THE AUSTRALIAN

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Local savings forced to look offshore for infrastructure targets

". . . Australian savings are having to go offshore to look for infrastructure investments. And Australian fund managers are selling their infrastructure deal-doing and investment expertise offshore . . ."

The success of QIC's new infrastructure fundraising says a lot about the current investor hunger for long-term infrastructure investments in a low interest rate world, as well as Australia's global reputation in infrastructure fund management.

But it does little to deal with the heart of the problem — the financial and political challenges facing cash-strapped state governments in financing new infrastructure.

As it shows, there is plenty of private sector money within Australia and offshore to put into new infrastructure investments — but the challenge is that there are not enough new projects available to invest in.

Infrastructure Partnerships Australia chief executive Brendan Lyon says total investment in infrastructure in Australia is expected to be down by $13.5 billion this financial year because of a fall of investment in the mining sector.

Strong investment in the mining sector has helped boost the Australian economy in recent years, and presented a picture of strong growth in the sector, but this is now coming to an end.

Increased spending on construction, particularly on the east coast, had helped offset this to some extent. But there is a need for consistent long-term public infrastructure investment in infrastructure, particularly in road and rail.

When it comes to government infrastructure spending, NSW and Victoria have been holding up the national figures with very active spending programs. But it is a very different picture around the rest of the country and there are still many major projects that need to be done.

Lyon estimates **there is a cool $300bn (taking into account debt and equity) in Australia which could be made available for new infrastructure investment if there were fresh projects ready to invest in.**

The Rudd Government (remember Kevin 07?) created Infrastructure Australia to develop a national list of much needed public projects and set priorities on how they should be rolled out.

The organisation has brought some welcome science around the issue, but it is governments that need to make this happen. The organisation released its latest Infrastructure Priority List in February.

It lists seven projects as being high priority. These are the M4 motorway upgrade in Sydney; Sydney's inner-west road upgrade, WestConnex; Melbourne's Metro Rail; the M80 Ring Road upgrade in Melbourne; the Ipswich Motorway; Western Sydney airport and the Perth freight link.

At least one of those — the western Sydney airport — is a long way off coming to pass despite being optimistically listed as having a "medium term" delivery timescale.

Infrastructure Australia also lists a large number of other much needed projects across the country — all important projects that represent a serious challenge for state governments.

The private sector can and does participate in infrastructure investment at the moment through asset sales in Australia. In their best form, asset sales are part of an asset recycling program where the assets sold off to provide the funds for new infrastructure investments.

This was the message sold by former NSW premier Mike Baird at last state election when he went to the polls. He began a sell-off program of state assets as treasurer and by the time he became premier he had the funds to roll out new infrastructure projects including light rail and railway lines in Sydney.

In Victoria the funds raised from the sale of the Port of Melbourne are helping to pay for its infrastructure rollout.

But across the country there is a need for more government spending on projects to relieve congestion and improve transport and freight handling.

With limited opportunities for future privatisations, the challenge is paying for them out of government funds at a time when their deficits are high, or convincing the public of the need to help pay for them — such as paying tolls on new highways.

On the positive side, the growth of the superannuation funds management sector, early privatisations of assets such as Victoria's electricity sales in the 1990s and the work of finance houses such as Macquarie in infrastructure financing have given Australia a strong reputation in private sector deal structuring and infrastructure investing.

Macquarie was a very early investor in toll roads in the US and Asia, a pioneer in many ways in the markets it went into.

Now IFM Investors (formerly known as Industry Funds Management) is one of the world's largest single private sector owners of infrastructure assets, with $30bn of global infrastructure - investments in Australia, the US and Europe.

While it invests the funds for many industry super funds in Australia, its growing expertise in infrastructure investing has attracted funds from more than 130 offshore funds, including six of the top 10 US public pension funds.

Roughly $10bn of its infrastructure investments are in Australia with another $20bn offshore. The Future Fund has more than $10bn in infrastructure investments.

As spreads its wings into national infrastructure investment, QIC has seen the investment potential of a global infrastructure fund.

In a world of high volatility and ultra-low returns, there is a hunger for the prospect of long-term, stable annuity stream income which infrastructure investments can bring.

But having a big pool of private sector money keen for infrastructure investments does not make it happen.

So it means that **Australian savings are having to go offshore to look for infrastructure investments. And Australian fund managers are selling their infrastructure deal-doing and investment expertise offshore** at a time when there is plenty of demand at home, if only we could get our act together.