

Chapter 5

Australian Renewable Energy Agency financing, and other measures

5.1 A large number of submissions received by the committee related to the re-profiling of ARENA's finances, as set out in schedule 5 to the bill. This chapter provides a brief overview of some of the key issues raised in these submissions.

5.2 This chapter also considers the following measures in the bill:

- changes to the rates of the R&D tax offset (schedule 22);
- the introduction of single touch payroll reporting (schedule 23); and
- the introduction of a single appeal path under the Military Rehabilitation and Compensation Act.

Schedule 5: Australian Renewable Energy Agency's (ARENA) finances

5.3 As noted in the previous chapter, the bill reduces the funding available to ARENA so that it is consistent with the 2016–17 Budget.

5.4 Funding available for ARENA for each year from 2013–14 to 2021–22 is set out in subsection 64(1) of the *Australian Renewable Energy Agency Act 2011* (ARENA Act). ARENA accesses these amounts through requests for payment under section 65. Payments to ARENA are then appropriated from the Consolidated Revenue Fund under section 66. Any unrequested amount may be carried over to future financial years under subsection 64(2).¹

5.5 Schedule 5 amends the table in subsection 64(1) of the ARENA Act to bring funding available for the years 2017–18 onwards into line with revised funding amounts contained in the 2016–17 Budget. Table 2 provides a comparison of the funding currently available to ARENA and the new amounts as set out in schedule 5.

5.6 The revised funding as set out in schedule 5 applies to the years 2017–18 to 2021–22, the final year funded through subsection 64(1). Whereas the Explanatory Memorandum refers to the financial impact of the measure over the

1 Explanatory Memorandum, p. 45.

forward estimates (and including 2015–16), it also reflects the fact that the bill has no impact on ARENA's funding for 2015–16 and 2016–17.²

5.7 The measure will result in financial savings of \$1.01 billion over the forward estimates period (through the period to 2019–20), and \$1.26 billion for the period through to 2021–22 (the period for which funding is currently provided for in subsection 64(1) of the ARENA Act). The savings are set out below in Table 2.

Table 2: Changes in ARENA's funding in schedule 5 (\$m)

Year	Current funding	Revised funding	Savings
2017–18	499.9	107.9	392
2018–19	237	67.3	169.7
2019–20	468.3	19.7	448.6
2020–21	135	12	123
2021–22	135	7.5	127.5
Total			1,260.8

Source: Current funding is set out in subsection 64(1) of the ARENA Act. Revised funding is set out in schedule 5 to the bill.

Background to the measure

5.8 ARENA is an independent Australian Government authority within the Environment and Energy portfolio. It was established in July 2012, with the dual purpose of improving the affordability of renewable energy and increasing the supply of renewable energy in Australia. As the Explanatory Memorandum notes, its legislated functions, as provided in section 8 of the ARENA Act, are 'primarily to provide financial assistance for research into, and development and deployment of, renewable energy technologies, and to engage in knowledge sharing in relation to the same'.³ As ARENA notes in its submission, it has primarily achieved its objectives 'by providing grant support to innovative Australian renewable energy projects, helping accelerate these technologies on the path to commerciality'.⁴

2 While the bill has no impact on ARENA's 2016–17 funding, the Explanatory Memorandum notes that the funding available for ARENA in the 2016–17 Budget differs from the amount in the current iteration of subsection 64(1) for 2016–17. The difference is not due to any additional appropriation for ARENA, but rather to 'some unspent amounts carried over from previous years under sub-section 64(2) being reprofiled in the Budget to match ARENA's updated profile of payment commitments'. Explanatory Memorandum, p. 45.

3 Explanatory Memorandum, p. 8.

4 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 1.

5.9 The funding available to ARENA, as originally set out in 2012 in the ARENA Act, was re-profiled by the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014*, which received assent on 17 July 2014. This legislation brought into effect two measures:

- a re-profiling of \$370 million in funding over the forward estimates (2014–15 to 2016–17) into later years (2019–2020 to 2020–21); and
- a reduction in funding for ARENA by \$434.9 million over the forward estimates.⁵

5.10 The government moved to abolish ARENA in 2014, with the anticipated savings factored into the 2014–15 Budget. The Senate Economics Legislation Committee reported on the provisions of the *Australian Renewable Energy Agency (Repeal) Bill 2014* in September 2014, and recommended that the bill be passed.⁶ However, the bill failed to pass the Senate.

5.11 In March 2016, the government announced its intention to retain ARENA. The government further announced that ARENA would work with the Clean Energy Finance Corporation (CEFC) on a proposed new Clean Energy Innovation Fund, the funding for which would be made available from within the CEFC's existing appropriation.⁷ The 2016–17 Budget explained that the CEFC's investment mandate would be revised to allocate \$1.0 billion in existing CEFC funding over 10 years to establish the Clean Energy Innovation Fund. The fund:

...will provide debt and equity financing to assist emerging clean energy technologies make the leap from demonstration to commercial deployment.⁸

5.12 Announcing the fund, a joint media release from the Prime Minister and the Minister for the Environment indicated that the CEFC and ARENA would work together to 'provide capital investment in Australian businesses and emerging clean energy technologies'.⁹

5.13 The media release further indicated that ARENA would continue to manage its existing portfolio of grants—worth approximately \$1 billion—and would deliver \$100 million in new funding for large-scale solar deployment projects. Once the large-scale solar round was completed, ARENA would 'move from a grant based role to

5 Australian Renewable Energy Agency (ARENA), *Annual Report 2014–15* (September 2015), p. 17.

6 Senate Economics Legislation Committee, *Australian Renewable Energy Agency (Repeal) Bill 2014 [Provisions]* (September 2014).

7 Explanatory Memorandum, p. 8.

8 Australian Government, Budget 2016–17, *Budget Paper No. 2*, p. 89.

9 The Prime Minister, the Hon. Malcolm Turnbull MP, and the Minister for the Environment, the Hon. Greg Hunt MP, joint media release, 'Turnbull Government taking strong new approach to clean and renewable energy innovation in Australia', 23 March 2016.

predominantly a debt and equity basis under the Clean Energy Innovation Fund'.¹⁰ These decisions were reflected in 2016–17 Budget.¹¹

5.14 The committee received a large number of submissions that addressed the proposed changes to ARENA's funding profile. The views expressed in these submissions are outlined below.

Views on schedule 5

ARENA's shift from a grant-based role

5.15 As noted above, the bill will see ARENA move away from its current grant-based role. A number of submissions expressed reservations about this shift. ARENA itself emphasised the value of its grant funding in supporting early-stage renewable energy projects:

ARENA's grant funding, and scope to invest in projects until 2022, reduces the investment risk of renewable energy projects, thereby giving the private sector the confidence it needs to invest in such projects. This, in turn, creates local jobs, expertise, supply chains and exports. It also leads to projects that can be commercially financed, including by the Clean Energy Finance Corporation and the Clean Energy Innovation Fund.¹²

5.16 ARENA also submitted that the loss of approximately \$1.3 billion in long-term grant funding 'would remove a primary way of attracting private investment to the projects that will deliver affordable and reliable electricity to Australians while cutting carbon emissions'.¹³

5.17 Similarly, the Australian PV Institute emphasised the importance of competitive grant funding in the development of the renewable energy sector, arguing that grants are 'a highly effective method of supporting R&D and early stage commercialisation and an essential component of technology innovation'.¹⁴

5.18 The North Queensland Conservation Council argued that ARENA funding helped drive investment in the renewable energy sector, reducing investment risk and accelerating 'innovation to make the transition to renewable energy faster, cheaper and easier'. It added that public investment provided support to 'cutting-edge' projects that would 'otherwise be too risky for commercial lending'.¹⁵ Geodynamics made a similar

10 The Prime Minister, the Hon. Malcolm Turnbull MP, and the Minister for the Environment, the Hon. Greg Hunt MP, joint media release, 'Turnbull Government taking strong new approach to clean and renewable energy innovation in Australia', 23 March 2016.

11 Explanatory Memorandum, p. 8.

12 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 1.

13 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 1.

14 Australian PV Institute, *Submission 125*, p. 1.

15 North Queensland Conservation Council, *Submission 41*, p. 1.

point, arguing that ARENA funding helped to establish and demonstrate the commercial viability of renewable energy technologies to the point they might attract commercial equity and debt financing.¹⁶

5.19 Similarly, Reelectrify, a company that is commercialising advanced battery control technology, argued that ARENA funding was particularly important given the challenges in Australia of raising private funding 'in capital intense sectors that offer slow but highly socially and economically valuable returns such as cleantech'.¹⁷ Carnegie Wave Energy, a wave energy technology company in Western Australia, also argued that the:

...commercialisation of new innovation technologies in the energy sector is often both capital intensive and takes place over long time frames, meaning the investments required often exceed the risk appetite of the private sector.¹⁸

5.20 Another company operating in the renewable energy sector, Energus, informed the committee that it is currently commercialising in Australia a new form of solar panel, and is seeking ARENA funding 'to help us take this technology from working prototype to proven commercial viability'. Energus submitted that if ARENA were defunded and the grant funding moved to CEIF or CEFC, 'our project many not be able to meet the commercial hurdles required for this type of funding, and our project will stall'.¹⁹

5.21 As previously noted, the government has indicated that ARENA will move from its current grant based role to predominantly a debt and equity basis under the Clean Energy Innovation Fund, which it will jointly manage with the CEFC. ARENA acknowledged that the establishment of the Clean Energy Innovation Fund was a welcome development 'that will lead to innovative, later-stage technology projects receiving low-cost debt and/or equity support'.²⁰ However, ARENA maintained that 'commercial equity and debt are not substitutes for ARENA's grant funding support and the impact this support has in accelerating renewables innovation'.²¹ It noted, in this regard, that only a small number of projects in its current portfolio would have met the criteria for funding under the new Clean Energy Innovation Fund:

ARENA's provision of grant support for projects is not an ongoing subsidy; the support bridges an otherwise insurmountable gap in the technology innovation chain, providing funding for projects that are not yet attractive to

16 Geodynamics, *Submission 112*, p. 2.

17 Reelectrify, *Submission 48*, p. 1. A similar argument was made by the Clean Energy Council. Clean Energy Council, *Submission 137*, p. [4].

18 Carnegie Wave Energy, *Submission 129*, p. 1.

19 Energus, *Submission 74*, p. 1.

20 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 1.

21 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 2.

private sector investors due to the timeframes being too long, capital required too high, or the rate of return too low.²²

5.22 The Australian Conservation Foundation (ACF) also argued that because of its grant making function for early-stage renewable energy projects and innovation ARENA had a 'unique role' in supporting the growth of the sector:

ARENA investment spans the commercialisation pathway and assists all of these pre-commercial stages. It is virtually impossible for these early stages to be financed on a commercial basis from debt and equity providers. The assistance needed to bridge this gap should be seen as an essential role of government.²³

5.23 The ACF further submitted that the Clean Energy Innovation Fund would play a different role by supporting businesses using technology that had already 'passed beyond the research and development stages'.²⁴

5.24 Similarly, the Clean Energy Council suggested that the role of ARENA was unique: the Renewable Energy Target (RET), incentivises commercial renewable energy projects; the CEFC provides debt and financing solutions; and the Clean Energy Innovation Fund would provide targeted equity. However, none of these policy measures 'can drive early-stage innovation in the way that ARENA has and should continue to'.²⁵

ARENA's work supporting jobs, research and the effort to address climate change

5.25 A number of submitters suggested ARENA's work aligned closely with the government's innovation agenda,²⁶ or highlighted current and potential jobs growth in the renewable energy sector.²⁷ Many submissions also expressed concern that the funding changes would result in job losses for scientists and researchers who rely on ARENA funding.²⁸

5.26 Professor Andrew Blakers and Dr Richard Corkish argued that ARENA provided critical funding continuity for renewable energy research. The loss of this funding, they contended, would risk Australia's research leadership in areas such as

22 Australian Renewable Energy Agency (ARENA), *Submission 141*, p. 2.

23 Australian Conservation Foundation, *Submission 136*, p. 2.

24 Australian Conservation Foundation, *Submission 136*, p. 3.

25 Clean Energy Council, *Submission 137*, p. 6.

26 For example, Professor Andrew Blakers (ANU) & Dr Richard Corkish (UNSW), *Submission 14*, p. 1; North Queensland Conservation Council, *Submission 41*, p. 1–2; Dr Klaus Weber, *Submission 58*, p. 2.

27 For example, Mr Jeremy Wray, *Submission 79*, p. 1.

28 Dr Mark Keevers, *Submission 78*, p. 1.

solar cell research.²⁹ Echoing this argument, Associate Professor Kylie Catchpole argued that Australia's 'leading position in solar energy research' would be threatened by cuts to ARENA's funding.³⁰

5.27 Submissions also pointed to the contribution of ARENA's work in helping Australia meet its international commitments to reduce carbon emissions, including the commitments made at the 2015 UN Climate Change Conference in Paris (COP21), and in aiding the broader effort to tackle climate change.³¹

Schedule 22: Rates of R&D tax offset

5.28 As noted in chapter 1, schedule 22 to the bill reduces the rates of the tax offset available under the R&D tax incentive. The government introduced a bill proposing to reduce the rates of tax offsets available under the R&D tax incentive in September 2014. The Senate referred the bill to the Senate Economics Legislation Committee for inquiry and report, and a report was tabled on 28 October 2014.³²

5.29 Subsequent to the committee report, the measure to reduce the rates of R&D tax offset was removed from the bill by Senate amendment, and the amended bill was passed by both houses of the Parliament. The R&D tax offset measure was re-introduced in May 2015 as part of the Tax and Superannuation Laws Amendment (2015 Measures No. 3) Bill 2015, which lapsed with the prorogation of the 44th Parliament in April 2016. The proposal to reduce the rates of the R&D tax incentive in schedule 22 is the same as the measure contained the lapsed bill except for the commencement date for the proposed changes, which will apply in respect of income years commencing on or after 1 July 2016 (the commencement date in the lapsed bill was 1 July 2014).³³

5.30 The Explanatory Memorandum notes that 'targeted confidential consultation was undertaken on the exposure draft legislation with affected stakeholder bodies'. According to the Explanatory Memorandum, no concerns were raised in this consultation.³⁴ The Explanatory Memorandum further suggested that following the

29 Professor Andrew Blakers (ANU) & Dr Richard Corkish (UNSW), *Submission 14*, p. 1.

30 Associate Professor Kylie Catchpole, *Submission 69*, p. 1.

31 For example, Street Coolers, *Submission 45*, p. 1; Dr Klaus Weber, *Submission 58*, pp.1–2; Australian Council of Social Service (ACOSS), *Submission 86*, p. 8; Geodynamics, *Submission 112*, p. 1; Australian Conservation Foundation, *Submission 136*, p. 6.

32 Senate Economics Legislation Committee, report, *Tax and Superannuation Laws Amendment (Measures No. 5) Bill 2014 [provisions]*, 28 October 2014.

33 Explanatory Memorandum, p. 292; Tax and Superannuation Laws Amendment (2015 Measures No. 3) Bill 2015, Explanatory Memorandum, p. 12.

34 Explanatory Memorandum, p. 290.

change, the R&D tax incentive 'will continue to provide a significant incentive for research and development in Australia'.³⁵

Views on the measure

5.31 AusBiotech submitted that reducing the available R&D tax offset would disproportionately disadvantage 'small, pre-revenue and start-up companies'.³⁶ It further submitted that the measure would:

...have a direct negative impact on an area of national competitive advantage, which has responded recently with growth, in large part due the effect of the R&D Tax Incentive.³⁷

5.32 Similarly, Research Australia contended that the measure:

...will reduce an important form of Australian Government support for the industry led R&D that is essential to commercialising Australia's investment in research and developing Australia's high value manufacturing sector.³⁸

5.33 The Australian Private Equity & Venture Capital Association Limited (AVCAL) cautioned against the erosion of the R&D tax incentive, and highlighted the importance of certainty, stability and consistency in the R&D system.³⁹

5.34 RSM Australia questioned the potential budget savings from this measure, and provided a detailed analysis in support of its argument that the budget cost of R&D tax offset had been overstated.⁴⁰

Schedule 23: Single touch payroll reporting

5.35 Single Touch Payroll (STP) reporting is designed to reduce the compliance costs for employers meeting their Pay as you go (PAYG) withholding obligations by using Standard Business Reporting (SBR) enabled software to automatically report employee salary or wage information to the Commissioner of Taxation at the time these amounts are paid. The use of SBR-enabled software presents an opportunity to automate and better align reporting to business processes. STP reporting will also allow the Australian Taxation Office to monitor employee-level superannuation contribution information and take early intervention and compliance action if required.⁴¹

35 Explanatory Memorandum, p. 290.

36 AusBiotech, *Submission 162*, p. 1.

37 AusBiotech, *Submission 162*, p. 2.

38 Research Australia, *Submission 176*, p. 7.

39 Australian Private Equity & Venture Capital Association Limited, *Submission 119*, p. 2.

40 RSM Australia, *Submission 166*, p. 2.

41 Explanatory Memorandum, pp. 295–96.

Views on the measure

5.36 CPA Australia supported the introduction of STP reporting from July 2017, noting that:

If properly implemented, this will be good for business as it promises to reduce compliance costs and the number of times business need to handle payroll transactions.⁴²

Schedule 24: Single appeal path under the Military Rehabilitation and Compensation Act

5.37 The *Military Rehabilitation and Compensation Act 2004* (MRCA) provides compensation and other benefits for current and former members of the Defence Force who suffer a service injury or disease. The MRCA also provides compensation and other benefits for the dependents of some deceased members. Schedule 24 implements a recommendation from the Review of Military Compensation Arrangements that the MRCA appeal process be refined into a single appeal path for clients.

5.38 The government introduced a bill, the *Veterans' Affairs Legislation Amendment (Single Appeal Path) Bill 2016*, to create a single appeal path for clients in February 2016. This bill lapsed with the prorogation of the 44th Parliament.

5.39 No submissions addressed this schedule of the bill but the Minister, in his second reading speech when introducing the original bill, noted that:

I want to acknowledge the very strong support for these changes from the veteran and ex-services community and the support in writing from the RSL [Returned Services League] and ADSO, the Alliance of Defence Service Organisations.⁴³

Committee view

5.40 The committee acknowledges concerns raised about the ARENA's future role and financial support available to support emerging renewable energy technologies. However, the committee notes that the government announced in March 2016 that it was creating a \$1 billion Clean Energy Innovation Fund to 'support emerging technologies make the leap from demonstration to commercial deployment'.⁴⁴ The committee further notes that CEFC and ARENA will be jointly responsible for the management of the Clean Energy Innovation Fund. In the committee's view, this represents a substantial ongoing commitment by the government to supporting renewable energy jobs and innovation in Australia.

42 CPA Australia, *Submission 168*, p. 1.

43 *House of Representatives Hansard*, 11 February 2016, p. 1357.

44 The Prime Minister, the Hon. Malcolm Turnbull MP, and the Minister for the Environment, the Hon. Greg Hunt MP, joint media release, 'Turnbull Government taking strong new approach to clean and renewable energy innovation in Australia', 23 March 2016.

5.41 The committee notes that some submitters raised concerns regarding the reduction in the R&D tax offset. However, the committee considers that the R&D tax offset, as amended, will continue to provide a significant incentive for research and development in Australia.

5.42 The committee considers that the introduction of STP reporting will deliver both budget savings and wider economic benefits by streamlining administrative processes for substantial employers and reducing compliance costs.

5.43 The committee considers that the proposed reform to simplify and streamline the military compensation appeal process will help ensure the right decision is made at the earliest possible time and at the lowest appeal level.

Recommendation 1

5.44 The committee recommends that the bill be passed.

Senator Jane Hume

Chair