Labor

FACT SHEET

POSITIVE PLAN FOR INFRASTRUCTURE

Investing in productivity-enhancing infrastructure

Despite the Australian economy entering its 25th year of continuous expansion, the case for economic reform could not be more pressing. As the height of the mining boom passes, Australia is increasingly exposed to lower economic growth, and declining living standards.

Today we are experiencing the longest sustained period of sub-trend growth for more than 50 years.[1] Australia is experiencing rising unemployment, flagging productivity and a decline in standard of living. Without action this economic softness could become a structural weakness.

The sheer size of the rise and fall of the mining boom means the need to transition to continuous drivers of growth is urgent, and requires an ambitious policy response from government.

It must lay the foundations for enhanced productivity, something that is essential to jobs, growth and maintaining our standard of living.

Labor has already outlined key parts of our plan to invest in human capital:

- Introducing coding and computational thinking in Australian primary schools and secondary schools, and working with industry to build resources to inspire more kids into technology driven careers through the National Computing in Schools centre.
- Supporting better Science, Technology, Engineering and Mathematics (STEM) teaching through retraining 25,000 existing teachers and encouraging 25,000 STEM graduates to take up teaching through scholarships.
- Labor's TAFE funding guarantee to support publicly funded vocational education right across the nation.
- A 'Startup Year' at university to create a culture of innovation & invention.
- 100,000 STEM Award degrees providing debt free degrees on completion.
- Improving completions, with 20,000 more high-skilled university graduates every year by 2020, not $100,000 degrees.

Australia's Infrastructure Problem

The productive capacity of Australia's economy in the future will be driven by both human and physical capital. That is why infrastructure is critical our future prosperity. Simply boosting investment in infrastructure expands our economic opportunities. In the same way a company invests in its capital stock to underpin future growth, Australia needs to invest in the stock of physical capital to underpin future prosperity, boost productivity and improve our competitiveness.

Australia's infrastructure problem is significant. Our country has a well-established infrastructure deficit, with the economic cost of underinvestment, on Infrastructure

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1 AlphaBeta, 2015, GDP still weak. The longest period of consecutive sub-trend quarterly economic growth since modern records began in the 1950s was the 13 quarters following the GFC between June 2008 and June 2011. The second longest period is the 12 quarters (and counting!) since September 2012. Taken together, we are living through by far the longest period of sub-trend GDP since modern records began. By contrast the 1990s recession covered 10 consecutive quarters of below-trend growth and the 1980s recession covered 7 consecutive quarters of below-trend growth.

Australia's estimates, reaching $53 billion a year by 2031.[2] This will increasingly become a drag on growth.

Labor recognised this challenge and in government implemented a reform agenda to boost investment in infrastructure, placing it at the core of our economic agenda.

But there remain significant challenges and fundamental market failures in getting new infrastructure projects developed and financed by the market.

Well-targeted investment in infrastructure - whether by the private or public sector - creates jobs now, and increases our jobs capacity in the future.

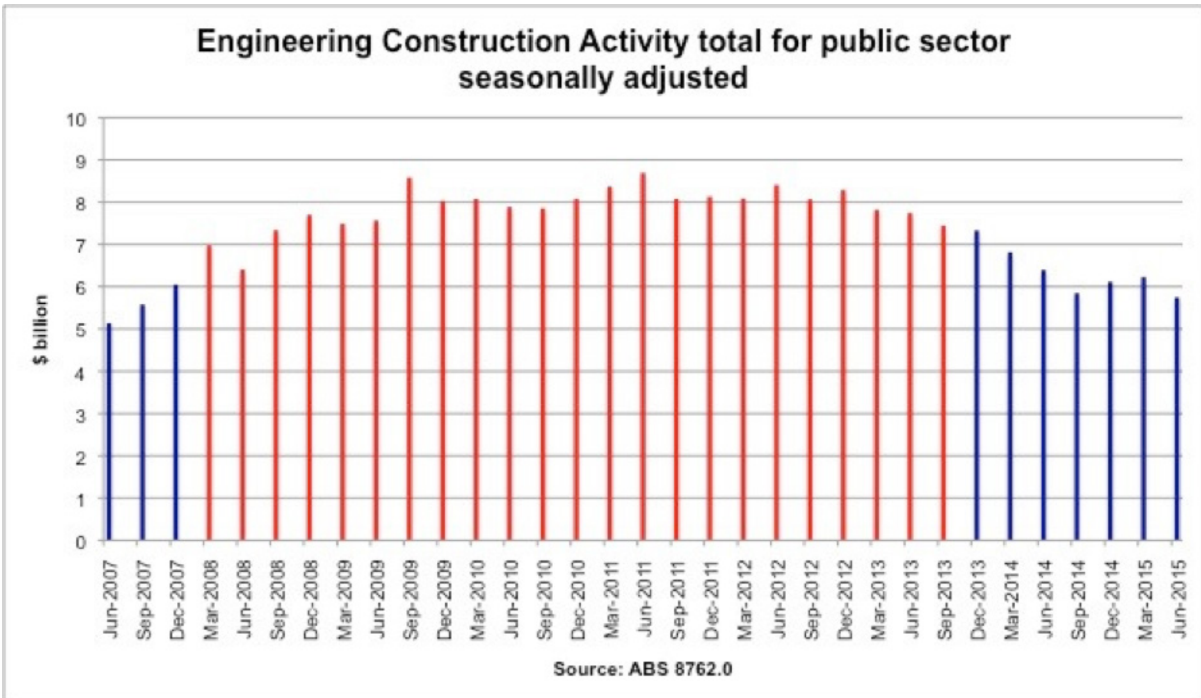
By expanding the productive capacity of the economy it also grows the revenue base for future Budget revenue.

Investment in transport, energy, communications and water infrastructure is also vital to the productivity growth that is so vital to our future prosperity.

But capital investment in infrastructure by governments is falling, not rising.

The Liberal Government has presided over a collapse in investment. Akin to a company board that is not investing in plant and equipment needed to expand into new markets, the Liberal Government is underinvesting in infrastructure, and therefore underinvesting in our future.

ABS figures released last week show engineering work completed for the public sector fell by 20.1 per cent in the June quarter compared with the last quarter of the Labor Government in 2013.[3]



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2 Infrastructure Australia 2015, Australian Infrastructure Audit.

3 ABS, 8762.0, Engineering Construction Activity, Australia.

With construction activity declining in the resources sector as it moves from the construction to the production stage of its cycle, Australia needs ambition in our infrastructure agenda.

This means increasing the involvement of government (including additional investment) in getting the roads, railways and ports needed to drive economic activity, create jobs and lift economic productivity built.

This was confirmed by the IMF recently in their statement following their Article IV consultation on Australia where they noted: “boosting public investment would support demand, take pressure off monetary policy, and insure against downside risks. In this context, they welcomed the authorities’ continuing to establish a pipeline of high-quality projects.”

Australia’s infrastructure challenge is an economic challenge that needs national leadership.

For too long, infrastructure priorities have been beholden to the political priorities of governments.

A Shorten Labor Government will end this. Labor will take the politics out of infrastructure and put the national interest at the heart of nation-building.

Australia’s infrastructure conundrum

Australia faces an infrastructure conundrum:

- We have a need for significant investment in long term physical assets to underpin our future growth, but governments at all levels are not able to sufficiently fund them.
- And we have a deep pool of domestic capital in superannuation that is searching for stable and reliable assets to invest funds over extended periods.

Unlocking this capital by helping solve this conundrum will be an important contributor to our economic prosperity.

We must do more to bring major new projects to fruition and to provide support for investment through a consistent, independently assessed, bankable infrastructure pipeline.

Currently, State Governments are reluctant to bring projects to market because of limited capacity, fiscal constraints and limited funding certainty or support from the Commonwealth.

At the same time, very high bid costs, commercial risks, high development and construction costs, forecasting errors, long procurement and uncertain processes have made new infrastructure investments less attractive to long-term equity investors like superannuation funds.

The current arrangements are structured poorly and interests between the various parties are misaligned between constructors, governments and investors. This needs to change.

Bridging this gap has a number of core elements:

1. Improving the way that projects are assessed and structured to secure a bankable pipeline of sufficient investment-ready projects
2. Ensuring that there is sufficient funding for good projects to get up and running while providing market signals to encourage more projects to be developed
3. Addressing issues around the bid process to mitigate high costs
4. Provide certainty and independence in infrastructure development

In part these system flaws are inherent in the political cycle. There is a mismatch between 3-4 year electoral cycles at State and Commonwealth level and the concept-build timeline for major infrastructure projects.

Governments – at all levels –are under pressure to use fiscal policy to drive investment outcomes. Using only a traditional grant funding approach will not be sufficient for the Commonwealth to fund the infrastructure investment needed over the medium term – and it will not create a bankable, stable pipeline of work.

A new focus is required to encourage greater participation from the private sector including the superannuation funds industry and global infrastructure investors.

Infrastructure funding decisions should be long term, and based on strong economic foundations. They should meet our needs today, and prepare our cities and regions for future growth. Too often politics has jeopardised projects, putting the certainty needed by private investors at risk. We need generational decision-making across the span of multiple terms of Parliament for this nation-building infrastructure.

Labor's approach

Bill Shorten and Anthony Albanese have consistently said that Labor will take the politics out of infrastructure and put the nation's interest at the heart of nation building. Labor will elevate Infrastructure Australia (IA) from a passive body receiving proposals, to an active participant in the infrastructure market, working with State Governments, brokering deals to bring nation building projects to fruition.

Infrastructure Australia will develop a long term pipeline for projects for the Commonwealth Government and ensure that projects move through the assessment, development and financing phases.

Just as the Reserve Bank of Australia is the independent authority at the centre of monetary policy, Infrastructure Australia will be at the centre of capital investment, driving results that are in the national interest.

It will operate in a similar way to the Reserve Bank of Australia and a Shorten Labor Government will properly consult the Opposition on all board appointments.
Under Labor, Infrastructure Australia will deliver:

1. Independent assessments and scrutiny
Labor will ensure that Infrastructure Australia independently assesses all major infrastructure projects on the basis of the benefits they provide to the economy and society as whole, their commercial viability, and their capacity to enhance national productivity.

2. Transparency
Labor will strengthen the transparency in infrastructure decision making through publishing the business case for projects and proper engagement with the community, its critical the public has confidence in infrastructure development.
Under Labor, Infrastructure Australia will be able to better case manage the priority projects identified via the IA audit process and in the development of the Priority List and facilitate the delivery of these projects.

3. Brokering
Under Labor, Infrastructure Australia will be given new authority to structure deals, engage private sector partners, and work closely with the state governments to take projects from the drawing board to construction.

IA will work with the States, long term investors, the private sector, financiers and constructors, to address the market failure in bringing new infrastructure projects to the market.

As a neutral broker in linking finance with a pipeline of projects originated by State governments, an independent assessment process and a regularly updated and deeper Priority List – IA is uniquely placed to take this role.

Powering up Infrastructure Australia

To support these reforms and to deliver a stable and ongoing pipeline of infrastructure into the future, Labor will also give Infrastructure Australia an independent financing capacity and balance sheet to jumpstart the development of new projects.

Establishing an independent, funded project broker that is able to structure projects and work programs to reflect risk will provide greater certainty for investors and incentivise States to propose projects and clear approvals.

Under a Shorten Labor Government, IA will be given a new Financing Mandate that will mobilise private sector finance by participating with loans, loan guarantees and equity investment.
A more active role for the Federal Government has been called for by a broad range of public finance experts as well as private sector investors and the business community. Operating in a similar way to the Clean Energy Finance Corporation (CEFC), Labor's new Infrastructure Australia will have a $10 billion financing facility, if needed, to deploy a combination of guarantees, loans or equity to get new projects started provided they meet stringent criteria.

This is not a grants program. Empowering Infrastructure Australia in this way will attract more private investment – not crowd it out.

It will only offer loans, loan guarantees and equity where there is market failure and where projects are expected to deliver a return on its investment. This ensures that there is flexibility in financing arrangements to deliver the most efficient and effective arrangements on a project by project basis.

In deploying capital, IA would operate on the overarching principle of 'least contribution required'- the financing would be the minimum necessary to get a project up.

Improving the project identification and assessment processes as well as innovative structures such as inverted bids,[4] and the increasing sophistication of investors in Australia (specifically in infrastructure), increases the likelihood of projects attracting sufficient funding without any long-term involvement of the Commonwealth.

The Commonwealth's exposure will be minimised so that once a project is underway and financeable, IA would transfer its equity or debt interests to long term investors such as super funds to maximise the return to the Commonwealth and so that capital can be recommitted to new projects. Over time, this pool of funds could grow allowing for even more projects to be financed.

To remove the any unintended consequences of IA taking all the upfront risks, the Commonwealth involvement will be priced based on what stage and risk profile the project is at. The strong emphasis will be on early participation from investors.
This proven financing model is the natural evolution to the Infrastructure Australia that Labor introduced in 2008 and builds on the work undertaken by the Infrastructure Financing Working Group in 2012-13.

Labor will develop these expanded functions in consultation with experts and industry.

- In its first 100 days, a Shorten Labor Government will establish an independent Expert Panel to determine the revised structure of the strengthened Infrastructure Australia and to develop the Financing Mandate.
- The Expert Panel will provide its report within six months of Labor forming Government.
- The Expert Panel will include eminent Australians representing a cross section of federal-state relations and cross-parties.

This will ensure the focus on commercial return, financial discipline corporate structures, and risk-management procedures are all in place prior to any funding. It will be resourced with staff leveraging private sector financial experience, credit risk assessment capacities and an understanding of the importance of nation-building with the long-term objective of financial self-sufficiency for Infrastructure Australia.

It will also ensure an independent board but with accountability to the public providing assurance that investment decisions are based on evaluations of commercial returns, economic outcomes, demonstration effect, leverage with private funds and productivity benefits.

This proposed model, and the process for establishing the new body, replicates the process for the development of the highly successful $10 billion Clean Energy Finance Corporation (CEFC) which is drawing in significant private sector funding to the clean and renewable energy sector in a ratio of approximately 1:2.20.[5]

The CEFC model has recently been endorsed by the Liberal Government, and it will continue to play a significant role in Australia's transition to a low emissions economy.

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4 The 'inverted bid' model is a two stage bid process where equity finance is secured first before separate tenders for construction, operation and management and debt. In other words, a long-term equity owner is appointed prior to competitive tenders for other project partners. See Industry Super Australia.

5 Clean Energy Finance Corporation, Annual Report.

Furthermore, the allocation of capital as part of the Northern Australia Infrastructure Fund (NAIF) also shows a willingness of the Liberal Government to utilising the Commonwealth balance sheet for nation building. However, there are significant flaws in the process (or lack of process) and rigour in connection with the proposed operation of the NAIF which calls into question the purpose of the NAIF.

Benefits of the package

Nation-building creates jobs and drives growth.

Labor's plan will leverage $10 billion of government-backed financing into tens of billions of dollars of private sector investment.

This mechanism has been proven to work. For example, in the case of the CEFC, every dollar of government financing is leveraging $2.20 in additional investment.

Analysis undertaken by Infrastructure Partners Australia, which has undertaken a conservative analysis which assumes no additional leverage, finds that $10 billion infrastructure investment..

- Will directly create approximately 26,000 jobs.
- And add around an extra $7.5 billion every year to our GDP.

Furthermore, the International Monetary Fund has found that when there is 'economic slack', such as Australia is currently experiencing, increases in infrastructure spending can boost GDP to the extent that public debt-to-GDP declines.

Labor's record

Australia is shaped by the nation building infrastructure projects funded by Labor governments – the Transcontinental Railway, Snowy River Scheme, pioneering opening up northern Australia, streamlining national transport regulation, fostering our maritime and aviation sectors, and the NBN.

Most recently, under Labor Australia moved from being ranked 20th in the OECD in terms of total infrastructure investment as a proportion of GDP, to 1st by 2012.

Under Labor:

- Infrastructure Australia was established in 2008.
- IA conducted Australia's first comprehensive audit of nationally significant infrastructure and created Australia's first National Infrastructure Priority List.
- Labor also significantly increased spending on infrastructure, helped to drive reforms to procurement processes, created Australia's first truly national infrastructure 'pipeline' through the National Infrastructure Construction Schedule, and introduced new tax incentives for private sector infrastructure investment.
- Labor also began work with the private sector to implement new and innovative ways for the private sector to invest – including via government guarantees (Brisbane Cross River Rail), assistance with availability payments (Melbourne Metro), seed funding (NorthConnex) and contributing Commonwealth land (Moorebank Intermodal).

In transport, we delivered an unprecedented $60 billion Nation Building Program, while retaining Australia's AAA rating across all three ratings agencies.

The former Labor Government:

- Lifted national infrastructure funding from $132 per Australian to $225.
- Funded the 15 Infrastructure Australia priority projects.
- Delivered a National Ports Strategy and a National Freight Strategy.
- Doubled the roads budget to $46.5 billion and upgraded 7500km of road.
- Invested $3.4 billion in the rail freight network over six years.
- Committed more investment in urban rail infrastructure (public transport) than all predecessors combined since federation ($13.6 billion).

Financial Implications

Labor is committing $10 billion in capital to this fund. The proposal assumes that the strengthened Infrastructure Australia will initially be capitalised with the legacy funds in the Building Australia Fund ($3.6 billion as at 2015-16 Budget). A further injection of $6.4 billion into IA from the Commonwealth will be funded through issuance of additional government borrowing (Commonwealth Government Securities).

This additional funding is off Budget and the borrowings to fund this will be accounted for in the Commonwealth balance sheet as a liability. Infrastructure Australia will invest this funding in assets that will generate a return to the Commonwealth. The PBO has estimated the public debt interest cost of the capital injection at $100.0 million over the forward estimates.

Labor will seek to use this facility to attract private financing and superannuation funds to support its priority projects.

Where grant funding is required to jump-start projects, Labor will work in partnership with State governments to identify funding within the existing infrastructure budget over the forward estimates and medium term.

Consistent with the CEFC and other investment funds, Labor is confident that this will make a return for the Commonwealth and be Budget-positive over the medium term.

Labor will account for the full impact of the additional borrowings in today's announcement, and offset it from the existing announcements Labor has made in reducing superannuation concessions, making sure multinational companies pay their fair share, and cuts to the Emissions Reduction Fund.