



Policy costing

Funding drought resilience and infrastructure	
Party:	Australian Labor Party
Summary of proposal: <p>This proposal has two components that relate to not proceeding with the 2018-19 Mid-Year Economic and Fiscal Outlook measure <i>Future Drought Fund – establishment</i>.</p> <p>Component 1 would maintain the Building Australia Fund, and would amend its target rate of return in line with the expected return of the Future Drought Fund. Consistent with the Building Australia Fund’s legislation, net unspent earnings would be reinvested each year so that they would be available for future, yet to be determined, projects.</p> <p>Component 2 would provide \$100 million per annum from 2020-21 to fund initiatives that enhance drought resilience, preparedness and response across Australia, rather than drawing down \$100 million from the fund.</p> <p>The proposal would have effect from 1 June 2019.</p>	

Costing overview

The proposal would be expected to increase the fiscal balance by \$5.9 million, increase the underlying cash balance by \$6.2 million and decrease the headline cash balance by \$8.3 million over the 2019-20 Budget forward estimates period. The fiscal balance impact reflects an increase in revenue of \$16.0 million partly offset by increase in departmental expenses of \$1.5 million and an increase in public debt interest expense of \$8.6 million over this period.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, public debt interest expense impacts have been included in this costing as the proposal has an impact on Commonwealth Government financing arrangements.

Differences in the fiscal and underlying cash balance impacts solely reflect the difference in timing between when public debt interest expenses accrue and when they would be paid.

The headline cash balance impact differs from the underlying cash balance impact due to the headline cash balance including additional earnings that would be re-invested and the inclusion of capital gains as part of revenue receipts, both of which do not appear in the underlying cash balance.

Given the proposal’s 1 June 2019 start date, Component 1 would be expected to increase both the fiscal and underlying cash balances by \$6.5 million in 2018-19, this is not included in the tables below.

This proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications from 2019-20 to 2029-30 is provided at [Attachment A](#).

The Building Australia Fund’s initial capital level and management costs are relatively certain. The estimates are sensitive to the projected rates of return under the proposal and baseline scenarios, and decisions on the timing and amount of project spending.

Table 1: Financial implications (\$m)^{(a)(b)}

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	0.3	-0.6	1.6	4.5	5.9
Underlying cash balance	0.3	-0.6	1.8	4.6	6.2
Headline cash balance	-	-0.8	-2.7	-4.7	-8.3

(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

In costing this proposal, the PBO has assumed that required changes to relevant legislation and the Building Australia Fund’s investment strategy would be completed by the start date of the proposal.

Methodology

The financial implications of the proposal reflect the combined impact of:

- not proceeding with the Future Drought Fund and maintaining the Building Australia Fund with a revised and higher return investment mandate.
- an overall reduction in government financing costs associated with providing \$100 million per year from consolidated revenue instead of drawing down the same amount from the fund, which earns a higher return than the public debt interest cost of financing consolidated revenue.

The Building Australia Fund’s initial fund balance at the start of the proposal was estimated based on information published in the Department of Finance’s 2019-20 Portfolio Budget Statements. Total annual fund earnings were estimated by applying the target rate of return to the opening balance of the fund each year. Total earnings less management costs were reinvested, increasing the asset base for the subsequent years.

Departmental expenses reflect the cost of managing the fund which are calculated as a proportion of gross earnings. These are slightly higher under the proposal.

All estimates have been rounded to the nearest \$100,000.

Data sources

The Department of Finance provided the 2019-20 Budget Future Drought Fund model.

Commonwealth of Australia, 2019. *2019-20 Budget Measures*, Budget Paper No. 2, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2019. *2019-20 Portfolio Budget Statements of the Department of Finance*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2019. *2018-19 Mid-Year Economic and Fiscal Outlook*, Canberra: Commonwealth of Australia.

Attachment A – Funding drought resilience and infrastructure – financial implications

Table A1: Funding drought resilience and infrastructure – 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													
Total – revenue	0.3	0.3	5.0	10.3	15.7	21.4	27.3	33.5	40.0	46.8	54.0	16.0	254.7
Expenses													
<i>Administered</i>													
<i>Component 1: Not proceeding with disbursements from fund</i>	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	300.0	1,000.0
<i>Component 2: Capped funding for drought initiatives</i>	-	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-300.0	-1,000.0
Total – administered	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Departmental</i>													
<i>Management fees</i>	..	..	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – departmental	-	-	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – expenses	-	-	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total (excluding PDI)	0.3	0.3	4.5	9.3	14.2	19.4	24.8	30.4	36.3	42.4	49.0	14.5	230.9
PDI impacts	..	-0.9	-2.9	-4.8	-7.2	-10.5	-14.4	-19.0	-24.0	-29.6	-35.7	-8.6	-149.1
Total (including PDI)	0.3	-0.6	1.6	4.5	7.0	8.9	10.4	11.4	12.3	12.8	13.3	5.9	81.8

(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.

.. Not zero but rounded to zero.

- Indicates nil.

Table A2: Funding drought resilience and infrastructure – 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													
Total – receipts	0.3	0.3	5.0	10.3	15.7	21.4	27.3	33.5	40.0	46.8	54.0	16.0	254.7
Payments													
<i>Administered</i>													
<i>Component 1: Not proceeding with disbursements from fund</i>	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	300.0	1,000.0
<i>Component 2: Capped funding for drought initiatives</i>	-	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-300.0	-1,000.0
Total – administered	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Departmental</i>													
<i>Management fees</i>	..	..	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – departmental	-	-	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – payments	-	-	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total (excluding PDI)	0.3	0.3	4.5	9.3	14.2	19.4	24.8	30.4	36.3	42.4	49.0	14.5	230.9
PDI impacts	..	-0.9	-2.7	-4.7	-7.1	-10.3	-14.1	-18.6	-23.7	-29.2	-35.3	-8.3	-146.6
Total (including PDI)	0.3	-0.6	1.8	4.6	7.1	9.1	10.7	11.8	12.6	13.2	13.7	6.2	84.3

- (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.
- .. Not zero but rounded to zero.
- Indicates nil.

Table A3: Funding drought resilience and infrastructure – 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													
Total – receipts	0.3	0.3	5.0	10.3	15.7	21.4	27.3	33.5	40.0	46.8	54.0	16.0	254.7
Payments													
<i>Administered</i>													
<i>Component 1: Reinvestment</i>	-0.3	-0.3	-4.5	-9.3	-14.2	-19.4	-24.8	-30.4	-36.3	-42.4	-49.0	-14.5	-230.9
<i>Component 1: Not proceeding with disbursements from fund</i>	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	300.0	1,000.0
<i>Component 2: Capped funding for drought initiatives</i>	-	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-100.0	-300.0	-1,000.0
Total – administered	-0.3	-0.3	-4.5	-9.3	-14.2	-19.4	-24.8	-30.4	-36.3	-42.4	-49.0	-14.5	-230.9
<i>Departmental</i>													
<i>Management fees</i>	..	..	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – departmental	-	-	-0.5	-1.0	-1.5	-2.0	-2.5	-3.1	-3.7	-4.4	-5.0	-1.5	-23.8
Total – payments	-0.3	-0.3	-5.0	-10.3	-15.7	-21.4	-27.3	-33.5	-40.0	-46.8	-54.0	-16.0	-254.7
Total (excluding PDI)	-	-	-	-	-	-	-	-	-	-	-	-	-
PDI impacts^(c)	..	-0.9	-2.7	-4.7	-7.1	-10.3	-14.1	-18.6	-23.7	-29.2	-35.3	-8.3	-146.6
Total (including PDI)	-	-0.9	-2.7	-4.7	-7.1	-10.3	-14.1	-18.6	-23.7	-29.2	-35.3	-8.3	-146.6

(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.

(c) In most situations a proposal that has no impact on the headline cash balance prior to the inclusion of PDI would not attract financing costs. However in this proposal because the funding for drought initiatives moves from being funded from the relevant investment fund to being funded from consolidated revenue a PDI financing cost is included. The PDI costs partially offset the increased earnings of the investment fund given that this fund is no longer drawn upon to fund these drought initiatives. Excluding the PDI costs from the above table would overstate the improvements to the budget balance from changing the financing arrangements.

.. Not zero but rounded to zero.

- Indicates nil.