Parliamentary Budget Office

Policy costing

Advanced Manufacturing Future Fund	
Party:	Australian Labor Party

Summary of proposal:

This proposal would establish a public investment corporation-the Manufacturing Finance Corporation-that would have a mandate to facilitate private sector investment in commercial advanced manufacturing technologies. The Manufacturing Finance Corporation would have the following features.

- It would be structured in the same way as the existing Clean Energy Finance Corporation in terms of the Commonwealth's balance sheet, and would provide a similar range of investment, financing and concessional loan options. It would be within the general government sector.
- It would begin operating from 1 July 2020 and would be provided with operating capital in five separate special appropriations of $200 million a year, drawing down on these amounts on a needs basis to facilitate investments.
- Loan principal repayments and returns of equity would be reinvested into the Corporation. Earnings (both interest receipts and dividends on equity) would be returned to the government.

The Clean Energy Finance Corporation would share its back office loan management activities with the Manufacturing Finance Corporation.

Costing overview

This proposal would be expected to decrease the fiscal balance by $29 million, the underlying cash balance by $18 million, and the headline cash balance by $558 million over the 2019-20 Budget forward estimates period.

This proposal would have ongoing impacts on the fiscal, underlying cash and headline cash balances (noting the significant impact on the headline cash balance) beyond the 2019-20 Budget forward estimates period. Detailed financial implications for the proposal over the period to 2029-30 are included at Attachment A.

The headline cash balance impact differs substantially from the fiscal and underlying cash balance impacts because under budget accounting standards, investments in financial assets for policy purposes are not included in the fiscal or underlying cash balances, however they are included in the headline cash balance which measures the total financing requirement of the budget. As the proposal involves investments in financial assets (the issuing of concessional loans), the financial impacts shown include public debt interest financial implications.

The financial implications of this proposal are sensitive to a number of assumptions.

- The estimates are particularly sensitive to assumptions about the maturity of the loans and the differential between concessional and market interest rates. This differential would affect interest earnings, discount expenses and unwinding revenue, should the actual level of concessionality differ from the assumption. Further, the public debt interest cost of borrowing may vary if the future borrowing rates diverge from the assumed rates.
- The estimates are sensitive to the assumption about how the Manufacturing Finance Corporation's investment is split between concessional loans and equity investments.

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

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	-	-11	-9	-7	**-29**
Underlying cash balance	-	-7	-6	-5	**-18**
Headline cash balance	-	-191	-186	-181	**-558**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.
- Indicates nil.

Key assumptions

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

- The Manufacturing Finance Corporation would use its entire $1 billion special appropriation over the five years from 2019-20. Fifty per cent of the appropriation would be invested in concessional loans and the remainder would be provided as equity investments.
- Manufacturing Finance Corporation concessional interest rates and returns on equity would be between the benchmark rates for the Clean Energy Finance Corporation and the Clean Energy Innovation Fund.
- Debt not expected to be repaid is assumed to be 10 per cent of loans issued.
- Manufacturing Finance Corporation concessional loans would have a five-year term on average, with principal repayments being reinvested on an annual basis.
- Manufacturing Finance Corporation equity investments would have a 10-year term on average, with dividends being returned to the government and the principal repayments being reinvested at the end of the 10-year period.
- Concessional and market interest rates and the rate of return on equity investments would move in line with the five-year government bond rate projection as at the 2019 Pre-election Economic and Fiscal Outlook.

Methodology

The financial implications of the concessional loans and equity investments were estimated by applying the standard methodology for estimating the cost of concessional loans and equity investments, including public debt interest costs.

The public debt interest cost on an underlying cash and headline cash balance basis is adjusted for the timing of actual interest receipts.

Manufacturing Finance Corporation departmental costs were based on similar proposals and are consistent with costing models provided by the Department of the Environment and Energy and the Clean Energy Finance Corporation Annual Report 2017-18.

All estimates have been rounded to the nearest $1 million.

Data sources

The Department of the Environment and Energy provided costing models for the Clean Energy Finance Corporation.

Clean Energy Finance Corporation, 2018. *Clean Energy Finance Corporation Annual Report 2017-18* [Online] available at https://www.cefc.com.au/publications/annual-reports/.

The Department of Finance, 2016. *Resource Management Guide 115 - Accounting for concessional loans*. [Online] Available at https://www.finance.gov.au/sites/default/files/rmg-115-accounting-for-concessional-loans.pdf.

Commonwealth of Australia, 2019. *2019 Pre-election Economic and Fiscal Outlook*. Canberra: Commonwealth of Australia.

Clean Energy Finance Corporation Investment Mandate Direction 2018. [Online] Available at https://www.legislation.gov.au/Details/F2018L01768 [Accessed 08.04.2019].

Attachment A – Advanced Manufacturing Future Fund – financial implications

Table A1: Advanced Manufacturing Future Fund – Fiscal balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Revenue													
Interest accrued on loans	-	*4*	*8*	*12*	*17*	*22*	*23*	*24*	*25*	*25*	*25*	***24***	***186***
Income from unwinding of discounts	-	*2*	*4*	*6*	*7*	*9*	*9*	*9*	*8*	*8*	*8*	***11***	***69***
Dividends on equity investments	-	-	-	-	-	-	-	-	-	-	*40*	**-**	***40***
Total – revenue	**-**	**6**	**12**	**18**	**24**	**31**	**32**	**33**	**33**	**33**	**33**	**35**	**255**
Expenses													
Administered													
Concessional loan discount expense	-	*-6*	*-7*	*-8*	*-10*	*-11*	*-7*	*-8*	*-8*	*-8*	*-7*	***-21***	***-80***
Total – administered	**-**	***-6***	***-7***	***-8***	***-10***	***-11***	***-7***	***-8***	***-8***	***-8***	***-7***	***-21***	***-80***
Departmental													
Departmental	-	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	***-30***	***-100***
Total – departmental	**-**	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-30***	***-100***
Total – expenses	**-**	**-16**	**-17**	**-18**	**-20**	**-21**	**-17**	**-18**	**-18**	**-18**	**-17**	**-51**	**-180**
Total (excluding PDI)	**-**	**-10**	**-5**	**-**	**4**	**10**	**15**	**15**	**15**	**15**	**16**	**-16**	**75**
PDI impacts	**-**	**-1**	**-4**	**-7**	**-10**	**-15**	**-17**	**-17**	**-17**	**-18**	**-15**	**-13**	**-123**
Total (including PDI)	**-**	**-11**	**-9**	**-7**	**-6**	**-5**	**-2**	**-2**	**-2**	**-3**	**1**	**-29**	**-48**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A2: Advanced Manufacturing Future Fund – Underlying cash balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Receipts													
Interest payments received on loans	*-*	*4*	*8*	*12*	*17*	*22*	*23*	*24*	*25*	*25*	*25*	***24***	***185***
Dividends on equity investments	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*40*	***-***	***40***
Total – receipts	**-**	**4**	**8**	**12**	**17**	**22**	**23**	**24**	**25**	**25**	**65**	**24**	**226**
Payments													
Departmental	*-*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	***-30***	***-100***
Total – payments	**-**	**-10**	**-10**	**-10**	**-10**	**-10**	**-10**	**-10**	**-10**	**-10**	**-10**	**-30**	**-100**
Total (excluding PDI)	**-**	**-6**	**-2**	**2**	**7**	**12**	**13**	**14**	**15**	**15**	**55**	**-6**	**126**
PDI impacts	**-**	**-1**	**-4**	**-7**	**-10**	**-15**	**-17**	**-17**	**-17**	**-18**	**-15**	**-12**	**-122**
Total (including PDI)	**-**	**-7**	**-6**	**-5**	**-3**	**-3**	**-4**	**-3**	**-2**	**-3**	**40**	**-18**	**4**

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

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.

Table A3: Advanced Manufacturing Future Fund – Headline cash balance ($m)(a)(b)

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
Receipts													
Loan repayments	-	*16*	*36*	*60*	*89*	*124*	*129*	*132*	*132*	*128*	*115*	***113***	***963***
Interest payments received on loans	-	*4*	*8*	*12*	*17*	*22*	*23*	*24*	*25*	*25*	*25*	***24***	***186***
Equity repayments	-	-	-	-	-	-	-	-	-	-	*90*	**-**	***90***
Dividends on equity investments	-	-	-	-	-	-	-	-	-	-	*40*	**-**	***40***
Total – receipts	**-**	**20**	**44**	**72**	**106**	**146**	**152**	**156**	**157**	**153**	**270**	**137**	**1,279**
Payments													
Administered													
Loans from initial injection	-	*-100*	*-100*	*-100*	*-100*	*-100*	-	-	-	-	-	***-300***	***-500***
Loan from recycling principal	-	-	*-16*	*-36*	*-60*	*-89*	*-124*	*-129*	*-132*	*-132*	*-128*	***-53***	***-847***
Equity investment	-	*-100*	*-100*	*-100*	*-100*	*-100*	-	-	-	-	-	***-300***	***-500***
Total – administered	**-**	***-200***	***-216***	***-236***	***-260***	***-289***	***-124***	***-129***	***-132***	***-132***	***-128***	***-653***	***-1,847***
Departmental													
Departmental	-	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	*-10*	***-30***	***-100***
Total – departmental	**-**	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-10***	***-30***	***-100***
Total – payments	**-**	**-210**	**-226**	**-246**	**-270**	**-299**	**-134**	**-139**	**-142**	**-142**	**-138**	**-683**	**-1,947**
Total (excluding PDI)	**-**	**-190**	**-182**	**-174**	**-164**	**-153**	**18**	**17**	**15**	**11**	**132**	**-546**	**-668**
PDI impacts	**-**	**-1**	**-4**	**-7**	**-10**	**-15**	**-17**	**-17**	**-17**	**-18**	**-15**	**-12**	**-122**
Total (including PDI)	**-**	**-191**	**-186**	**-181**	**-174**	**-168**	**1**	**-**	**-2**	**-7**	**117**	**-558**	**-790**

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

(b) Figures may not sum to totals due to rounding.

\- Indicates nil.