CLEAN ENERGY FINANCE CORPORATION

CLEAN ENERGY FINANCE CORPORATION

Section 1: Entity overview and resources

1.1 STRATEGIC DIRECTION STATEMENT

The Clean Energy Finance Corporation (CEFC) was established to facilitate increased flows of finance into the clean energy sector. The CEFC invests in accordance with its legislation, the *Clean Energy Finance Corporation Act 2012* (CEFC Act) and the *Clean Energy Finance Corporation Investment Mandate Direction 2015* (2015 Investment Mandate), as issued by the Treasurer and the Minister for Finance on 17 February 2015 (revoking and replacing the 2013 Investment Mandate with effect 5 March 2015).

The CEFC is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The CEFC has access to funding of $10 billion comprising annual appropriations to the CEFC Special Account of $2 billion every 1 July from 2013 to 2017 inclusive, in accordance with section 46 of the CEFC Act. The CEFC commenced funding investments on 1 July 2013.

The CEFC is governed by an independent Board who have statutory responsibility for decision-making, performance of the Corporation's functions and managing the CEFC's investments, and a Chief Executive Officer who is responsible for the day to day administration of the Corporation. A system of delegations exist to aid in the performance of these functions. The Board reports to Parliament through its responsible Ministers.

The CEFC's investment objectives are to catalyse and leverage an increased flow of funds for the commercialisation and deployment of Australian based renewable energy, energy efficiency and low-emissions technologies.

The CEFC achieves its objectives through the prudent application of capital, in adherence with its risk management framework, the 2015 Investment Mandate and the CEFC investment policies issued by the Board.

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth was before Parliament at the time of writing.

1.2 ENTITY RESOURCE STATEMENT

Table 1.1 shows the total resources from all sources. The table summarises how resources will be applied by outcome and by administered and departmental classification.

Table 1.1: Clean Energy Finance Corporation resource statement — Budget estimates for 2015-16 as at Budget May 2015

	Actual Available Appropriation 2014-15 $'000	Estimate of prior year amounts available in 2015-16 $'000	Proposed at 2015-16 Budget $'000	Total 2015-16 estimate $'000
Opening balance/reserves at bank	*123,102*	*29,464*	-	29,464
FUNDS FROM OTHER SOURCES				
Interest and fees	*47,186*	-	44,925	44,925
Total funds from other sources	***47,186***	**-**	**44,925**	**44,925**
Total net resourcing for CEFC	***170,288***	**29,464**	**44,925**	**74,389**

All figures are GST exclusive.
The CEFC is not directly appropriated as it is a corporate Commonwealth entity.
The CEFC does not hold the Special Account itself and therefore does not have a balance carried forward from earlier years.

1.3 BUDGET MEASURES

The CEFC does not have any budget measures for 2015-16.

Section 2: Outcomes and planned performance

2.1 OUTCOMES AND PERFORMANCE INFORMATION

Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. Commonwealth programmes are the primary vehicle by which government entities achieve the intended results of their outcome statements. Entities are required to identify the programmes which contribute to government outcomes over the Budget and forward years.

The CEFC's outcome is described below, specifying the performance indicators and targets used to assess and monitor the performance of the CEFC in achieving government outcomes.

Outcome 1: Facilitate increased flows of finance into Australia's clean energy sector, applying commercial rigour to investing in renewable energy, low emissions and energy efficiency technologies, building industry capacity, and disseminating information to industry stakeholders

Outcome 1 strategy

The scope of the CEFC's operations is guided by three principles that direct where and how the CEFC will invest.

Principle One — Clean Energy Focus

The CEFC focuses its investments on renewable energy, low-emissions and energy efficiency technologies in Australia, as well as manufacturing businesses that produce the required inputs.

The CEFC seeks diversity of technology and sector exposure. All sectors of the economy can undertake investments which contribute to emissions reduction and projects are drawn widely. The CEFC's portfolio is expected to evolve over time, noting the CEFC Act requirement that, on or after 1 July 2018, at least half of the funds invested must be invested in renewable energy.

In accordance with the requirements of the CEFC Act, the CEFC Board has published its investment policies and guidelines on low-emissions technologies. In addition, the Board has published policy guidance as to the renewable energy technologies and energy efficiency technologies the CEFC will invest in. These documents are available on the CEFC's website www.cleanenergyfinancecorp.com.au.

Principle Two — Commercial Approach

The CEFC applies commercial rigour when making investment decisions and seeks to develop a portfolio across the spectrum of clean energy technologies that in aggregate must have an acceptable but not excessive level of risk relative to the sector.

The Corporation applies a commercial filter when making its investment decisions, focussing on projects and technologies at the later stages of development. The filter is not as stringent as the private sector equivalent, as the Corporation has a public policy purpose and values any positive externalities being generated. Consequently, it has different risk/return requirements. For a given return, the Corporation may take on higher risk and, for a given level of risk, due to positive externalities, may accept a lower financial return. In line with its policy intent, the Corporation considers the positive externalities and public policy outcomes when making investment decisions and when determining the extent of any concessionality for an investment.

In the 2015 Investment Mandate the responsible Ministers have directed the Board to target an average return of at least the five–year Australian Government bond rate +4 to +5 per cent per annum as the benchmark return of the portfolio. Performance against this benchmark will be measured before operating expenses. The Portfolio benchmark return is a medium-term target and expected to be earned across the portfolio and over a period of time. In targeting the Portfolio Benchmark Return the Board must not increase the level of exposure to credit risk above the level of the existing portfolio as assessed on 5 March 2015 (the date of effect of the 2015 Investment Mandate issued by the responsible Ministers).

The Australian Government is conscious of the risks inherent in investing in a large portfolio of financial assets. It acknowledges that in practice this will involve some short-term volatility in the Corporation's returns, including the possibility of losses in some years.

The CEFC undertakes rigorous due diligence and financial modelling analysis along with assessments of other key investment risks, including credit risk, to determine appropriate investment structures, financial covenants and the required legal undertakings for an intended investment, all designed to enhance and protect the CEFC's position.

Principle Three — Addressing Financial Barriers

The ways in which the CEFC addresses financial barriers include:

- attracting finance to the Australian market to improve the flow and diversification of funds for investment into the sector;
- assisting project proponents as an arranger, helping to develop the business case and introduce the proponents to other financiers to seek transaction close;
- building knowledge and capacity within the finance sector by participating in transactions to de-risk the investment, familiarising financiers with new asset types or through reducing their size of exposure;
- working with the finance sector to develop and deliver new financial products to the market, tailored to the needs, attributes and emerging delivery models for new technologies, which in turn enables small- and mid-sized businesses to access finance for energy productivity enhancing capital investment;
- building knowledge and capacity within industry through demonstration and case studies to promote successful models and opportunities in energy productivity and clean energy investment; and
- providing loans at commercial and concessional rates. Where it is necessary and justified in the CEFC's assessment, it may choose to deploy concessional finance to assist in overcoming financial impediments and facilitate realisation of the project.

Such concessionality is made available on an individual transaction basis through longer tenor or lower cost of finance or by absorbing additional risk. The CEFC sets terms on a case-by-case basis, lending at the rate that is commercially reasonable and on the least generous terms possible for the project to proceed (that is, as close to market terms as possible). This might happen where necessary under the project or where the CEFC is lending to public sector or not-for-profit organisations like universities and local councils.

Outcome expense statement

Table 2.1 provides an overview of the total expenses for Outcome 1.

Table 2.1: Budgeted expenses for Outcome 1

Outcome 1: Facilitate increased flows of finance into Australia's clean energy sector, applying commercial rigour to investing in renewable energy, low-emissions and energy efficiency technologies, building industry capacity, and disseminating information to industry stakeholders	2014-15 Estimated actual expenses $'000	2015-16 Estimated expenses $'000
Programme 1.1: Clean Energy Finance Corporation		
Revenue from Government	-	-
Revenues from other independent sources	25,213	18,584
Total for Programme 1.1	**25,213**	**18,584**
Outcome 1 totals by resource type		
Revenue from Government	-	-
Revenues from other independent sources	25,213	18,584
Total expenses for Outcome 1	**25,213**	**18,584**
	2014-15	2015-16
Average staffing level (number)	54	30

2015-16 Estimated expenses reflect the Australian Government's intention to abolish the CEFC and accordingly are prepared on the assumption that all operational expenses (employee benefits and supplier costs) will cease effective 31 December 2015 (Refer Section 3.2.2 of this Budget Statement).
The average staffing level for 2015-16 is the average number of staff expected to be employed during the period 1 July 2015 to 30 June 2016 and has been annualised to reflect nil staffing beyond 31 December 2015.

Contributions to Outcome 1

Programme 1.1: Clean Energy Finance Corporation

Programme objective

The objectives of the CEFC are:

- to invest, directly and indirectly, in clean energy technologies, which can be any one or more of the following:
  - renewable energy technologies, which include hybrid technologies that integrate renewable energy technologies and enabling technologies, that are related to renewable energy technologies;
  - energy efficiency technologies, including enabling technologies that are related to energy conservation technologies or demand management technologies; and
  - low-emissions technologies;
- to catalyse and leverage an increased flow of funds for the commercialisation and deployment of Australian based renewable energy, energy efficiency and low-emissions technologies;
- to liaise with relevant persons and bodies, including the Australian Renewable Energy Agency, the Clean Energy Regulator, other Commonwealth agencies and State and Territory Governments, for the purposes of facilitating its investment function;

- to act as a catalyst to increase investment in the clean energy sector by working with industry, banks and other financiers, and project proponents; and
- to do anything incidental or conducive to the performance of the above functions.

Programme expenses

The Government has announced its intention to abolish the CEFC. Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth was before Parliament at the time of writing.

Given the uncertainty regarding the timing of the passage of this legislation, Treasury has assumed that the CEFC is to be abolished from 1 July 2015. Accordingly, estimates have been prepared on the assumption that there are no new investments entered into by the CEFC post 30 June 2015, that all operational expenses cease effective 31 December 2015 and that revenue from those contracts executed prior to 30 June 2015 continues through the life of those investments.

Table 2.2: Programme expenses

	2014-15 Estimated actual $'000	2015-16 Budget $'000	2016-17 Forward estimate $'000	2017-18 Forward estimate $'000	2018-19 Forward estimate $'000
Expenses not requiring appropriation in the Budget year (a)	25,213	18,584	5,238	4,466	4,073
Total programme expenses	**25,213**	**18,584**	**5,238**	**4,466**	**4,073**

(a) The CEFC generates sufficient funds from independent sources to cover all of its operating expenses and therefore the Corporation does not require appropriation in the Budget year or Forward Estimate years.

Programme 1.1 deliverables

The CEFC co-finances and invests, directly and indirectly, in clean energy projects and technologies which:

- meet the CEFC's Australian clean energy criteria;
- offer an investment return above the Australian Government's cost of funds and demonstrate a capacity to repay capital;
- result in an acceptable concentration of risk within the CEFC portfolio; and
- have priority against competing proposals within the balance of the $2 billion per annum investment budget.

Programme 1.1 key performance indicators

The CEFC's 2015 Investment Mandate directs the Board to adopt an average return of at least the five–year Australian Government bond rate +4 to +5 per cent per annum as the benchmark return of the portfolio. Performance against this benchmark will be measured before operating expenses. The Portfolio Benchmark Return has been established as a medium-term target that is expected to be earned across the portfolio and over a period of time. Individual investments could be made with expected individual returns above or below the Portfolio Benchmark Return.

The Australian Government is conscious of the risks inherent in investing in a large portfolio of financial assets. It acknowledges that in practice, this will involve some short-term volatility in the Corporation's returns, including the possibility of losses in some years.

The Australian Government is committed to developing the clean energy sector and it has established the Corporation to invest for the long term. Therefore the Investment Mandate establishes long term portfolio performance measures.

The CEFC's 2013 Investment Mandate (effective up to and including 4 March 2015) specified a portfolio benchmark return for the performance of funds invested by the CEFC, based on the five-year Australian Government bond rate and net of operating expenses. The portfolio benchmark return in the 2013 Investment Mandate was a long-term target and expected to be earned across the portfolio and over a period of time.

The performance of the CEFC will be measured by reference to the following key performance indicators:

- performance against the portfolio benchmark returns set out in the 2015 Investment Mandate (from 5 March 2015);
- performance against the portfolio benchmark returns set out in the 2013 Investment Mandate for the period from inception to 4 March 2015;
- placement of funds into Australia's clean energy sector;
- investment in renewable energy, low-emissions and energy efficiency technologies;
- building industry capacity; and
- dissemination of information to industry stakeholders.

A number of sectors have benefited from CEFC financing, including agribusiness, property, manufacturing, utilities and local government. This is building momentum in the market by demonstration effect, helping clean energy technologies move down the cost curve and encouraging increased investment flows from the private sector and development of new clean energy technologies.

The total investment portfolio at 31 March 2015 was $842 million. The CEFC has catalysed investments without providing significant levels of concessionality. The total value of concessions forecast to be provided by the CEFC from inception in 2012-13 through the end of 2014-15 is $13.1 million. Even when providing concessional finance, in all instances the CEFC's lending rate on the concessional loans still exceeds the five-year Australian Government bond rate at the date the loan is entered into.

The CEFC has been able to catalyse over $2 billion in non-CEFC private capital investment in projects with over $3 billion in total value.

Section 3: Explanatory tables and budgeted financial statements

Section 3 presents explanatory tables and budgeted financial statements which provide a comprehensive snapshot of entity finances for the 2015-16 budget year. It explains how budget plans are incorporated into the financial statements and provides further details of the reconciliation between appropriations and programme expenses, movements in administered funds, special accounts and government indigenous expenditure.

3.1 EXPLANATORY TABLES

3.1.1 Movement of administered funds between years

The CEFC does not have any administered funds.

3.1.2 Special accounts

The CEFC does not administer any special accounts. The CEFC Special Account is administered by the Department of the Treasury. Details of the CEFC Special Account can be found in Table 3.1.2 in the Department of the Treasury's section of this Portfolio Budget Statement.

3.1.3 Australian Government Indigenous expenditure

The CEFC does not have any Australian Government Indigenous Expenditure.

3.2 BUDGETED FINANCIAL STATEMENTS

3.2.1 Differences in entity resourcing and financial statements

There are no material differences between agency resourcing and financial statements.

3.2.2 Analysis of budgeted financial statements

The budgeted financial statements have been prepared on the basis of Australian Accounting Standards, the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* and on the basis of the Government's intention to abolish the CEFC.

Legislation to abolish the CEFC and transfer the CEFC's existing assets and liabilities to the Commonwealth was before the Parliament at the time of writing.

Given the uncertainty regarding the timing of the passage of this legislation, Treasury has assumed that the CEFC is to be abolished from 1 July 2015. Accordingly:

- no new investments are forecast to be entered into by the CEFC post 30 June 2015;

- revenue from those contracts planned to be executed prior to 30 June 2015 is forecast to continue through the life of the investments (including revenue associated with the unwind of previously recorded concessionality charges);
- no additional concessionality charges are forecast to be incurred (consistent with the assumption of no new investments being entered into by the CEFC post 30 June 2015);
- all departmental funding from the Department of the Treasury for start-up operational expenses ceased in 2013-14;
- all operational expenses (employee benefits and supplier costs) are anticipated to cease effective 31 December 2015;
- an allowance for impairment has been provided in each period of the forward estimates in relation to the existing investment portfolio; and
- all outstanding liabilities to suppliers and employees are assumed to be settled at 31 December 2015.

The budgeted financial statements do not include an allowance for the following expenditure items:

- termination costs for facility operating leases;
- wind-up costs such as redundancy payments for staff, consultant or contractor termination costs, and service contract termination costs;
- legal and administrative costs associated with the abolition and orderly transition of the investment portfolio from CEFC to the Department of the Treasury; or
- costs to the Department of the Treasury for administering the existing investments for which revenue is being forecast.

The CEFC is forecasting operating surpluses for 2014-15, the 2015-16 budget year and each of the forward estimate years through 2018-19. The estimated actual surplus for 2014-15 and the budget and forward estimates for 2015-16 through 2018-19 contain a number of significant non-cash charges including a concessional loan charge in 2014-15, and a provision for loan impairment and the non-cash revenue from the unwind of the concessional loan charges in each of the budget and forward estimate periods. After eliminating the impact of these non-cash charges and revenue, the CEFC is forecasting total comprehensive income attributable to the Australian Government of $32.3 million in 2014-15, $33.8 million in 2015-16, $48.1 million in 2016-17, $46.7 million in 2017-18 and $40.4 million in 2018-19 assuming legislation passes and the Corporation is abolished from 1 July 2015.

3.2.3 Budgeted financial statements tables

Table 3.2.1: Comprehensive income statement (showing net cost of services) for the period ended 30 June

	2014-15 Estimated actual $'000	2015-16 Budget $'000	2016-17 Forward estimate $'000	2017-18 Forward estimate $'000	2018-19 Forward estimate $'000
EXPENSES					
Employee benefits	15,216	9,435	-	-	-
Suppliers	5,296	3,764	-	-	-
Depreciation and amortisation	432	624	318	128	-
Write-down and impairment of assets	2,668	4,761	4,920	4,338	4,073
Other expenses	1,601	-	-	-	-
Total expenses	**25,213**	**18,584**	**5,238**	**4,466**	**4,073**
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Interest and fees	54,742	49,250	50,031	48,503	42,192
Other	6	-	-	-	-
Total own-source revenue	**54,748**	**49,250**	**50,031**	**48,503**	**42,192**
Total own-source income	**54,748**	**49,250**	**50,031**	**48,503**	**42,192**
Net cost of/(contribution by) services	**(29,535)**	**(30,666)**	**(44,793)**	**(44,037)**	**(38,119)**
Surplus/(deficit) attributable to the Australian Government	**29,535**	**30,666**	**44,793**	**44,037**	**38,119**
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation surplus	2,793	-	-	-	-
Total other comprehensive income	**2,793**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss)	**32,328**	**30,666**	**44,793**	**44,037**	**38,119**
Total comprehensive income/(loss) attributable to the Australian Government	**32,328**	**30,666**	**44,793**	**44,037**	**38,119**
ADD NON-CASH CHARGES					
Concessional loan charge	1,601	-	-	-	-
Provision for loan impairment	2,668	4,761	4,920	4,338	4,073
Total non-cash charges	**4,269**	**4,761**	**4,920**	**4,338**	**4,073**
LESS NON-CASH REVENUE					
Unwind of concessional loan charge	(1,549)	(1,631)	(1,650)	(1,635)	(1,772)
Changes in asset revaluation surplus	(2,793)	-	-	-	-
Total non-cash revenue	**(4,342)**	**(1,631)**	**(1,650)**	**(1,635)**	**(1,772)**
Total comprehensive income attributable to the Australian Government after eliminating non-cash adjustments	**32,255**	**33,796**	**48,063**	**46,740**	**40,420**

Prepared on Australian Accounting Standards basis.

Table 3.2.2: Budgeted departmental balance sheet (as at 30 June)

	2014-15 Estimated actual $'000	2015-16 Budget $'000	2016-17 Forward estimate $'000	2017-18 Forward estimate $'000	2018-19 Forward estimate $'000
ASSETS					
Financial assets					
Cash and cash equivalents	29,464	-	-	-	-
Trade and other receivables	964,978	863,139	780,936	647,785	593,991
Other investments	258,545	118,045	137,805	157,805	157,805
Total financial assets	***1,252,987***	***981,184***	***918,741***	***805,590***	***751,796***
Non-financial assets					
Property, plant and equipment	695	269	68	-	-
Intangibles	375	177	60	-	-
Other non-financial assets	635	-	-	-	-
Total non-financial assets	***1,705***	***446***	***128***	***-***	***-***
Total assets	**1,254,692**	**981,630**	**918,869**	**805,590**	**751,796**
LIABILITIES					
Payables					
Suppliers	1,011	-	-	-	-
Other payables	6,673	7,364	5,211	3,197	1,659
Total payables	***7,684***	***7,364***	***5,211***	***3,197***	***1,659***
Provisions					
Employee provisions	3,238	-	-	-	-
Other provisions	11,627	-	-	-	-
Total provisions	***14,865***	***-***	***-***	***-***	***-***
Total liabilities	**22,549**	**7,364**	**5,211**	**3,197**	**1,659**
Net assets	**1,232,143**	**974,266**	**913,658**	**802,393**	**750,137**
EQUITY					
Contributed equity	1,168,362	879,819	774,418	619,116	528,741
Reserves	2,793	2,793	2,793	2,793	2,793
Retained surplus	60,988	91,654	136,447	180,484	218,603
Total equity	**1,232,143**	**974,266**	**913,658**	**802,393**	**750,137**

Prepared on Australian Accounting Standards basis.

Table 3.2.3: Departmental statement of changes in equity — summary of movement (Budget year 2015-16)

	Retained earnings $'000	Asset revaluation reserve $'000	Other reserves $'000	Contributed equity/ capital $'000	Total equity $'000
Opening balance as at 1 July 2015					
Balance carried forward from previous period	60,988	2,793	-	1,168,362	1,232,143
Adjusted opening balance	***60,988***	***2,793***	***-***	***1,168,362***	***1,232,143***
Comprehensive income					
Surplus/(deficit) for the period	30,666	-	-	-	30,666
Total comprehensive income	***30,666***	***-***	***-***	***-***	***30,666***
of which:					
Attributable to the Australian Government	30,666	-	-	-	30,666
Transactions with owners					
Distributions to owners					
Returns of capital:					
Distribution of equity	-	-	-	(288,543)	(288,543)
Sub-total transactions with owners	***-***	***-***	***-***	***(288,543)***	***(288,543)***
Estimated closing balance as at 30 June 2016	**-**	**-**	**-**	**(288,543)**	**(288,543)**
Closing balance attributable to the Australian Government	**91,654**	**2,793**	**-**	**879,819**	**974,266**

Prepared on Australian Accounting Standards basis.

Table 3.2.4: Budgeted departmental statement of cash flows (for the period ended 30 June)

	2014-15 Estimated actual $'000	2015-16 Budget $'000	2016-17 Forward estimate $'000	2017-18 Forward estimate $'000	2018-19 Forward estimate $'000
OPERATING ACTIVITIES					
Cash received					
Interest and fees	47,186	44,925	39,989	44,819	39,034
Total cash received	***47,186***	***44,925***	***39,989***	***44,819***	***39,034***
Cash used					
Employees	15,329	9,434	-	-	-
Suppliers	5,515	7,611	-	-	-
Total cash used	***20,844***	***17,045***	***-***	***-***	***-***
Net cash from/(used by) operating activities	**26,342**	**27,880**	**39,989**	**44,819**	**39,034**
INVESTING ACTIVITIES					
Cash received					
Loan advances	573,488	471,185	212,287	164,692	66,781
Total cash received	***573,488***	***471,185***	***212,287***	***164,692***	***66,781***
Cash used					
Purchase of property, plant and equipment	1,051	-	-	-	-
Loan advances	405,701	219,986	126,875	34,209	15,440
Purchase of investments	254,514	20,000	20,000	20,000	-
Total cash used	***661,266***	***239,986***	***146,875***	***54,209***	***15,440***
Net cash from/(used by) investing activities	**(87,778)**	**231,199**	**65,412**	**110,483**	**51,341**
FINANCING ACTIVITIES					
Cash used					
Return of equity to the Treasury	32,202	288,543	105,401	155,302	90,375
Total cash used	***32,202***	***288,543***	***105,401***	***155,302***	***90,375***
Net cash from/(used by) financing activities	**(32,202)**	**(288,543)**	**(105,401)**	**(155,302)**	**(90,375)**
Net increase/(decrease) in cash held	**(93,638)**	**(29,464)**	**-**	**-**	**-**
Cash and cash equivalents at the beginning of the reporting period	123,102	29,464	-	-	-
Cash and cash equivalents at the end of the reporting period	29,464	-	-	-	-

Prepared on Australian Accounting Standards basis.

Table 3.2.5: Departmental capital budget statement (for the period ended 30 June)

	2014-15 Estimated actual $'000	2015-16 Budget $'000	2016-17 Forward estimate $'000	2017-18 Forward estimate $'000	2018-19 Forward estimate $'000
NEW CAPITAL APPROPRIATIONS					
Capital budget - Bill 1	-	-	-	-	-
Total new capital appropriations	**-**	**-**	**-**	**-**	**-**
Provided for:					
Purchase of non-financial assets	-	-	-	-	-
Total Items	**-**	**-**	**-**	**-**	**-**
PURCHASE OF NON-FINANCIAL ASSETS					
Funded internally from departmental resources	1,051	-	-	-	-
TOTAL	**1,051**	**-**	**-**	**-**	**-**
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	1,051	-	-	-	-
Total cash used to acquire assets	**1,051**	**-**	**-**	**-**	**-**

Prepared on Australian Accounting Standards basis.

Table 3.2.6: Statement of asset movements (Budget year 2015-16)

	Buildings $'000	Other property, plant and equipment $'000	Computer software and intangibles $'000	Total $'000
As at 1 July 2015				
Gross book value	-	1,386	509	1,895
Accumulated depreciation/amortisation and impairment	-	(691)	(134)	(825)
Opening net book balance	**-**	**695**	**375**	**1,070**
Capital asset additions				
Estimated expenditure on new or replacement assets				
By purchase - appropriation ordinary annual services	-	-	-	-
Total additions	**-**	**-**	**-**	**-**
Other movements				
Depreciation/amortisation expense	-	(426)	(198)	(624)
Total other movements	**-**	**(426)**	**(198)**	**(624)**
As at 30 June 2016				
Gross book value	-	1,386	509	1,895
Accumulated depreciation/amortisation and impairment	-	(1,117)	(332)	(1,449)
Closing net book balance	**-**	**269**	**177**	**446**

Prepared on Australian Accounting Standards basis.

3.2.4 Notes to the financial statements

Basis of accounting

The financial statements, included in Tables 3.2.1 to 3.2.6 have been prepared on the basis of the Government's intention to abolish the CEFC (refer section 3.2.2) and in accordance with the requirements of the PGPA Act, the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, Australian Accounting Standards issued by the Australian Accounting Standards Board and the Department of Finance guidance for the preparation of financial statements.

The financial report has been prepared on an accrual basis and is prepared in accordance with the historical cost convention.

Notes to the departmental statements

The budget statements and estimated forward years should be read taking into account the following matters:

Going Concern

The financial statements reflect the Australian Government's intention to abolish the Corporation effective 1 July 2015 as set forth in section 3.2.2 of this Budget Statement.

Concession loan discount

The CEFC is in the business of making loans that may be at a discount to the prevailing market equivalent rates or terms. For each investment, the CEFC attempts to maximise its return and provide only the level of discount from market rates/terms that is required to ensure the project proceeds, however, this will typically involve the CEFC taking a position that is not generally offered by other market participants (for example, longer term fixed-rate debt or sub-ordinated debt) at rates that may be below those that an equivalent market participant would demand if it were to participate in this market.

The CEFC is required to record a non-cash charge referred to as a concessional loan discount in relation to any such loans and it is a matter of judgment as to the market equivalent rate used to ascertain the extent of the implicit discount attached to the loan.

Impairment of loans

The CEFC is required to ascertain the extent to which its portfolio of loans is likely to be recoverable. Given the CEFC is in the business of lending and earning a margin it takes credit risk and it is appropriate to provision for expected credit losses. As the CEFC's portfolio is mainly senior secured debt and secured project finance facilities, and there have been no specific impairments identified to date, a statistical probability of default must be used to determine the level of appropriate provisioning. The forecast impairment change is a provision determined as reasonable and appropriate when looking at the risks within the CEFC's current loans and in particular the current environment faced by the borrowers.