations.

Appendix 1 – ANAO recommendations, CEFC response and implementation status

	ANAO recommendation	**CEFC response (agreed/ not agreed) and implementation status**
1	The CEFC develop a more a comprehensive statement of its investment policies in regard to environmental, social and governance (ESG) issues in order to meet the requirement of section 16 of the Investment Mandate.	Agreed and implemented
2	The CEFC include in its annual performance statements a carbon abatement capital efficiency metric as an additional performance measure.	Agreed and implemented
3(a)	To help decision-makers take account of all mandated requirements when assessing investment proposals, the CEFC include in its screening documentation for all projects: *specific consideration of the potential effect on other market participants and the efficient operation of the Australian financial and energy markets.*	Agreed and implemented
3(b)	To help decision-makers take account of all mandated requirements when assessing investment proposals, the CEFC include in its screening documentation for all projects: *a comparison of the rate of return with the relevant benchmark average rate of return in the Investment Mandate*	Not agreed The CEFC analyses investment returns on an individual versus portfolio basis. The Portfolio Benchmark Return is defined in the Investment Mandate and then managed consistently on a portfolio basis. It is the view of the CEFC that this is not an integral part of each individual investment decision. Individual investment decisions more appropriately reference the relevant *market*-equivalent rate of return and the maximum rate that can be achieved while ensuring achievement of the appropriate public policy outcome.
4	The CEFC benchmark its performance in terms of clean energy outcomes and leverage against one or more other "green banks".	Agreed and implemented

	ANAO recommendation	CEFC response (agreed/ not agreed) and implementation status
5	The CEFC: a. ask responsible Ministers to clarify in the Investment Mandate the intention of the requirement in subsection 14(2) that the CEFC make available up to $1 billion of investment finance over 10 years for the Sustainable Cities Investment Program b. in reporting on investments included in each fund or program, include amounts that have been included in other funds or programs.	Agreed and implemented
6	The CEFC document procedures for calculation of benchmarks and actual rates of return against the benchmarks and ensure that the calculation spreadsheets include references to all source data.	Agreed and implemented
7	The CEFC keep responsible Ministers informed of action it is taking to meet the target rates of return and any concerns it has about its ability to achieve the target rates.	Agreed and implemented
8(a)	The CEFC develop a metric that provides an aggregate estimate of risk at the portfolio level.	Agreed to continue to investigate the feasibility of developing such a metric, given the complexities of having a combined debt and equity portfolio. Work is in progress.
8(b)	The CEFC include in the quarterly Enterprise Risk Performance Report a specific statement as to the CEFC's assessment of risk against the mandated requirement to develop a portfolio that in aggregate has an acceptable but not excessive level of risk.	Agreed and implemented