Australian Infrastructure

Who's going to bank it?

Australia has an infrastructure shortfall variously estimated at up to A$770 billion this decade, but there is still no clarity on how the nation will meet this massive funding task. In the aftermath of the Global Financial Crisis, infrastructure as an asset class for investors is still a problematic issue.

Perhaps the harshest example of this is Brisbane's Clem Jones tunnel, where receivers are planning a damages claim of up to $2 billion against traffic forecaster Aecom. Huge asset sales by governments, such as the $4 billion sell-off underway in NSW, transfers the ownership of existing assets but does little to fund the $61.8 billion the government has pledged in infrastructure spending. The NSW Government had hoped to tap "Mum and Dad" investors with its Waratah bonds, but to date these have raised a paltry $31 million.

The issue with expecting the banks to finance it all

From a bank perspective, the introduction of the new capital adequacy rules of Basel III is reducing liquidity at the same time as bank debt is becoming more expensive, with banks also reluctant to extend long term funding to projects, which are themselves increasing in cost and facing challenges on viability. To complicate matters further, European banks which have traditionally supported the sector in Australia are in retreat, and Asian banks are yet to fill the void outside the resources sector. Loan tenor is short and costs are rising.

Deals such as the 18-bank syndicated loan which provided $4 billion in funding to the Wiggins Island coal export terminal are significant, but the reality is that they are hard to put together, and Australia needs more of them – lots more of them. Some corporates, such as Fortescue Metals Group, can tap the corporate bond market overseas for funds used in infrastructure development, but that is only one part of the equation. Local hybrid deals, such as those arranged for Origin Energy and Santos, have been innovative enough and have attracted investor interest.

Will Super funds step up?

This brings us to the role of the superannuation funds, and the part they can play. Infrastructure should be an ideal asset class for the super funds – long term, with ongoing and predictable cash flows – but so far allocations from super have been modest, with funds wary of greenfields projects.

Super funds generally allocate between 5 and 15 percent of their funds to infrastructure, and that is not enough to fund the shortfall, particularly when the self-managed sector is growing so fast and those individual trustee investors are not presented with very much in the way of infrastructure product. Funds have bought into newly built energy assets, for example, but their interest is dependent on the deals the bankers take to them and there simply are not enough of those.

Help from the Government

The final piece in the equation is the Government sector, where the focus is on privatisation and getting the private sector to pay for projects. The reality is that Australia still has a very low level of government debt by world standards. Commonwealth and State Government debt is expected to peak at 16.6 percent of GDP in June 2013. Australia lacks a vibrant corporate bond market and retail bonds are in their infancy. Given the ongoing global uncertainty investors may like the safe haven of Government debt, more of which might be used in Australia's infrastructure development and a renewed nation building vision.

Domestic Australian Business Term Deposit Tenures by Segment – April 2012

	% of Total Market				
Term Deposits	**Micro**	**SME**	**Corporate**	**Institutional**	**Total**
3 months	42.0	55.8	67.7	82.9	58.1
6 months	53.1	41.0	29.4	16.0	37.8
12 plus months	4.9	3.2	2.9	1.1	4.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: East & Partners Deposit Funding & Debt Index – May 2012.