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SUBMISSION IN RESPONSE TO YOUR FUTURE, YOUR SUPER EXPOSURE DRAFT LEGISLATION

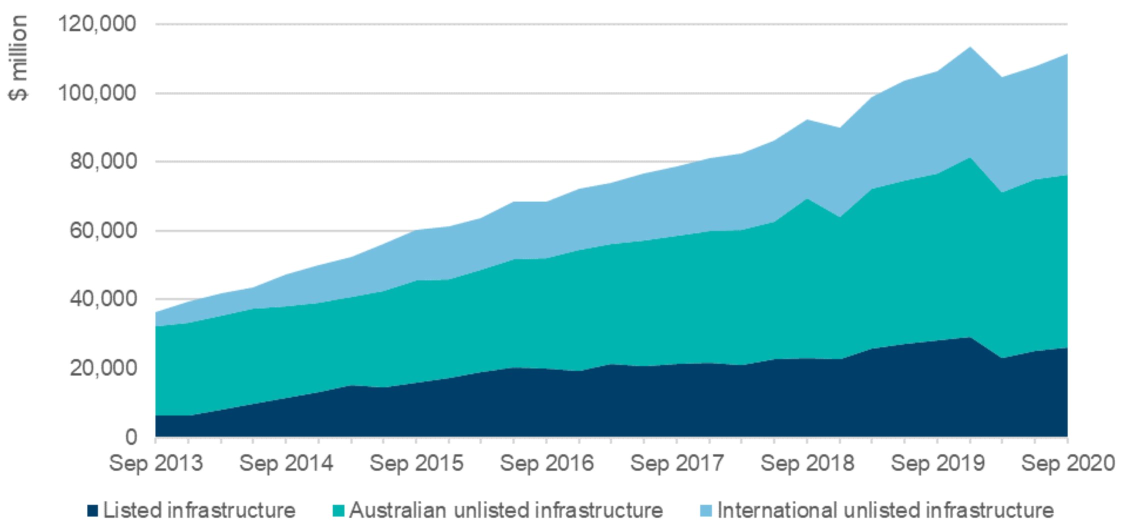
Infrastructure Partnerships Australia is pleased to provide this submission to the exposure draft of the legislation for the Federal Government's *Your Future, Your Super* package.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest.

A high-performing superannuation sector is good for Australian infrastructure

The infrastructure sector supports the Federal Government's objective of supporting a high-performing superannuation sector.

Figure 1: Australian superannuation industry infrastructure asset allocation



Source: Australian Prudential Regulation Authority, 2020

Australia's superannuation sector has been a major investor in infrastructure over recent decades. As shown in Figure 1, the total investment by Australian super funds in infrastructure has more than trebled since 2013, with $111.5 billion invested in the September 2020 quarter. Of this, more than $50 billion is invested in Australian unlisted infrastructure, and a further $26 billion is invested in a mix of Australian and international listed infrastructure.[1]

With its typically strong returns, stable policy and regulatory environment and sophisticated oversight, Australian infrastructure provides an excellent home for Australians' superannuation savings. In turn, a competitive and high-performing Australian superannuation sector supports a high-performing infrastructure sector. Strong investment appetite from the superannuation sector provides infrastructure with finance on competitive terms, as well as the expertise of sophisticated investors with a long-term focus that is well-aligned to long-lived assets.

COVID-19 means infrastructure investment is more important than ever

The importance of superannuation investment for Australian infrastructure has only been heightened through the COVID-19 crisis. This is illustrated by the focus of Australian governments on infrastructure through their Budgets over recent months, with over $225 billion in general government investment in public infrastructure investment across the country. This includes a record $50.8 billion in infrastructure investment by the Federal Government over the next four years – a 68 per cent increase on the four-year spend planned in last year's Federal Budget.[2]

Clearly Australia's governments have placed a high priority on infrastructure as a way of boosting aggregate demand through the economic recovery from COVID-19. However, public investment cannot carry Australia's recovery in its own right. Private investment – particularly in productivity-enhancing infrastructure – can play a major role in supporting the national economy. In this context, stable policy and regulatory settings are essential for providing an attractive environment for private investment in Australian infrastructure.

Providing the right settings for Australian superannuation investments in Australian infrastructure is a long-standing policy objective of the Federal Government. This was reflected in comments by the Federal Treasurer in June of this year, when he stated superannuation was a *"massive pool in savings that should be harnessed more for domestic investment. I don't care if they are industry funds or retail funds, I would like to see them both put to work on domestic infrastructure assets more than they have been"*.[3]

The right benchmark can support better outcomes for Australian infrastructure and its investors

The policy objective of the *Your Future, Your Super* package focused on 'addressing underperformance in superannuation' is aligned with the objectives of Australian infrastructure investors, operators and users. Sound infrastructure investments deliver benefits to all stakeholders.

The introduction of the right benchmark for superannuation performance can support continued positive outcomes for Australian infrastructure investors and, by extension, Australians with superannuation

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[1] Australian Prudential Regulatory Authority 2020, *Quarterly Superannuation Performance, September 2020,* released 24 November 2020.

[2] Infrastructure Partnerships Australia 2020, *2020-21 Australian Infrastructure Budget Monitor*.

[3] Comments by Hon Josh Frydenberg MP to Duke, J. 2020, *Sydney Morning Herald,* 'Super funds say policy stability key to more infrastructure investment,' published 10 June 2020.

savings. Improving transparency and ease of comparison of the performance of superannuation funds is a positive reform outcome.

However, it is important the right benchmark is selected to ensure this outcome does not come at the expense of broader policy objectives, artificially distort investment flows or introduce perverse investment incentives. The wrong settings could undermine the infrastructure objectives of governments and the private sector, potentially resulting in poorer outcomes for Australian infrastructure users and taxpayers. A failure to get the policy settings right on this reform could dampen investment demand in the domestic market in the short term, reducing the availability of private capital or raising the cost of capital for new projects and placing more of the investment burden on governments' balance sheets.

Over the long term, the wrong settings could see capital flow from Australian infrastructure to other asset types and a generally heightened level of risk aversion by superannuation investors in Australian assets. For example, a global listed benchmark for infrastructure could deter investment in Australian unlisted assets, or see Australian superannuation investors seeking to divest their more than $50 billion in investments in the asset class. This risks distorting investment markets and driving a need to change how infrastructure is financed, funded and delivered without discernible public benefits from this change.

There is a risk these consequences could emerge if the wrong benchmark is selected, or a benchmark is applied in a way that is misaligned with the investment characteristics of Australian infrastructure – aside from any change in the performance of Australian infrastructure investments. For these reasons, it is important this benchmark is carefully selected based on sound methodology, stability, transparency of calculation, and alignment with the incentives and policy settings for Australian infrastructure investments.

Detailed engagement on the draft regulations will be essential for maintaining investor confidence

It is also important the *Your Future, Your Super* reforms safeguard Australia's reputation as a leading infrastructure investment market, which has been built on a track record of stable market frameworks and rules.

Over recent years, investors have expressed increasing levels of concern with shifting policy and regulatory settings. Infrastructure Partnerships Australia's *2019 Australian Infrastructure Investment Report* found that 83 per cent of participants indicated uncertainty in Australia's policy and regulatory settings as limiting their willingness to invest. This has been brought on by, *"a flurry of government interventions, tax changes and regulatory reviews in recent years"*.[4]

In this context, it is essential the reforms are implemented in a manner that builds investors' confidence in the Australian market, and does not add to uncertainty at a time when the sector can afford it least. Getting the policy settings right for the *Your Future, Your Super* package is in the best interests of the Federal Government, the superannuation sector, the infrastructure sector and – most importantly – the broader community.

Infrastructure Partnerships Australia encourages the Federal Government to undertake detailed and considered engagement on the package – particularly in relation to the draft regulations – and to

[4] Infrastructure Partnerships Australia, 2019, *2019 Australian Infrastructure Investment Report.*

consider the full range of impacts of the proposed reforms in relation to the Federal Government's broader economic and infrastructure policy objectives.

We would be pleased to provide additional information to assist this policy development process, or to help coordinate the perspectives of the Australian infrastructure sector through this process. If you require further detail please contact Jon Frazer, Director of Policy and Research, on [redacted]

Yours sincerely,

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