MEDIA RELEASE

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Appetite for infrastructure investment not being met: FSC-EY report

Australia's superannuation industry is ready to increase investment in infrastructure investment, however, demand is not being met due to the lack of suitable infrastructure projects.

A research report prepared for the Financial Services Council by EY has cited the lack of suitable infrastructure projects as a significant barrier for investment in infrastructure by superannuation funds.

The FSC-EY report – *Superannuation investment in infrastructure: Steps to further efficiency* – shows super funds are willing to invest more in infrastructure projects where they deliver an appropriate risk weighted return for fund members.

John Brogden AM, CEO of the FSC said: "Industry rationalisation has resulted in a substantial number of larger funds which are able to invest in large infrastructure assets without creating a liquidity risk."

"The goal for policy makers is to create a pipeline of properly developed, government sponsored infrastructure projects such as the North West Rail link in NSW and the East West Link road project in Victoria which appropriately share the risks between investors and governments."

"Under the right conditions, there is a tremendous opportunity for Australia's $1.75 trillion superannuation industry to substantially increase its current $45 billion investment in infrastructure," Mr Brogden said.

The report also supports the emerging capital recycling model for infrastructure financing.

"It is critical for governments to consider their role in recycling capital. That is, governments selling brownfield assets to super funds to release capital for much needed greenfield infrastructure," said Mr Brogden.

"This will create a win-win situation. It reduces the budget burden for governments and offer super funds the type of assets they require," he said.

Legislative and regulatory stability were considered critical to encourage investment in complex, illiquid long term assets.

EY's Oceania Infrastructure Advisory Leader, David Larocca said: "The clear message is that there is significant appetite from super funds to invest more in infrastructure in Australia – but unlocking greater investment will require a clear, committed pipeline of projects and greater long term certainty on tax and regulation".

"Our review confirmed that while improvements have been made, the barriers to greater investment by super funds in infrastructure that we identified in 2011 remain today," Mr Larocca said.

The FSC-EY report shows there is an opportunity to stimulate further investment in infrastructure by:
- Incentivising states to establish full capital recycling processes for key infrastructure;
- Providing certainty over Commonwealth superannuation regulation and taxation policy; and
- Establishing a formal 'early project' consultation process between the states and superannuation investors to enable early consideration of transaction structures and procurement processes.

Key barriers to investment in infrastructure include:

- Lack of a clear project pipeline and government commitment;
- Lack of suitably structured projects for institutional investment;
- Greenfield project risks;
- Inconsistent, complex and expensive bidding processes;
- Regulatory and industry pressures; and
- Sovereign and political risk.

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About the Financial Services Council
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