



# INVESTING IN OUR FUTURE

## Australian Infrastructure Bank

### Getting public infrastructure moving

Government investment in public infrastructure is vital to Australia's future. The Greens would increase federal funding for productive and transformative infrastructure by up to \$75 billion and establish the Australian Infrastructure Bank to manage the financing of this investment

Investment in public infrastructure is vital to the future of the Australian economy. Building and maintaining productive and transformative infrastructure will create jobs, will maintain and improve our quality of life, and will provide stability in the face of global uncertainty.

Instead of having public money tied up in lazy and speculative investment—particularly the housing market—The Greens want to redirect spending towards the new economy.

The Greens will increase Commonwealth investment in infrastructure by up to \$75 billion. This will include the provision of funding for:

- Clean energy to respond to the threat of climate change.
- Public transport and public housing to address livability and affordability in urban areas.
- Rail upgrades to help shift cars and heavy freight off our roads.
- Telecommunications of the digital age, including the NBN.
- Maintenance of existing assets, particularly local government roads and storm water.

## > THE RIGHT TIME TO INVEST

The economic case for government to invest in infrastructure is compelling. In the aftermath of the global financial crisis, borrowing costs have been reduced to historic levels all over the world. However, these record low interest rates have failed to stimulate demand. Global economic recovery remains sluggish. Speculation in housing and other risky assets is on the rise. The ability for monetary policy to provide stimulus appears to be at an end.

In Australia, as the mining boom winds down and the housing boom peaks, a long-term commitment by government to spend on infrastructure would provide confidence throughout the economy.

Now is the time for government to lock in low borrowing costs and invest in productive and transformative infrastructure. This is a call is being echoed by business groups, unions, regulators and international bodies.

Infrastructure is seen as a safe bet. While it is impossible to estimate the exact size of the infrastructure gap, estimates are that the shortfall between desired level of service and spending is as much as \$700 billion.<sup>1</sup> Regardless of the exact number, The Greens agree with the experts that there are an innumerable number of worthwhile projects that could be funded.

There is also an intergenerational case for government to invest. Where an asset has a long life, it makes sense to borrow to build, and spread the cost of paying for the asset over time.

Australian government debt remains low by historic standards and by international standards.<sup>2</sup> The average net government debt of advanced countries is around 42% of GDP.<sup>3</sup> The Commonwealth Government's net debt is currently 17% of GDP.<sup>4</sup> While this is a good position for Australia to be in, it also represents a failure by government to prepare for the future.

The Greens will increase the Australian Government's investment in infrastructure by up to \$75 billion over the next ten years. This will keep the consolidated government debt within a target range of 25% of GDP; and borrowing costs below 2% of GDP.

## > SETTING UP A BANK AND ISSUING INFRASTRUCTURE BONDS

The Greens will establish the Australian Infrastructure Bank to manage the financing and funding of federal government investment in infrastructure. The Australian Infrastructure Bank will be an independent statutory authority with an independent board.

<sup>1</sup> Infrastructure Partnerships Australia, Partnerships 2010 Infrastructure & Investment Conference Report.

<sup>2</sup> Conversely, the level of household debt in Australia is amongst the highest in the world as a result of the cost of housing. See: OCED, Household Accounts: <https://data.oecd.org/hha/household-debt.htm>

<sup>3</sup> World Economic and Financial Surveys, World Economic Outlook Database, Update: 9 July 2015.

<sup>4</sup> Federal Government, Mid-year economic and fiscal outlook, 2015-16.

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The Australian Infrastructure Bank will issue government guaranteed infrastructure bonds to raise money for federal, state and local government spending. Infrastructure bonds will be issued on long-term maturities to lock-in the low cost of borrowing for the government. This will attract retail and institutional investors—including superannuation funds—looking for a secure place to put their money.

Federally issued infrastructure bonds will also provide a mechanism for projects to be packaged together into a Commonwealth backed security. This will improve investor confidence by pooling risk and increasing liquidity.

In turn, this will provide a mechanism for investors to provide low-cost finance for local governments to invest in projects of all sizes. Current financing and funding models tend to preference larger new projects at the expense of smaller maintenance and upgrade projects. Yet, in many cases, these smaller maintenance projects are a much sounder investment. The Australian Infrastructure Bank will provide a pathway for local government to get the funding it needs.

The Infrastructure Bank will also enter into agreements with direct equity where there is a demonstrated benefit in having large institutional investors. Direct private investment tends to suit infrastructure projects where there is a revenue stream associated to a project. For example: a new wind farm that generates revenue from the sale of electricity will provide confidence to private equity investors.

The Australian Infrastructure Bank would only pursue private equity finance where the net cost of borrowing is no more than it would be through issuing bonds. The Greens believe that the commonly used public-private partnership (PPP) model has not delivered value for money to the public. For private equity to be cost-effective, the current model needs to be reformed. The Greens support the so-called ‘inverted-bid’ model where large investor partners are sought before and separately to the contracts for project delivery and asset management.

## > MANAGING THE BOOKS PROPERLY

Establishing an Infrastructure Bank would also change the way the federal government accounts for spending on infrastructure and provide a clearer picture of how the federal government is using debt.

Unlike state and local government, and most large businesses, the federal government budget does not separate recurrent spending from capital spending up-front. Analysis of the budget position routinely conflates and confuses debt and deficit. Year-on-year expenses are mixed in with funding for infrastructure. This erodes public understanding and confidence in the role of the federal government to borrow to invest.

Setting up an Infrastructure Bank would enable all investment by the federal government in infrastructure, including existing grants and funding to state, territory and local governments, to be managed and accounted for through a single point. This would better explain where money is going, and when and how

funding infrastructure with debt is a sensible and prudent budgetary decision.

## > GETTING PROJECT SELECTION RIGHT

Choosing the right projects is important to ensure the public gets the infrastructure it needs, to improve the confidence of investors and, in turn, reduce the cost of finance. Calls to de-politicise infrastructure funding have been made consistently to the point that it has become a cliché. Too often, major infrastructure decisions are made for short-term, politically expedient reasons, rather than in the long-term public interest.

The Greens accept that the government of the day will play a central role in deciding which projects to build and where they’re built. Indeed, making sound decisions in the public interest is a core part of the government’s job. They are democratically accountable to the public, while authorities and independent bodies are not. However, The Greens propose a model that would make the political dimensions of any decisions transparent.

Federal, state and local departments and agencies seeking federal funding would be required to develop a project proposal. The proposal would include an assessment of the project’s merits. In the case of large projects, this would be a comprehensive cost-benefit analysis that takes into account economic, social and environmental impacts.

These proposals would then be submitted to Infrastructure Australia. Infrastructure Australia would evaluate each proposal and make a recommendation to government on which projects deserve funding. Importantly, this recommendation would be made available to the public by Infrastructure Australia at the same time that it is given to government. The government would either accept or reject Infrastructure Australia’s recommendations in light of the independent and publicly available evaluation.