Clean energy opportunities for local government

A market report by the Clean Energy Finance Corporation

June 2016
About the Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) invests commercially to increase the flow of funds into renewable energy, energy efficiency and low emissions technologies.

The CEFC has supported projects across the Australian economy, benefitting a diverse range of businesses, large and small. The CEFC’s mission is to accelerate Australia’s transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction. The CEFC does this through direct investments which attract private sector finance, as well as through its strategic co-financing partners.

The CEFC was created by the Australian Government and operates under the Clean Energy Finance Corporation Act 2012.

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Summary

This CEFC market report provides a brief guide to clean energy investment opportunities for Australian councils and sets out how the CEFC Local Government Finance Program can help councils invest to reduce energy costs and lower carbon emissions.

Australia’s 560 councils support communities by providing important infrastructure and services. In fact, councils are one of the country’s major providers of infrastructure, and together are responsible for more than $380 billion of fixed assets and land. All of the buildings and facilities that councils own and manage consume energy, either directly or through maintenance, and energy costs are a significant part of council budgets. Investing in clean energy provides an opportunity for councils to renew their infrastructure, save energy costs and meet sustainability objectives.

There are a number of ways that councils can invest in clean energy.

- An increasing number of councils are generating renewable energy locally – for example, by installing rooftop solar PV on council facilities – to help meet their electricity needs. Generating on-site renewable energy can reduce council operating costs by reducing the need for grid electricity as well as reducing carbon emissions.

- Improving the energy efficiency of council facilities and services – for example, by upgrading to LED streetlights, improving the energy efficiency of council buildings and switching to low carbon vehicles, which are all effective ways to reduce costs and carbon emissions.

Councils hold large asset portfolios with long operating lives and generally have relatively stable cashflows. Despite the fact that many councils have large infrastructure investment tasks and a strong capacity to service debt, the local government sector as a whole makes relatively little use of debt.

A sustainable level of borrowing can support investment in high-quality clean energy infrastructure while sharing the costs over time with the beneficiaries – current and future residents.

Clean energy investments can bring a range of benefits in addition to lower costs and carbon emissions, including energy independence, reduced environmental impact, improved community engagement and better places for council employees and customers.

The Clean Energy Finance Corporation is offering tailored finance for Australian councils to invest in clean energy, reduce costs and lower carbon emissions. The CEFC’s Local Government Finance Program is designed to provide flexible and competitive fixed-rate long-term finance tailored to the needs of Australian councils.
1. Councils provide important infrastructure and services

Councils support communities by providing important infrastructure and services. All of the buildings and facilities that councils own and manage consume energy, either directly in use or through maintenance, and energy costs are a significant part of council budgets. Investing in clean energy provides an opportunity for councils to renew their infrastructure, save energy costs and meet sustainability objectives.

Local government is one of the country’s major providers of infrastructure. Australia’s 560 councils are together responsible for more than $380 billion of fixed assets and land (see Figure 1). Fixed assets and land are the major driver of local government expenditure and liabilities.

The value of assets owned and managed by councils has nearly doubled over the past decade.

Figure 2: What assets do councils own and manage?

Councils own and manage a wide range of assets on behalf of local communities, including:

- **Infrastructure and property**, including local roads, bridges, footpaths, drainage, waste collection and management assets
- **Recreation facilities**, such as parks, sports fields and stadiums, golf courses, swimming pools, sport centres, halls, camping grounds, caravan parks, toilet facilities
- **Community service facilities**, such as child care, aged care and accommodation, community care and welfare services
- **Transport infrastructure and other facilities**, such as airports and aerodromes, ports and marinas, cemeteries, parking facilities and street parking
- **Cultural facilities**, such as libraries, art galleries and museums
- **Water and sewerage services** in some states
- **Abattoirs and sale-yards.**

Source: Australian Local Government Association, CEFC

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**Figure 1: Local government non-financial assets (primarily fixed assets and land)**

<table>
<thead>
<tr>
<th>Year</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
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<td>2012-13</td>
<td></td>
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<tr>
<td>2013-14</td>
<td></td>
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<td>2014-15</td>
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</table>

Source: ABS, CEFC
ONGOING INVESTMENT IN INFRASTRUCTURE

Councils’ large asset bases require ongoing investment, maintenance and expansion to cope with growing populations and to keep pace with community expectations.

- The Australian Local Government Association has estimated that the local government infrastructure backlog is greater than $20 billion, with $47 billion of council assets in poor or very poor condition.

- A New South Wales Treasury Corporation report on the financial sustainability of NSW local governments found evidence of a significant infrastructure backlog in council assets and an unquantified asset maintenance funding gap.

While over 80 per cent of assets managed by local government have an asset management plan, improvements in asset management and investing in assets with lower lifecycle costs would result in significant cost savings for councils and higher service levels for communities.

**Figure 3: Council sustainability strategies**

Councils are also responding to community expectations by developing plans to reduce their carbon emissions.

- **Adelaide City Council** has plans to make Adelaide the world’s first carbon neutral city. The plan involves investing in energy efficiency and renewables in the city, reducing emissions from transport and waste and investing in large-scale renewables across the state.

- **City of Melbourne** has a Net Zero Emissions plan identifying opportunities to become carbon neutral through a combination of opportunities across waste, transport, buildings, manufacturing and carbon offsets.

Source: CEFC

With pressure on grants and limits on council rates increases, delivering high-quality services while keeping downward pressure on costs is imperative. That presents a significant opportunity for clean energy investment, which can reduce operating costs and help meet sustainability goals.
2. Clean energy opportunities for councils

There are two major clean energy opportunities available to councils: generating renewable energy and improving the energy efficiency of council assets and operations.

RENEWABLE ENERGY GENERATION

A small but growing number of councils are generating renewable energy locally to help meet electricity needs. Generating on-site renewable energy can reduce operating costs by reducing the need for grid electricity and reduce carbon emissions.

Solar PV to capture value from rooftops: Councils around Australia are generating renewable energy from rooftop solar installations on council buildings, including council offices, leisure centres and car parks. Small-scale rooftop solar PV across Australia has grown from around 500MW of installed capacity in 2011 to more than 5,000MW today as system costs have declined and families, businesses, schools and councils have sought to reduce their electricity costs. Councils can incorporate solar PV into new buildings and retrofit existing facilities to capture value from unused roof space.

City of Melbourne will use CEFC finance to install 300kW of rooftop solar panels on council and community facilities including the Carlton Baths and Carlton Resource Centre.

Microgrids for renewables-powered precincts: Local grids or ‘microgrids’ allow local renewable generation and energy storage systems to be shared across buildings to maximise the efficient use of resources. For example, power from rooftop PV installed on a building with spare roof space could be shared with a neighbouring building with less roof space; or batteries could be installed in a nearby building with free basement space so that locally-generated electricity could be stored to better match demand. Microgrids can improve energy efficiency, reduce total energy consumption, reduce the environmental impact of electricity generation and improve the reliability of supply.

Diverting waste from landfill to generate electricity: Councils can generate renewable energy from waste that would otherwise be sent to landfill. The choice of technology depends on the available feedstock, but residential waste, commercial and industrial waste and waste from agriculture are all potential sources of energy that could be harnessed to power council activities and benefit local communities. The CEFC market report *The Australian bioenergy and energy from waste market* provides a more detailed discussion of the opportunities.

Port Hedland in Western Australia will see municipal waste processed to generate electricity with New Energy being supported by the CEFC for an innovative waste-to-energy project.
Figure 4: Clean energy opportunities for councils

Source: CEFC, OECD/IEA
Buying renewable energy: Councils or groups of councils can source power from renewable energy via power purchase agreements with renewable energy providers, lowering emissions from electricity and driving growth in renewable energy generation.

In early 2016, the City of Melbourne and other councils and public and private sector organisations announced the Melbourne Renewable Energy Project which will purchase 100GWh of electricity from new large-scale renewable energy projects. The City of Melbourne expects this to provide enough power for nearly 30,000 households, avoid nearly 140,000 tonnes of carbon emissions per year and lead to the construction of 40-60MW of renewable energy generation capacity.

The WWF Renewable Energy Buyers Forum is exploring similar opportunities with councils and organisations in New South Wales.

ENERGY EFFICIENCY IN COUNCIL OPERATIONS

Improving the energy efficiency of council facilities and services is an effective way to reduce costs and carbon emissions.

Upgrading to LED streetlights: Streetlights are the largest source of greenhouse gas emissions from the local government sector. There are an estimated 2.3 million streetlights in Australia, and the annual cost of supplying and maintaining public lighting exceeds $250 million. While several councils have adopted LED streetlights, there are barriers to making the change and a significant switchover task remains – by one estimate, only 11 per cent of streetlights have been converted to LEDs.

LED streetlights are significantly more efficient than existing lighting technologies and tend to have much longer operating lives. Beyond upgrading to LEDs, opportunities also exist for councils to upgrade to smarter lighting systems such as motion-activated streetlights.

With CEFC finance, City of Melbourne plans to spend $14.8 million on replacing public lighting with more than 16,000 energy efficient LEDs.

Warrnambool City Council, south west of Melbourne, used CEFC finance to replacing about 2,000 residential street lights with LED technology that was expected to reduce lighting operation and maintenance costs by more than 60 per cent.

Energy efficient building upgrades: There is a very wide range of options for upgrading and retrofitting existing buildings to improve energy efficiency, including:

- building management systems
- meter upgrades
- voltage optimisation
- heating, ventilation and air conditioning upgrades
- chillers
- shading
- lighting upgrades
- pool covers
- improved window glazing.

As well as saving energy, building upgrades can also improve ventilation and building comfort, making them more productive places for staff and improving the experience for customers.

Snowy Valleys Council used CEFC finance to cover the upfront cost of replacing a 34-year-old air conditioning system with a ground source heat pump system and the cost of installing new T5 fluorescent lights at its Tumut administration building. The council also installed a 30kW solar PV array and ceiling insulation to further reduce energy costs. An audit of the new equipment six months after its installation proved that the council had not only realised projected savings, but had registered better than expected results. The council is expecting a direct electricity cost saving of 66 per cent and a reduction in annual maintenance cost of up to $75,000 each year, well up on the 60 per cent saving originally estimated.
Low carbon vehicles: Vehicle fleets are a significant cost for many councils. Switching over to low-emissions vehicles or plug-in hybrid or electric vehicles provides a way for councils to save on fuel costs and reduce carbon emissions. Improving fleet management using trip-monitoring telematics systems also offers an opportunity to lower vehicle costs.

Councils can also contribute to boosting community uptake of electric vehicles by providing public charging stations.

Co-generation: Combining generation of heat and power in co-generation systems can deliver energy more efficiently and flexibly than conventional thermal power generation.

Clean energy brings a range of benefits for councils: lower costs, energy independence, reduced environmental impact, lower carbon emissions, improved community engagement, greener community facilities and an improved environment for council employees and customers.

Figure 5: How can councils identify and implement clean energy opportunities?

There are a range of ways councils can identify clean energy opportunities:

- Specialist energy efficiency consultants and energy companies can conduct energy audits of council buildings, fleets and facilities, usually involving asset inventories and energy bills reviews, to identify investments that would boost energy efficiency.
- Councils can work with other councils in their region to share knowledge and resourcing as well as combine smaller individual upgrades into a larger project to achieve economies of scale.
- Councils can focus first on large buildings with higher energy consumption, such as civic and leisure centres, to maximise energy cost savings and prove up the financial benefits of other energy efficiency investments.
- Councils can designate a sustainability officer or team with responsibility for finding opportunities for renewable energy and energy efficiency investment opportunities across the council’s asset portfolio.
- Councils can use external consultants to analyse the business case for potential projects.
3. Sustainable local government borrowing

A sustainable level of borrowing can support high-quality infrastructure while sharing the costs over time with the beneficiaries – current and future residents. Councils hold large asset portfolios with long operating lives and generally have relatively stable cashflows. Despite the fact that many councils have large infrastructure investment tasks and a strong capacity to service debt, the local government sector as a whole makes relatively little use of debt.

Australia-wide, the local government sector had more than $380 billion of non-financial assets in 2014-15 but borrowings of less than $12 billion, or 3.1 per cent of assets (Figure 6).

Nationally, council borrowings to non-financial assets have averaged 3 per cent over the last decade.

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**Figure 6: Local government assets and liabilities – key measures**

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<tr>
<td>Net non-financial assets $ billion</td>
<td>197.4</td>
<td>213.9</td>
<td>246.6</td>
<td>271.6</td>
<td>307.7</td>
<td>301.0</td>
<td>316.3</td>
<td>335.4</td>
<td>354.6</td>
<td>385.5</td>
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<tr>
<td>Of which fixed assets and land $ billion</td>
<td>195.9</td>
<td>212.7</td>
<td>245.4</td>
<td>270.4</td>
<td>306.5</td>
<td>299.4</td>
<td>314.6</td>
<td>333.6</td>
<td>352.9</td>
<td>383.6</td>
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</tr>
<tr>
<td>Borrowings $ billion</td>
<td>5.5</td>
<td>6.3</td>
<td>6.9</td>
<td>6.2</td>
<td>8.3</td>
<td>9.1</td>
<td>10.1</td>
<td>11.4</td>
<td>12.5</td>
<td>11.8</td>
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<tr>
<td>Total GFS revenue $ billion</td>
<td>23.4</td>
<td>25.9</td>
<td>27.4</td>
<td>30.2</td>
<td>32.7</td>
<td>34.5</td>
<td>36.9</td>
<td>38.6</td>
<td>38.9</td>
<td>41.3</td>
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<tr>
<td>Other interest expenses $ billion</td>
<td>0.4</td>
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<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.7</td>
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</tbody>
</table>

Borrowing to total GFS revenue 23.3% 24.5% 25.3% 20.6% 25.5% 26.3% 27.3% 29.5% 32.2% 28.6% 26.3%
Borrowing to total non-financial assets 2.8% 3.0% 2.8% 2.3% 2.7% 3.0% 3.2% 3.4% 3.5% 3.1% 3.0%
Other interest expenses to total GFS revenue 1.4% 1.5% 1.6% 1.2% 1.4% 1.7% 1.7% 1.7% 1.8% 1.7% 1.6%

Source: ABS, CEFC

Note: GFS refers to the Government Finance Statistics reporting framework

**Figure 7: Average council borrowing to non-financial assets in each state**

Note: Local government borrowing to non-financial assets (primarily fixed assets and land) – average by state
Source: ABS, CEFC
While most councils hold some debt, some councils – particularly smaller ones – have a zero-debt policy. While a zero-debt policy is often motivated by a desire to run prudent or conservative finances, it restricts infrastructure investment to sub-optimal levels by limiting capital spending to current-year or retained income. This can have negative consequences over the longer term, leading to the accumulation of inefficient, out-of-date or sub-optimal infrastructure on a council’s balance sheet.

A zero-debt policy also puts the burden of paying for long-lived assets onto current ratepayers, despite the fact that future ratepayers will share in the benefits. This leads to lower investment in fixed assets and a lower level of service than cost sharing across current and future residents would allow.

Sustainable borrowing to invest in clean energy can lower recurrent costs. Depending on council energy consumption patterns and clean energy upgrade opportunities, the savings from clean energy investments can more than offset the loan repayments, improving council budgets.

This kind of sustainable borrowing is integral to prudent long-term asset management, which is especially important given the significant infrastructure that councils manage.

BORROWING ARRANGEMENTS

Borrowing arrangements for councils vary by state. In some states, councils require approval from the state government for some or all of their borrowings (Figure 8 on page 11). The state borrowing authority is a major source of finance for councils in most states, but generally councils can borrow from other sources including commercial banks and the Clean Energy Finance Corporation.

Councils have arranged debt finance in other ways:

- In Victoria, the Municipal Association of Victoria has established the Local Government Funding Vehicle, a facility to aggregate the borrowing requirements of participating councils.
- Councils overseas including Gothenburg in Sweden and Johannesburg in South Africa have issued city green bonds to finance clean energy assets.

With pressure on grants and limits on council rates increases, loans can provide a more stable source of funding for multi-year projects. Straightforward loan applications also avoid sometimes complex and lengthy processes for competitive grants.

Figure 8: New South Wales Treasury Corporation on council debt management

‘Debt is underutilised by some councils and there are opportunities for more cost effective borrowing and debt management. Some councils have low or zero debt, strong cash flows and outstanding infrastructure backlogs. For some of these councils the use of debt can be an efficient means of addressing backlog issues, enhancing intergenerational equity and improving asset quality and services. For many councils with existing debt, overly conservative debt management practices are adopted which could be improved to deliver enhanced value and a lower cost of funds for councils.’

Source: NSW TCorp report on the financial sustainability of local government, April 2013
### Figure 9: Local government borrowing arrangements by state

<table>
<thead>
<tr>
<th>State</th>
<th>Do councils require approval to borrow?</th>
<th>Can councils borrow from the relevant state borrowing authority?</th>
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<tbody>
<tr>
<td>New South Wales</td>
<td>Local councils may borrow by way of overdraft or loan or by any other means approved by the minister</td>
<td>Yes</td>
</tr>
<tr>
<td>Queensland</td>
<td>The Treasurer’s approval must be obtained for all council borrowing</td>
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<tr>
<td></td>
<td>Approval to borrow from Queensland Treasury Corporation can be granted by the Director General of the Department of Infrastructure, Local Government and Planning under a delegation, but other borrowing requires the Treasurer’s direct approval</td>
<td>Yes</td>
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<tr>
<td>Victoria</td>
<td>A council may borrow if the proposed borrowing is included in a budget submitted to the minister</td>
<td>No</td>
</tr>
<tr>
<td>South Australia</td>
<td>Approval is not required for councils to borrow</td>
<td>Yes - indirectly via the Local Government Financing Authority, which borrows from SAFA</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Approval is not required for councils to borrow, but the Treasurer may impose limits on borrowing by issuing a direction</td>
<td>Yes</td>
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<tr>
<td>Tasmania</td>
<td>Approval is required for borrowing if the annual repayments required to service the total borrowings would exceed 30% of the council’s revenue in the preceding financial year</td>
<td>Yes</td>
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<tr>
<td>Northern Territory</td>
<td>The Treasurer’s approval must be obtained by a local council to borrow</td>
<td>Yes</td>
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</tbody>
</table>

Source: State legislation, EY, CEFC
4. The CEFC Local Government Finance Program

The Clean Energy Finance Corporation is offering tailored finance for Australian councils to invest in clean energy, reduce costs and lower carbon emissions.

The CEFC’s Local Government Finance Program is designed to provide flexible and competitive fixed-rate, long-term finance tailored to the needs of Australian councils.

Key benefits of the CEFC Local Government Finance Program

- Finance for eligible projects across renewable energy, energy efficiency and low emissions technologies
- Loans for a single project or package of works
- Finance can be drawn over a three-year availability period
- Ability for multiple councils to enter into joint financing agreements for eligible projects
- Access to competitive fixed-rate longer-dated senior debt, up to 10 years
- A straightforward approval process with simple loan documentation.

Through investing in renewable energy and energy efficiency, councils can reduce energy costs and take pressure off operating budgets. Making councils’ operations more efficient frees up council revenue to invest in other projects, with the cost savings continuing after the loan is repaid.

The CEFC Local Government Finance Program is targeting investment projects that have the potential to make a significant difference to a council’s energy consumption. Depending on council energy consumption patterns and clean energy upgrade opportunities, the savings from clean energy investments can more than offset the loan repayments, improving council budgets.

Figure 10: CEFC financing clean energy upgrades for the City of Melbourne

The CEFC has considerable experience working with councils, including a $30 million program of clean energy initiatives to help the City of Melbourne reach its goal of zero net emissions by 2020.

The City of Melbourne is using CEFC finance to:

- replace public lighting with more than 16,000 energy efficient LEDs
- finance Environmental Upgrade Agreements through the Sustainable Melbourne Fund to retrofit commercial property
- install 300kW of rooftop solar panels on council and community facilities, such as the Carlton Baths and Carlton Resource Centre
- finance other sustainability initiatives based on the outcomes of a five-year council emission reduction plan.

Source: City of Melbourne, CEFC
Finance tailored to council needs

CEFC loans are tailored to each council’s needs. We work with each council to develop a fit for purpose debt structure to support the council’s investment plans.

These features provide flexibility to councils to ensure the project and the CEFC financing work together to deliver an economic business case for investment.

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**Key features of the CEFC Local Government Finance Program**

**Three-year availability period:** CEFC finance is typically committed and available for up to three years. This allows councils to secure committed finance for a three-year program of works. It provides funding certainty for councils to implement clean energy projects and reduce operational costs without the upfront capital requirement.

**Flexible drawdown:** CEFC loans can be drawn down either via an upfront drawdown of 100 per cent of the funds or quarterly drawdown over the availability period. Having access to the finance upfront allows council flexibility when managing the program without the administrative burden on quarterly drawdowns. Alternatively, some councils prefer a periodic drawdown and this approach is accommodated.

**Long loan tenor:** Long-term CEFC debt of up to 10 years provides council with scope to spread the capital costs of an upgrade project over a longer period of time, in line with the asset life of the investments. A 10-year loan term often exceeds the payback period for clean energy projects, providing flexibility for council to set the debt tenor to meet the project needs, rather than the debt term leading the project requirements.

**Flexible repayment profiling:** Repayments can be matched to the project economics or the council’s cashflows, creating a debt product that is aligned to the project. Depending on council energy consumption patterns and clean energy upgrade opportunities, the savings from clean energy investments can offset the loan repayments, minimising the effect on council budgets.

**Fixed interest rates for repayment certainty:** Interest rates are at historically low levels. The CEFC provides a fixed-rate loan, which allows councils to lock in a rate at the time of signing the loan documentation. This rate remains fixed for the loan term, eliminating the need for interest rate hedging. Fixed repayments are an important benefit to councils, providing budget certainty.

**Flexible repayment arrangements:** Repayment profiles can be tailored to the council’s needs. Profiles may include interest-only with bullet (lump sum) repayment, credit foncier (equal payments per period), equal principal repayments or other tailored profiles. Many clean energy projects have payback periods of less than 10 years and the long loan term allows councils to match or extend the financing to the forecast payback period.

**Joint financing agreements across multiple councils in a region:** Councils can apply together to access a joint CEFC financing agreement. This allows councils to achieve economies of scale for larger projects such as LED streetlighting upgrades and may allow councils to share the project administration and resourcing requirements.

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**How do councils access the CEFC Local Government Finance Program?**

The CEFC can offer advice on clean energy opportunities, and we offer a straightforward approval process with simple loan documentation.

As a first step, councils can get in touch with the CEFC (via email or phone) to discuss:

- potential projects
- an estimate of the capital expenditure
- an estimated implementation timeframe.

If you would like to explore opportunities for clean energy investment at your council, please get in touch with the CEFC Local Government team:

by email on localgovernment@cleanenergyfinancecorp.com.au

or by phone on 1300 00 2332.
Further reading on clean energy opportunities for local government

A RENA, *Model for Community-Owned Solar*

ARENA/AVPI, *Live solar map* (with LGA-level solar PV capacity information)

C40 Cities for Global Leadership on Climate Change

Clean Energy Council

Environmental Protection Agency (United States), *Local Government Climate and Energy Strategy Series*

Green Investment Bank (United Kingdom), *Smarter, greener cities: Ten ways to modernise and improve UK urban infrastructure*


Ironbark Sustainability, *Sustainable public lighting*

Institute of Public Works Engineering Australasia, *Towards more sustainable street lighting*

New South Wales Office of Environment and Heritage, *Community renewable energy*
Contact the Clean Energy Finance Corporation

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