Parliamentary Budget Office

Locally Owned Community Renewables	
Party:	Australian Greens

Summary of proposal:

This proposal would establish a new Commonwealth Agency – Australian Local Power Agency (ALPA) to deliver the following schemes:

- The Local Power Scheme would establish 70 local power hubs to support renewable energy projects in regional communities.
  - Each hub would be provided $500,000 a year for 5 years for establishment and administration costs.
  - These hubs would also receive administered funding each year, for 10 years, to distribute up to:
    - 10 seed grants of up to $10,000 per grant for small-scale renewable energy projects by new or early-stage community groups
    - five enablement grants of up to $50,000 per grant for non-capital costs of new projects
    - two forgivable development loans of up to $150,000 each, at an annual concessional interest rate of 1% for renewable energy projects by communities and eligible organisations. Loans for unsuccessful projects will be written off.
- The Underwriting New Community Investment Scheme (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.
  - Under this scheme, the government would subsidise eligible energy projects to the extent that there is 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.
  - Eligible energy projects for this scheme are those that:
    - can generate or store from 1 to 10 megawatts of electricity
    - are at least 51% community-owned through local individuals, organisations, or councils, with the remainder funded through private investment
    - are community-driven, have broad local support, and deliver tangible benefits to the region
    - demonstrate technical benefits to the grid consistent with the *Integrated Systems Plan.*
- The Community Renewable Investment Scheme (CRIS) would require any new large-scale renewable development to offer 20% 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 Community Battery Storage Scheme would allocate $300 million in funding, evenly distributed over four years, to support 600 community batteries administered by local networks or community renewable groups/hubs.

The proposal would take effect from 1 July 2022. All grants, loan principal amounts and the target price under the UNCI Scheme would be indexed annually to the consumer price index.

Costing overview

This proposal would decrease the fiscal balance by around $676.2 million, the underlying cash balance by around $667.8 million, and the headline cash balance by around $684.5 million over the 2022-23 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 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

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.

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.[1]

Table 1: Financial implications ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-160.5	-165.3	-171.9	-178.5	**-676.2**
Underlying cash balance	-157.5	-163.3	-170.1	-176.9	**-667.8**
Headline cash balance	-162.4	-167.8	-174.2	-180.1	**-684.5**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

Key assumptions

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

- Take-up rates for the development loans would grow steadily from 90% in 2022-23, to 100% in 2024-25 and remain constant at that level throughout the medium term. This assumption reflects

[1] 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 of all loans – see *Key assumptions*).

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% of loans issued would be forgiven. This is informed by the average failure rate of around 50 to 70% 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 7 years, consistent with the Clean Energy Finance Corporation's (CEFC's) loan management experience to date.
- There would be 3 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 half of the expected electricity generation would be subject to price subsidies, which is based on trends in wholesale electricity prices across states and territories 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 considering:

- the assumed take-up rate for the development loans outlined in *Key assumptions*
- the assumed write-off of 70% 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% 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 2019-20, allowing for a 50% increase in 2022-23 to reflect additional start-up costs.

Departmental expenses for the UNCI Scheme and the CRIS and 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.

Departmental expenses for the Community Battery Storage Scheme were estimated based on the cost to deliver other similar-sized grant programs.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

[2] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Data sources

The Department of Industry, Science, Energy and Resources provided a Cost Base Determination Model for the Business Grants Hub as at the 2021-22 Budget, and CEFC departmental expense and finance deployment data as at the 2022-23 Budget.

The Departments of Finance and the Treasury provided indexation parameters as at the 2022-23 Budget.

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

- C Tran, *Capacity factors: Understanding the misunderstood*, Australian Energy Council website, 2017, accessed 19 April 2022.
- Australian Energy Regulator, *Annual volume weighted average spot prices – regions*, Australian Energy Regulator website, 2021, accessed 19 April 2022.
- Clean Energy Council, *Project Tracker*, Clean Energy Council website, 2021, accessed 19 April 2022.
- Clean Energy Council, *Clean Energy Australia Report 2021*, Clean Energy Council, 2021, accessed 19 April 2022.
- Commonwealth Scientific and Industrial Research Organisation (CSIRO), *GenCost 2020-21 Final Report*, CSIRO, accessed 19 April 2022.

Small business survival rates were taken from publications by the:

- United States Bureau of Labor Statistics, *Business Employment Dynamics*, United States Bureau of Labor Statistics, 2016, accessed 19 April 2022.
- Small Business Administration Office of Advocacy, *Small Business Facts*, Small Business Administration Office of Advocacy, 2012, accessed 19 April 2022.
- Australian Small Business and Family Enterprise Ombudsman, 2020. *Small Business Counts, December 2020,* accessed 19 April 2022.
- Reserve Bank of Australia (RBA), *The Economic Trends, Challenges and Behaviour of Small Businesses in Australia*, RBA, 2015, accessed 19 April 2022.

Attachment A – Locally Owned Community Renewables – financial implications

Table A1: Locally Owned Community Renewables – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Non – tax revenue													
Administered non-tax													
Development loans - unwinding concessional loan discount	*0.3*	*0.6*	*0.9*	*1.1*	*1.3*	*1.5*	*1.6*	*1.7*	*1.8*	*1.8*	*1.4*	***2.9***	***14.0***
Development loans - interest revenue	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	***0.6***	***2.5***
Total – revenue	**0.4**	**0.7**	**1.1**	**1.3**	**1.5**	**1.8**	**1.9**	**2.0**	**2.1**	**2.1**	**1.6**	**3.5**	**16.5**
Expenses													
Administered													
Local power hubs	*-35.0*	*-36.0*	*-37.1*	*-38.0*	*-39.0*	*-*	*-*	*-*	*-*	*-*	*-*	***-146.1***	***-185.1***
Seed grants	*-7.0*	*-7.2*	*-7.4*	*-7.6*	*-7.8*	*-8.0*	*-8.2*	*-8.4*	*-8.6*	*-8.8*	*-*	***-29.2***	***-79.0***
Enablement grants	*-17.5*	*-18.0*	*-18.5*	*-19.0*	*-19.5*	*-19.9*	*-20.4*	*-20.9*	*-21.5*	*-22.0*	*-*	***-73.0***	***-197.2***
Development loans - concessional loan discount expense	*-1.3*	*-1.4*	*-1.5*	*-1.6*	*-1.6*	*-1.7*	*-1.8*	*-1.9*	*-2.0*	*-1.6*	*-*	***-5.8***	***-16.4***
Development loans - loans forgiven	*-13.2*	*-14.4*	*-15.6*	*-16.0*	*-16.4*	*-16.7*	*-17.2*	*-17.6*	*-18.0*	*-18.5*	*-*	***-59.2***	***-163.6***
Underwriting new community investment scheme	*-1.8*	*-2.6*	*-3.3*	*-3.9*	*-4.4*	*-4.8*	*-5.3*	*-5.6*	*-6.0*	*-6.3*	*-*	***-11.6***	***-44.0***
Community battery storage scheme	*-75.0*	*-75.0*	*-75.0*	*-75.0*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	***-300.0***	***-300.0***
Total – administered	***-150.8***	***-154.6***	***-158.4***	***-161.1***	***-88.7***	***-51.1***	***-52.9***	***-54.4***	***-56.1***	***-57.2***	***-***	***-624.9***	***-985.3***
Departmental													
Departmental costs	*-8.3*	*-5.9*	*-5.2*	*-5.3*	*-5.1*	*-5.2*	*-5.3*	*-5.4*	*-5.5*	*-5.6*	*-1.1*	***-24.7***	***-57.9***
Total – departmental	***-8.3***	***-5.9***	***-5.2***	***-5.3***	***-5.1***	***-5.2***	***-5.3***	***-5.4***	***-5.5***	***-5.6***	***-1.1***	***-24.7***	***-57.9***
Total – expenses	**-159.1**	**-160.5**	**-163.6**	**-166.4**	**-93.8**	**-56.3**	**-58.2**	**-59.8**	**-61.6**	**-62.8**	**-1.1**	**-649.6**	**-1,043.2**
Total (excluding PDI)	**-158.7**	**-159.8**	**-162.5**	**-165.1**	**-92.3**	**-54.5**	**-56.3**	**-57.8**	**-59.5**	**-60.7**	**0.5**	**-646.1**	**-1,026.7**
PDI impacts	***-1.8***	***-5.5***	***-9.4***	***-13.4***	***-16.7***	***-19.1***	***-21.2***	***-23.5***	***-26.1***	***-29.0***	***-32.1***	***-30.1***	***-197.8***
Total (including PDI)	**-160.5**	**-165.3**	**-171.9**	**-178.5**	**-109.0**	**-73.6**	**-77.5**	**-81.3**	**-85.6**	**-89.7**	**-31.6**	**-676.2**	**-1,224.5**

(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.

\- Indicates nil.

Table A2: Locally Owned Community Renewables – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Non-tax receipts													
Administered non-tax													
Development loans - interest receipts	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	***0.6***	***2.5***
Total – receipts	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.6**	**2.5**
Payments													
Administered													
Local power hubs	*-35.0*	*-36.0*	*-37.1*	*-38.0*	*-39.0*	-	-	-	-	-	-	***-146.1***	***-185.1***
Seed grants	*-7.0*	*-7.2*	*-7.4*	*-7.6*	*-7.8*	*-8.0*	*-8.2*	*-8.4*	*-8.6*	*-8.8*	-	***-29.2***	***-79.0***
Enablement grants	*-17.5*	*-18.0*	*-18.5*	*-19.0*	*-19.5*	*-19.9*	*-20.4*	*-20.9*	*-21.5*	*-22.0*	-	***-73.0***	***-197.2***
Development loans - loans forgiven	*-13.2*	*-14.4*	*-15.6*	*-16.0*	*-16.4*	*-16.7*	*-17.2*	*-17.6*	*-18.0*	*-18.5*	-	***-59.2***	***-163.6***
Underwriting new community investment scheme	-	*-1.8*	*-2.6*	*-3.3*	*-3.9*	*-4.4*	*-4.8*	*-5.3*	*-5.6*	*-6.0*	-	***-7.7***	***-37.7***
Community battery storage scheme	*-75.0*	*-75.0*	*-75.0*	*-75.0*	-	-	-	-	-	-	-	***-300.0***	***-300.0***
Total – administered	***-147.7***	***-152.4***	***-156.2***	***-158.9***	***-86.6***	***-49.0***	***-50.6***	***-52.2***	***-53.7***	***-55.3***	-	***-615.2***	***-962.6***
Departmental													
Departmental costs	*-8.3*	*-5.9*	*-5.2*	*-5.3*	*-5.1*	*-5.2*	*-5.3*	*-5.4*	*-5.5*	*-5.6*	*-1.1*	***-24.7***	***-57.9***
Total – departmental	***-8.3***	***-5.9***	***-5.2***	***-5.3***	***-5.1***	***-5.2***	***-5.3***	***-5.4***	***-5.5***	***-5.6***	***-1.1***	***-24.7***	***-57.9***
Total – payments	**-156.0**	**-158.3**	**-161.4**	**-164.2**	**-91.7**	**-54.2**	**-55.9**	**-57.6**	**-59.2**	**-60.9**	**-1.1**	**-639.9**	**-1,020.5**
Total (excluding PDI)	**-155.9**	**-158.2**	**-161.2**	**-164.0**	**-91.5**	**-53.9**	**-55.6**	**-57.3**	**-58.9**	**-60.6**	**-0.9**	**-639.3**	**-1,018.0**
PDI impacts	***-1.6***	***-5.1***	***-8.9***	***-12.9***	***-16.3***	***-18.8***	***-20.9***	***-23.2***	***-25.8***	***-28.7***	***-31.8***	***-28.5***	***-194.0***
Total (including PDI)	**-157.5**	**-163.3**	**-170.1**	**-176.9**	**-107.8**	**-72.7**	**-76.5**	**-80.5**	**-84.7**	**-89.3**	**-32.7**	**-667.8**	**-1,212.0**

(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.

\- Indicates nil.

Table A3: Locally Owned Community Renewables – Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Non-tax receipts													
Administered non-tax													
Development loans - loan principal repayments	*0.8*	*1.7*	*2.6*	*3.6*	*4.6*	*5.6*	*6.7*	*7.0*	*7.2*	*7.4*	*6.4*	***8.7***	***53.6***
Departmental non-tax													
Total – receipts	**0.9**	**1.8**	**2.8**	**3.8**	**4.8**	**5.9**	**7.0**	**7.3**	**7.5**	**7.7**	**6.6**	**9.3**	**56.1**
Payments													
Administered													
Local power hubs	*-35.0*	*-36.0*	*-37.1*	*-38.0*	*-39.0*	-	-	-	-	-	-	***-146.1***	***-185.1***
Seed grants	*-7.0*	*-7.2*	*-7.4*	*-7.6*	*-7.8*	*-8.0*	*-8.2*	*-8.4*	*-8.6*	*-8.8*	-	***-29.2***	***-79.0***
Enablement grants	*-17.5*	*-18.0*	*-18.5*	*-19.0*	*-19.5*	*-19.9*	*-20.4*	*-20.9*	*-21.5*	*-22.0*	-	***-73.0***	***-197.2***
Development loans - total loans	*-5.7*	*-6.2*	*-6.7*	*-6.8*	*-7.0*	*-7.2*	*-7.4*	*-7.5*	*-7.7*	*-7.9*	-	***-25.4***	***-70.1***
Development loans - loans forgiven	*-13.2*	*-14.4*	*-15.6*	*-16.0*	*-16.4*	*-16.7*	*-17.2*	*-17.6*	*-18.0*	*-18.5*	-	***-59.2***	***-163.6***
Underwriting new community investment scheme	-	*-1.8*	*-2.6*	*-3.3*	*-3.9*	*-4.4*	*-4.8*	*-5.3*	*-5.6*	*-6.0*	-	***-7.7***	***-37.7***
Total – administered	***-153.4***	***-158.6***	***-162.9***	***-165.7***	***-93.6***	***-56.2***	***-58.0***	***-59.7***	***-61.4***	***-63.2***	-	***-640.6***	***-1,032.7***
Departmental													
Departmental costs	*-8.3*	*-5.9*	*-5.2*	*-5.3*	*-5.1*	*-5.2*	*-5.3*	*-5.4*	*-5.5*	*-5.6*	*-1.1*	***-24.7***	***-57.9***
Total – departmental	***-8.3***	***-5.9***	***-5.2***	***-5.3***	***-5.1***	***-5.2***	***-5.3***	***-5.4***	***-5.5***	***-5.6***	***-1.1***	***-24.7***	***-57.9***
Total – payments	**-161.7**	**-164.5**	**-168.1**	**-171.0**	**-98.7**	**-61.4**	**-63.3**	**-65.1**	**-66.9**	**-68.8**	**-1.1**	**-665.3**	**-1,090.6**
Total (excluding PDI)	**-160.8**	**-162.7**	**-165.3**	**-167.2**	**-93.9**	**-55.5**	**-56.3**	**-57.8**	**-59.4**	**-61.1**	**5.5**	**-656.0**	**-1,034.5**
PDI impacts	***-1.6***	***-5.1***	***-8.9***	***-12.9***	***-16.3***	***-18.8***	***-20.9***	***-23.2***	***-25.8***	***-28.7***	***-31.8***	***-28.5***	***-194.0***
Total (including PDI)	**-162.4**	**-167.8**	**-174.2**	**-180.1**	**-110.2**	**-74.3**	**-77.2**	**-81.0**	**-85.2**	**-89.8**	**-26.3**	**-684.5**	**-1,228.5**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

\- Indicates nil.

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[3]

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.[4] Table B1 provides information about the detail provided in a costing. The provision of concessional loans decreases the Australian Government's net worth if the liabilities issued (the value of Commonwealth Government Securities 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.

[3] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[4] 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.