Parliamentary Budget Office

Manufacturing "Made in Australia" Bank	
Party:	Australian Greens
Summary of proposal: This proposal would establish a $15 billion green industry and manufacturing bank (the bank) to support manufacturing, innovation, industrial decarbonisation and re/localisation of supply chains. It would have a similar structure to the existing Clean Energy Finance Corporation (CEFC) in terms of the Australian Government balance sheet and provide direct grants, equity investment, financing and concessional loan options depending on the corporate structure of applicants. It would target small businesses, workers' cooperatives, green not-for-profit and social enterprises that are engaged in innovative production, research and development. The bank would manage $12 billion of equity and concessional loan investments with loan repayments, returns on equity and earnings reinvested. Departmental costs would be additional. The bank would also deliver $3 billion over 5 years via direct grants, which would also include departmental costs. There would be a review of the bank after 5 years. The proposal would begin on 1 July 2022.	

Costing overview

This proposal would be expected to decrease the fiscal balance by around $3,250 million, the underlying cash balance by around $2,353 million, and the headline cash balance by around $8,625 million over the 2022-23 Budget forward estimates period.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

The financial implications of this proposal are uncertain and highly sensitive to assumptions on the speed at which capital is deployed, the rate of interest earned and the average maturity period of investments. In particular, the costing includes no allowance for the impact of the proposal on business profitability or company tax revenue. The magnitude of such effects would be highly uncertain and could comprise different effects, including:

- enterprises switching from traditional lenders to concessional loans under this proposal (reducing the profits of banks) and reductions in the returns of competing investment projects (crowding-out effects)
- increases in profits from marginal projects as a result of a reduction in the cost of capital from the proposal, especially when considering the grants on offer (crowding-in effects).

It is unclear which of the crowding-out or crowding-in effects would dominate and this could vary from period to period.

Consistent with Parliamentary Budget Office (PBO) Guidance 02/2015, public debt interest (PDI) expense impacts have been included in this costing because the equity injections and concessional loans provided under this proposal involve financial asset transactions.

The fiscal, underlying cash and headline cash balance impacts differ in the treatment of interest and dividend payments, and the flow of loan principal and equity amounts. In particular, only the fiscal balance reflects the concessional loan discount expense, associated unwinding income, and loan write-downs, and only the headline cash balance includes transactions related to loan principal amounts and equity investments. The impact on net debt will be broadly consistent with movements in the headline cash balance. A note on the accounting treatment of concessional loans is included at Attachment B.

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

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-693.7	-783.3	-879.5	-893.9	**-3,250.4**
Underlying cash balance	-601.3	-593.2	-583.3	-575.5	**-2,353.3**
Headline cash balance	-1,297.3	-1,984.2	-2,671.3	-2,672.5	**-8,625.3**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Committed funding would not impact consolidated revenue until funding is deployed or drawn down for investment or operational purposes.
- The $12 billion investments under the bank's management would be committed evenly over five years from 2022-23 and deployed in the following fashion:
  - Each tranche of funding would be deployed evenly over three years after it is made available. This is consistent with the time needed to assess eligibility, the average length of investment projects, and provides staged funding to projects.
  - Average investment maturity would be around seven years, consistent with the CEFC's investment management experience to date.
  - Market interest rates would move in line with the five-year government bond rate projections.
  - Interest payments and dividend earnings on investments would be returned to consolidated revenue and repaid capital would be reinvested in the fund, consistent with the operation of the CEFC.
  - Debt not expected to be repaid is assumed to be 10% of loans issued, as this proposal would involve high-risk early-stage enterprises and innovations.
  - The departmental costs would be broadly consistent with the costs of the CEFC relative to the amount of funding administered. There would be additional departmental expenses in 2022-23 to reflect establishment costs.
- The grants program would allocate grants evenly over the first five years and departmental costs to administer these grants would be in line with similar-sized programs.

- The five-year review of the bank would incur a small departmental cost in 2027-28.

Methodology

Expenditure estimates for the equity commitment were developed using information on the CEFC provided by the Department of Industry, Science, Energy and Resources, including funding commitments, drawdowns, interest payments and dividends.

- Around 90% of committed funds were provided as concessional loans and the remainder as invested equity, consistent with the current commitment and investment schedule of the CEFC.
- Departmental costs were calculated as a share of total loan and equity amounts, consistent with the current operational expenses of the CEFC.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

Economic parameters used in the model were provided by the Department of Finance and the Treasury as at *Pre-election Economic and Fiscal Outlook 2022-23*.

Information on the CEFC's funding commitments, equity investments, concessional loans, and operational expenses was provided by the Department of Industry, Science, Energy and Resources as at the *Budget 2022-23*.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Manufacturing "Made in Australia" Bank – financial implications

Table A1: Manufacturing "Made in Australia" Bank – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Income from unwinding concessional loan	*6.6*	*19.9*	*39.8*	*59.6*	*79.6*	*92.6*	*98.3*	*96.5*	*94.1*	*91.3*	*88.4*	***125.9***	***766.7***
Interest income	*21.0*	*63.0*	*126.0*	*188.0*	*249.0*	*293.0*	*317.0*	*319.0*	*324.0*	*331.0*	*339.0*	***398.0***	***2,570.0***
Dividend income	*2.4*	*7.0*	*13.2*	*21.9*	*28.6*	*32.8*	*34.8*	*34.8*	*34.8*	*34.8*	*34.8*	***44.5***	***279.9***
Total – revenue	**30.0**	**89.9**	**179.0**	**269.5**	**357.2**	**418.4**	**450.1**	**450.3**	**452.9**	**457.1**	**462.2**	**568.4**	**3,616.6**
Expenses													
Administered													
Concessional loan discount	*-28.0*	*-59.0*	*-94.0*	*-106.0*	*-121.0*	*-109.0*	*-94.0*	*-78.0*	*-84.0*	*-87.0*	*-86.0*	***-287.0***	***-946.0***
Other financing costs	*-69.0*	*-147.0*	*-235.0*	*-265.0*	*-302.0*	*-272.0*	*-237.0*	*-196.0*	*-213.0*	*-221.0*	*-219.0*	***-716.0***	***-2,376.0***
Direct grants to enterprises	*-586.0*	*-586.0*	*-586.0*	*-586.0*	*-586.0*	-	-	-	-	-	-	***-2,344.0***	***-2,930.0***
Total – administered	***-683.0***	***-792.0***	***-915.0***	***-957.0***	***-1,009.0***	***-381.0***	***-331.0***	***-274.0***	***-297.0***	***-308.0***	***-305.0***	***-3,347.0***	***-6,252.0***
Departmental													
Departmental costs	*-25.7*	*-30.2*	*-39.5*	*-42.4*	*-45.6*	*-28.4*	*-23.2*	*-18.6*	*-20.1*	*-20.9*	*-20.8*	***-137.8***	***-315.4***
Total – departmental	***-25.7***	***-30.2***	***-39.5***	***-42.4***	***-45.6***	***-28.4***	***-23.2***	***-18.6***	***-20.1***	***-20.9***	***-20.8***	***-137.8***	***-315.4***
Total – expenses	**-708.7**	**-822.2**	**-954.5**	**-999.4**	**-1,054.6**	**-409.4**	**-354.2**	**-292.6**	**-317.1**	**-328.9**	**-325.8**	**-3,484.8**	**-6,567.4**
Total (excluding PDI)	**-678.7**	**-732.3**	**-775.5**	**-729.9**	**-697.4**	**9.0**	**95.9**	**157.7**	**135.8**	**128.2**	**136.4**	**-2,916.4**	**-2,950.8**
PDI impacts	***-15.0***	***-51.0***	***-104.0***	***-164.0***	***-226.0***	***-277.0***	***-304.0***	***-314.0***	***-316.0***	***-321.0***	***-338.0***	***-334.0***	***-2,430.0***
Total (including PDI)	**-693.7**	**-783.3**	**-879.5**	**-893.9**	**-923.4**	**-268.0**	**-208.1**	**-156.3**	**-180.2**	**-192.8**	**-201.6**	**-3,250.4**	**-5,380.8**

(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.

\- Indicates nil.

Table A2: Manufacturing "Made in Australia" Bank – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Interest income	*21.0*	*63.0*	*126.0*	*188.0*	*249.0*	*293.0*	*317.0*	*319.0*	*324.0*	*331.0*	*339.0*	***398.0***	***2,570.0***
Dividend income	*2.4*	*7.0*	*13.2*	*21.9*	*28.6*	*32.8*	*34.8*	*34.8*	*34.8*	*34.8*	*34.8*	***44.5***	***279.9***
Total – receipts	**23.4**	**70.0**	**139.2**	**209.9**	**277.6**	**325.8**	**351.8**	**353.8**	**358.8**	**365.8**	**373.8**	**442.5**	**2,849.9**
Payments													
Administered													
Direct grants to enterprises	*-586.0*	*-586.0*	*-586.0*	*-586.0*	*-586.0*	-	-	-	-	-	-	***-2,344.0***	***-2,930.0***
Total – administered	***-586.0***	***-586.0***	***-586.0***	***-586.0***	***-586.0***	-	-	-	-	-	-	***-2,344.0***	***-2,930.0***
Departmental													
Departmental costs	*-25.7*	*-30.2*	*-39.5*	*-42.4*	*-45.6*	*-28.4*	*-23.2*	*-18.6*	*-20.1*	*-20.9*	*-20.8*	***-137.8***	***-315.4***
Total – departmental	***-25.7***	***-30.2***	***-39.5***	***-42.4***	***-45.6***	***-28.4***	***-23.2***	***-18.6***	***-20.1***	***-20.9***	***-20.8***	***-137.8***	***-315.4***
Total – payments	**-611.7**	**-616.2**	**-625.5**	**-628.4**	**-631.6**	**-28.4**	**-23.2**	**-18.6**	**-20.1**	**-20.9**	**-20.8**	**-2,481.8**	**-3,245.4**
Total (excluding PDI)	**-588.3**	**-546.2**	**-486.3**	**-418.5**	**-354.0**	**297.4**	**328.6**	**335.2**	**338.7**	**344.9**	**353.0**	**-2,039.3**	**-395.5**
PDI impacts	***-13.0***	***-47.0***	***-97.0***	***-157.0***	***-219.0***	***-271.0***	***-301.0***	***-313.0***	***-316.0***	***-321.0***	***-336.0***	***-314.0***	***-2,391.0***
Total (including PDI)	**-601.3**	**-593.2**	**-583.3**	**-575.5**	**-573.0**	**26.4**	**27.6**	**22.2**	**22.7**	**23.9**	**17.0**	**-2,353.3**	**-2,786.5**

(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.

\- Indicates nil.

Table A3: Manufacturing "Made in Australia" Bank – Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Loan principal repayments	*90.0*	*280.0*	*580.0*	*920.0*	*1,310.0*	*1,660.0*	*1,960.0*	*2,130.0*	*2,210.0*	*2,190.0*	*2,130.0*	***1,870.0***	***15,460.0***
Interest income	*21.0*	*63.0*	*126.0*	*188.0*	*249.0*	*293.0*	*317.0*	*319.0*	*324.0*	*331.0*	*339.0*	***398.0***	***2,570.0***
Dividend income	*2.4*	*7.0*	*13.2*	*21.9*	*28.6*	*32.8*	*34.8*	*34.8*	*34.8*	*34.8*	*34.8*	***44.5***	***279.9***
Total – receipts	**113.4**	**350.0**	**719.2**	**1,129.9**	**1,587.6**	**1,985.8**	**2,311.8**	**2,483.8**	**2,568.8**	**2,555.8**	**2,503.8**	**2,312.5**	**18,309.9**
Payments													
Administered													
Loan amounts	*-690.0*	*-1,470.0*	*-2,350.0*	*-2,650.0*	*-3,020.0*	*-2,720.0*	*-2,370.0*	*-1,960.0*	*-2,130.0*	*-2,210.0*	*-2,190.0*	***-7,160.0***	***-23,760.0***
Equity investments	*-96.0*	*-201.0*	*-318.0*	*-367.0*	*-383.0*	*-322.0*	*-263.0*	*-205.0*	*-210.0*	*-207.0*	*-195.0*	***-982.0***	***-2,767.0***
Direct grants to enterprises	*-586.0*	*-586.0*	*-586.0*	*-586.0*	*-586.0*	-	-	-	-	-	-	***-2,344.0***	***-2,930.0***
Total – administered	***-1,372.0***	***-2,257.0***	***-3,254.0***	***-3,603.0***	***-3,989.0***	***-3,042.0***	***-2,633.0***	***-2,165.0***	***-2,340.0***	***-2,417.0***	***-2,385.0***	***-10,486.0***	***-29,457.0***
Departmental													
Departmental costs	*-25.7*	*-30.2*	*-39.5*	*-42.4*	*-45.6*	*-28.4*	*-23.2*	*-18.6*	*-20.1*	*-20.9*	*-20.8*	***-137.8***	***-315.4***
Total – departmental	***-25.7***	***-30.2***	***-39.5***	***-42.4***	***-45.6***	***-28.4***	***-23.2***	***-18.6***	***-20.1***	***-20.9***	***-20.8***	***-137.8***	***-315.4***
Total – payments	**-1,397.7**	**-2,287.2**	**-3,293.5**	**-3,645.4**	**-4,034.6**	**-3,070.4**	**-2,656.2**	**-2,183.6**	**-2,360.1**	**-2,437.9**	**-2,405.8**	**-10,623.8**	**-29,772.4**
Total (excluding PDI)	**-1,284.3**	**-1,937.2**	**-2,574.3**	**-2,515.5**	**-2,447.0**	**-1,084.6**	**-344.4**	**300.2**	**208.7**	**117.9**	**98.0**	**-8,311.3**	**-11,462.5**
PDI impacts	***-13.0***	***-47.0***	***-97.0***	***-157.0***	***-219.0***	***-271.0***	***-301.0***	***-313.0***	***-316.0***	***-321.0***	***-336.0***	***-314.0***	***-2,391.0***
Total (including PDI)	**-1,297.3**	**-1,984.2**	**-2,671.3**	**-2,672.5**	**-2,666.0**	**-1,355.6**	**-645.4**	**-12.8**	**-107.3**	**-203.1**	**-238.0**	**-8,625.3**	**-13,853.5**

(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.

\- Indicates nil.

Attachment B – Accounting treatment of concessional loans

A concessional loan is a loan provided on more favourable terms than the borrower could obtain in the financial market. The most common concession is a below-market interest rate, but concessions can also include favourable repayment conditions. The income contingent loans available through the Higher Education Loan Program are an example of concessional loans offered by the Australian Government.

Budget impact[2]

The accounting treatment of concessional loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans. The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest, the value of the concession and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.[3] Table B1 provides information about the detail provided in a costing. The provision of concessional loans decreases the Australian Government's net worth if the liabilities issued (the value of Australian Government Securities issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid

All budget aggregates take into account estimates of the share of loans not expected to be repaid when calculating interest flows and estimating the value of the concession that is being provided. None of the measures capture the direct impact on net worth of the loans not expected to be repaid. If a portion of loans are not expected to be repaid, estimates of the 'fair value' of the loans outstanding will be reduced. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'other economic flows' which are reflected in net worth but not in the budget aggregates.

Table B1: Components of concessional loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Concessional loan discount expense and unwinding revenue	Fiscal balance	The net present value of the concession (based on the difference between the market and concessional interest rates) is captured as an expense in the fiscal balance. As loans are repaid, the remaining value of the concession reduces, so this expense is 'unwound' with a positive impact on the fiscal balance. The concessional discount and its unwinding are not recognised in cash balances as there is no cash inflow or outflow.
Write-offs	Fiscal balance	Debt forgiveness, also known as mutually agreed write-downs (for example in the case of the death of the borrower of a HELP loan) are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

[2] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[3] This is in accordance with *PBO Guidance 02/2015* and the *Charter of Budget Honesty Policy Costing Guidelines* which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.