

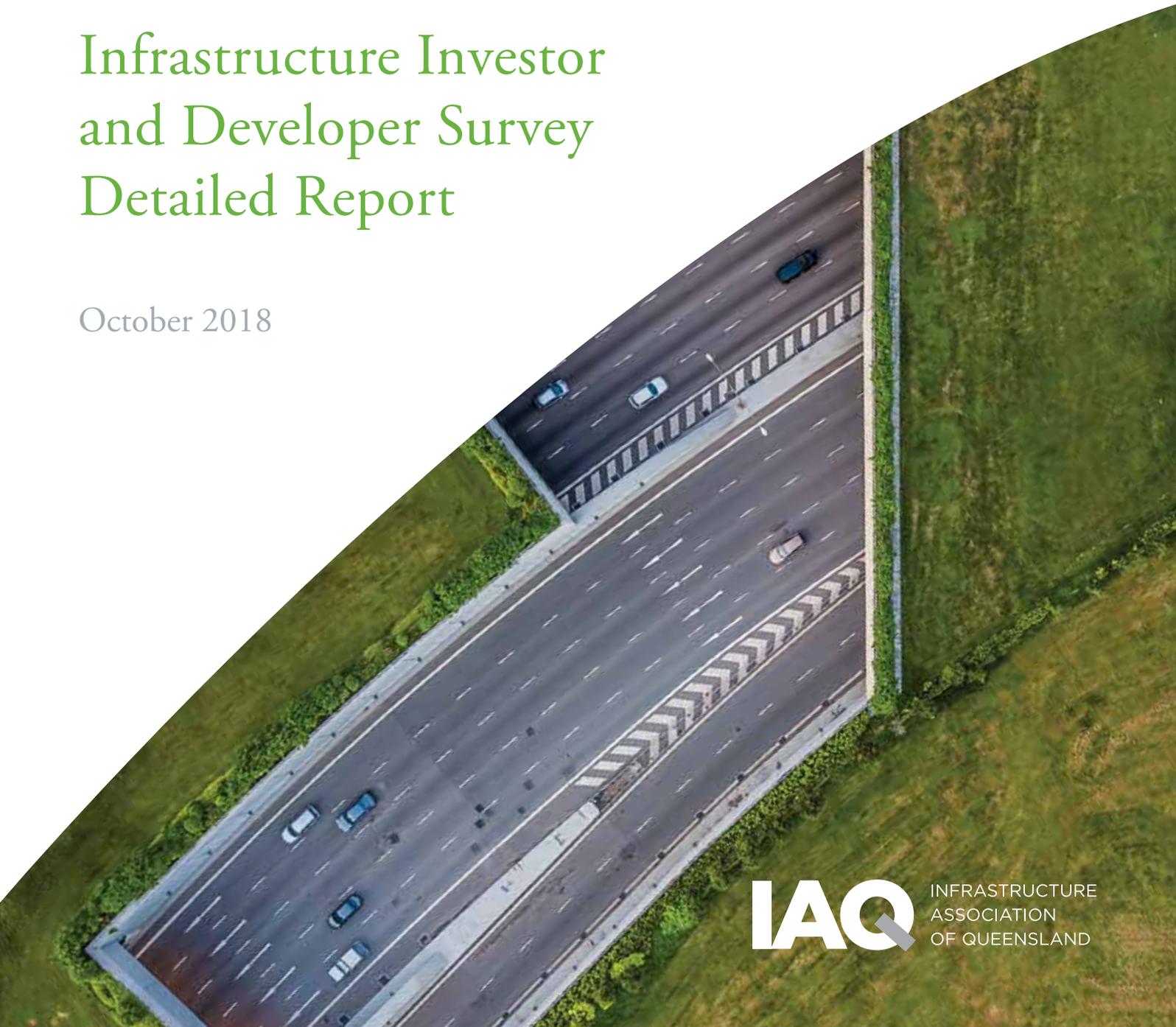
Uncovering critical influences on private infrastructure investment in Queensland

Infrastructure Investor and Developer Survey Detailed Report

October 2018



INFRASTRUCTURE
ASSOCIATION
OF QUEENSLAND





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About IAQ

Established in 1994, the Infrastructure Association of Queensland (IAQ) is the peak body representing the entire infrastructure sector across Queensland. As a member organisation, the IAQ provides professional representation and value to our members through government engagement, thought leadership and advocacy that supports a sustainable infrastructure industry in Queensland.

Through independent research and policy consideration, we regularly inform the Queensland discussion about how to prioritise and progress state significant infrastructure and enhance public services.

Our priorities



PROCESS

Promoting the opportunities for continuous improvement in government's policies and processes relating to the development and delivery of infrastructure.



INDUSTRY ADVOCATE

Establishing IAQ as the leading industry advocate for the provision of infrastructure in Queensland.



PIPELINE

Promoting the importance and enablement of a clearly identifiable and realistic pipeline for infrastructure projects.



PRIVATE SECTOR ENGAGEMENT

Promoting the benefits and opportunities of private sector involvement in the analysis, development, delivery and operation of infrastructure to offer value for money for all Queenslanders.

Background

This report provides an overview of the results from the Infrastructure Association of Queensland (IAQ) first Infrastructure Investor and Developer Survey, conducted in August 2018.

The survey sought to better understand the sentiment of private sector investors and developers towards infrastructure investment in Queensland, the factors influencing that sentiment and to identify any opportunities to unlock greater potential for investment.

IAQ commissioned this research:

- In response to concerns about the level of private sector investment in Queensland identified in the Queensland Major Projects Pipeline Report 2018 and the Australian Infrastructure Investment Report 2017.
- To inform its ongoing effort to engage with governments, industry and the community regarding the continued need for expansion and enhancement of infrastructure for Queensland's economic and social development.

Specifically, the Queensland Major Projects Pipeline Report 2018 highlighted that while major project activity had been stronger in 2018, there was also a lack of viable replacement projects in the pipeline threatening to weaken market activity if projects don't flow through and receive full funding in the next two years. The report further highlighted the greatest share of unfunded projects in the pipeline are led by the private sector.

The current Australian Infrastructure Investment Report 2017 showed a further signal for concern, reporting a decline in investor interest in Queensland.

In response to these findings, IAQ sought to understand if current private sector infrastructure levels are a 'new norm' or if they better reflect a lower than normal level following previous high levels of capital investment (e.g. in the mining boom). Further, IAQ sought a more detailed understanding of the perceived or actual conditions that may be restricting infrastructure investment.

Phillips Group was commissioned to conduct this research on behalf of IAQ.

The role of an investment pipeline for public infrastructure activity

International and on-shore research regularly identifies that the investment required to meet a public infrastructure gap cannot be solely met by the public sector. Private sector investment and expertise needs to be utilised where appropriate.

Publicising infrastructure that is ideally suited to private investment can help match potential investors with projects. Examples include identification of early stage infrastructure projects and any suitable public infrastructure activity (e.g. an asset recycling program of ports, utilities and energy), both which could help potentially unlock billions of dollars from private investors.

Internationally, this need is being addressed by the Global Infrastructure Hub who has been tasked by the G20 leaders "to ensure that there is a comprehensive, open source project pipeline database, connected

to national and multilateral development bank (MDB) databases, to help match potential investors with projects."

In Queensland, as the State Government has opted to retain ownership of its major infrastructure assets, activity suitable for private investment is generally limited to greenfield projects utilising the Public Private Partnership (PPP) delivery model. The private sector is also encouraged to develop Market-led Proposals (MLP) through a dedicated process. Visibility into State-led PPP project's is provided through project listings in public documents such as the State Infrastructure Plan Part B, Building Queensland Pipeline and annual budget papers. Examples of these include Toowoomba Second Range Crossing (in construction) and Cross River Rail Tunnel, Stations and Development (in procurement) projects. The Australian Rail Track Corporation (ARTC) Inland Rail package between Gowrie to Kagaru is a Commonwealth-led PPP project also proposed in Queensland.

Key findings

Strong appetite for infrastructure investment in Queensland

There was a strong appetite among the private sector for infrastructure investment in Queensland, with 88% of participants indicating they were likely to do so sometime in the foreseeable future.

Long-term investors indicated that their willingness to invest in Queensland infrastructure was linked specifically to the current low-interest rate environment and whether the investment would meet their risk-return criteria.

When indicating preference regarding investment value, 59% of the participants were interested in single investments between \$200-600 million and 18% in very large individual investments of greater than (>) \$1 billion.

When pinpointing strengthening sectors for investment, participants considered renewable energy to be a standout new asset class in Queensland. Traditional asset classes: rail, roads and highways, airports and ports were also of strong interest to investors.

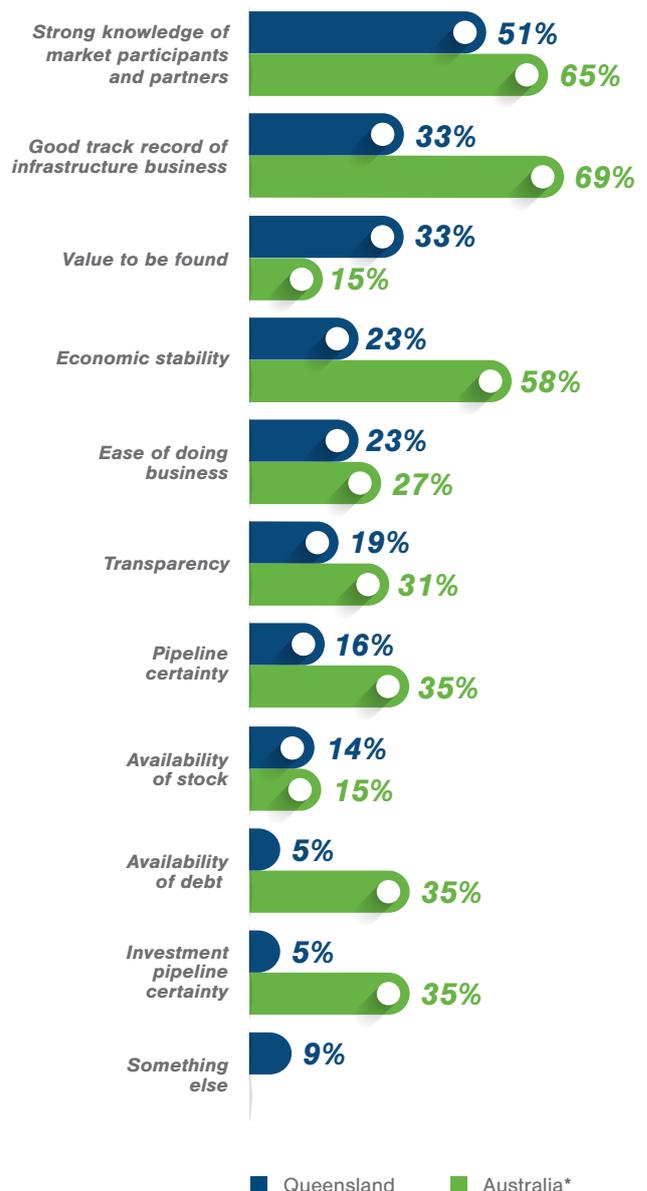
Geographically, participants indicated that South East Queensland was the primary area of interest for infrastructure investment. The Surat Basin (west of Toowoomba) and North Queensland were also of interest, providing return on investment could be found.

Attractions to investing in Queensland

When examining the attractiveness of the Queensland market for investment, IAQ replicated the metrics from the Australian Infrastructure Investment Report 2017 to enable comparison between Queensland and Australia.

Participants indicated that the knowledge of market participants and partners, the good track record of infrastructure business and the value to be found were the key contributors to the attractiveness of the Queensland market.

What makes Queensland (and Australia) attractive for infrastructure investment?



Queensland Base: Total sample (n=43). Q13 What aspects attract you most about investing/developing in Queensland infrastructure? (tick all that apply)

*Compared to Australian base sourced from the Australian Infrastructure Investor Report 2017.

Key findings...

Queensland's performance against competing national and global markets

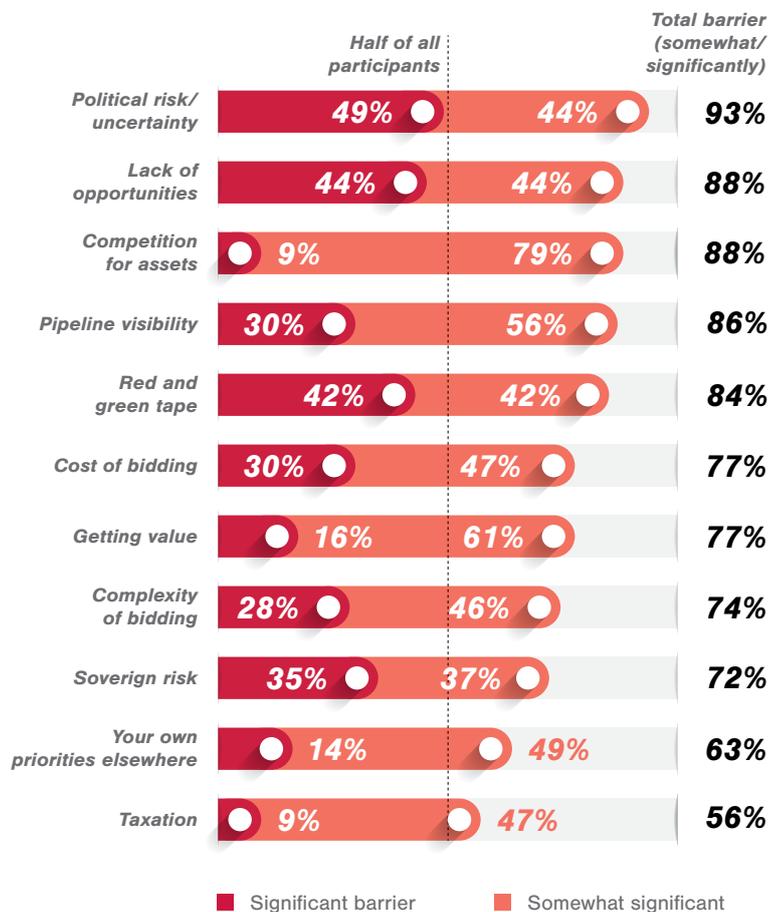
Despite investor interest in Queensland infrastructure, it was typically viewed by participants as less attractive when compared to other Australian jurisdictions.

Areas where Queensland was most commonly thought to be less attractive were: investment pipeline visibility, investment certainty, ease of doing business and availability of stock.

In comparison, the Western Australia and South Australia markets were thought to offer considerably more investment opportunities and investment pipeline visibility, particularly in the energy and mining and resource asset classes. New South Wales and Victoria were also considered to be highly popular and active markets, though there was a sense that these markets were reaching saturation point.

Globally, North America and Asia were considered compelling markets and, in some ways, more appealing than Queensland.

Challenges to private sector infrastructure investment in Queensland



Key findings...

Political instability

Political instability was cited by 93% of participants as a significant or somewhat significant barrier to private sector investment in Queensland.

Comments made by participants suggested that this was heavily influenced by the relationship between the Queensland and Federal governments, a lack of bi-partisan support and the high-risk of back-flipping on projects or key policy areas due to the pursuit of populist policies. Queensland's decentralisation and the influence of marginal seats on policy and funding commitments were also cited as contributing to constrained private sector investment.

Lack of investment opportunities

Nine in ten participants (88%) indicated that a perceived lack of investment opportunities was constraining private sector investment in public sector infrastructure. The lack of political desire to entertain a targeted asset recycling program for Queensland featured most strongly in participants' views as the cause for this.

Participants from the private sector also noted that they were interested in energy, mining, freight rail and port opportunities.

Onerous government processes

Eight in ten participants (84%) cited 'red' and 'green' tape as a barrier to investment in Queensland. There was a perception that Queensland's infrastructure market is particularly difficult, costly and time-consuming compared to other similar markets across multiple project stages, from bidding through to operations.

Most commonly, participants referred to challenges with long and complex public-led bidding processes, complex private-sector led proposal processes (e.g. MLPs), onerous red and green tape and the impact that multiple layers of government-controlled stakeholders can have on the complexity of the project, ultimately taking more time and adding cost to the bottom line of a project.

While participants welcomed MLPs and acknowledged their success in bringing the Brisbane International Cruise Terminal and Logan Enhancement Project to market, most also noted that the process was a barrier. With many MLPs said to still be waiting for a response 12-24 months after submission, there was a sense that the initiative needed significant attention if it was to be an attractive and viable vehicle for bringing new projects to market.

Limited visibility of a private sector investment pipeline and discernible vision for industry

Almost nine in ten (86%) participants cited 'limited pipeline visibility' as a barrier to their investing in Queensland infrastructure.

Despite the current pipeline of public-led infrastructure projects published in the State Infrastructure Plan, Building Queensland's Infrastructure Pipeline Report and the Major Projects Infrastructure Pipeline Report, there was a strong sense among participants that the government's vision for private sector participation was not clear and that there was a lack of investment opportunities.

Some participants noted that Infrastructure Partnerships Australia's Australia and New Zealand Infrastructure Pipeline (ANZIP), provided certainty to investors, constructors, governments and other agencies through the forward view of public infrastructure activity and programs. They also noted that the ANZIP informs industry of where and what infrastructure opportunities are available, and when they come to market by tracking greenfield and brownfield transactions from when they are proposed, until they reach contractual and financial close.

There was also shared view that the current infrastructure visioning was being constrained by political thinking (e.g. populist policies in electoral cycles) and the Queensland Government's deteriorating fiscal situation. Other states, particularly New South Wales and Victoria, were said to be making much bolder and braver policy decisions.

Key findings...

Challenges in regional Queensland

Despite there being interest in the regions, private investment outside South East Queensland was said to be challenging due to an inability to find skilled on-the-ground workers, increased costs and, for those in the business of electricity supply, a lack of adequate transmission infrastructure.

Areas for improvement to realise greater potential for private sector investment

Overwhelmingly, research found that the private sector wanted to play a greater role in Queensland infrastructure.

To support and encourage greater private sector investment in Queensland, participants made the following suggestions:

- Strengthen investor certainty – ultimately, investment decisions are underpinned by an assessment of risk and return
- Provide greater visibility of government interest in, and vision for, private sector investment and shared planning with industry
- Start a conversation between government, industry and the community regarding the social and economic benefits/impacts of asset recycling
- Release more assets to market
- Streamline processes that support new investments into the market
- Ensure even playing fields, particularly in energy and rail
- Provide a greater sense of shared risk between industry and government to help private investors pass the 'shareholder test'
- Develop a supportive environment for market-led ideas and innovative investment approaches
- Focus on overcoming regional investment challenges – the concept of project bundling is appealing (e.g. Western Australia schools and Victorian suburban roads) upgrade programme).

Research methodology

In August 2018, Phillips Group conducted a targeted, mixed method online survey and telephone interview study of infrastructure developers and investors.

Twenty-five (25) key stakeholders identified by IAQ, completed the online survey prior to the telephone interview so that their responses could be expanded-on during the qualitative discussions.

The online survey was also extended to a wider group of industry participants to gain further understanding of sentiment and uncover current issues and opportunities. **In total, 43 online surveys were completed.**

The online survey incorporated questions used in the Infrastructure Partnerships Australia and Perpetual National Australian Infrastructure Investment Report 2017 to enable greater understanding of key trends within a Queensland context.

Target Participants

Two groups were targeted:

- Infrastructure developers – an existing infrastructure asset owner who has a track record developing new or existing assets through capital investment
- Infrastructure investors – companies with capacity to flow private capital into major infrastructure projects or assets in Queensland, including infrastructure fund managers, institutional investors, banks, superannuation funds

Profile of surveyed participants

The study targeted a range of small, medium and large companies involved in Australian infrastructure, including developers, fund managers, sovereign wealth funds, banks and consultancies.

Representatives from each of these companies were nominated to participate in the study including chief executives, directors, partners, managers (fund and investment) and senior consultants.

Of the participants surveyed, half (53%) were making investment decisions from head offices in Queensland, 37% from elsewhere in Australia and 6% from Asia, North America and New Zealand.

All participants indicated that they were already investing in Queensland infrastructure, one in three of which had at least 50% of their investment net worth in Queensland.

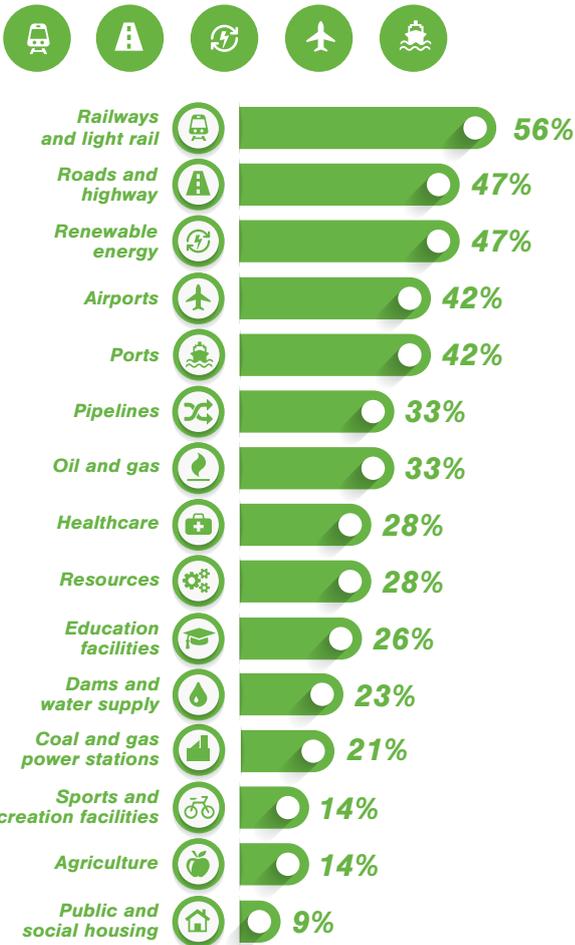
Participants were actively invested in a broad range of asset classes, the most common being rail, roads, renewable energy, airports and ports.

Almost a third of participants held global investment portfolios valued at \$AUD 10 billion or more. A similar proportion were managing portfolios valued at under \$AUD 1 billion.

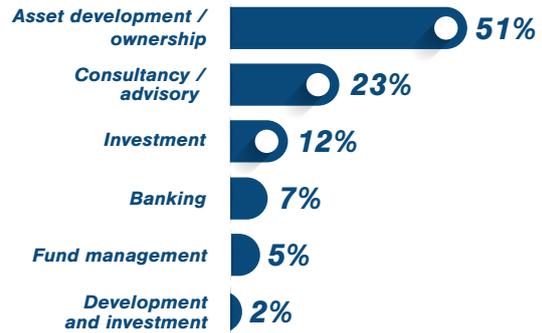
Research methodology...

Profile of participants' global investments, by asset class

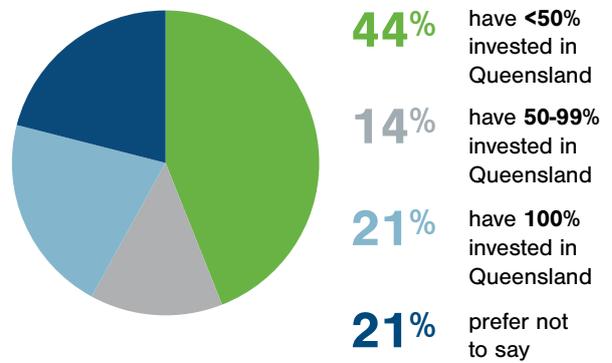
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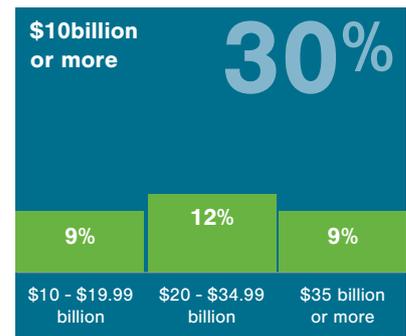
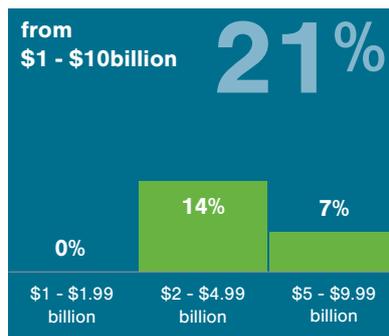
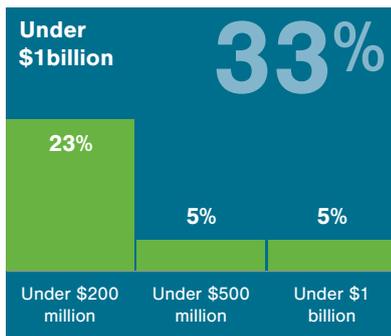
Primary focus of participating companies



Share of global infrastructure portfolio (net worth) invested in Queensland



Total value of global infrastructure portfolio (net worth, \$AUD)



Prefer not to say: 16%



The appetite for infrastructure investment in Queensland

There was a strong appetite among the private sector for infrastructure investment in Queensland, with 88% of participants indicating they were likely to do so sometime in the foreseeable future.

Participants commented that this appetite related directly to increased government and private sector investment in Queensland over the past 12 months, after two successive years of low activity. Availability of private finance for the right opportunities and low interest rates further fuelled this appetite.

Rail, renewable energy, roads and highways stood out as the Queensland asset classes of most interest to participants, followed closely by ports and airports.

Most participants (65%) would prefer a direct investment approach rather than a pooled (consortium) method due to the simpler governance and accountability structures that could come from having fewer parties involved.

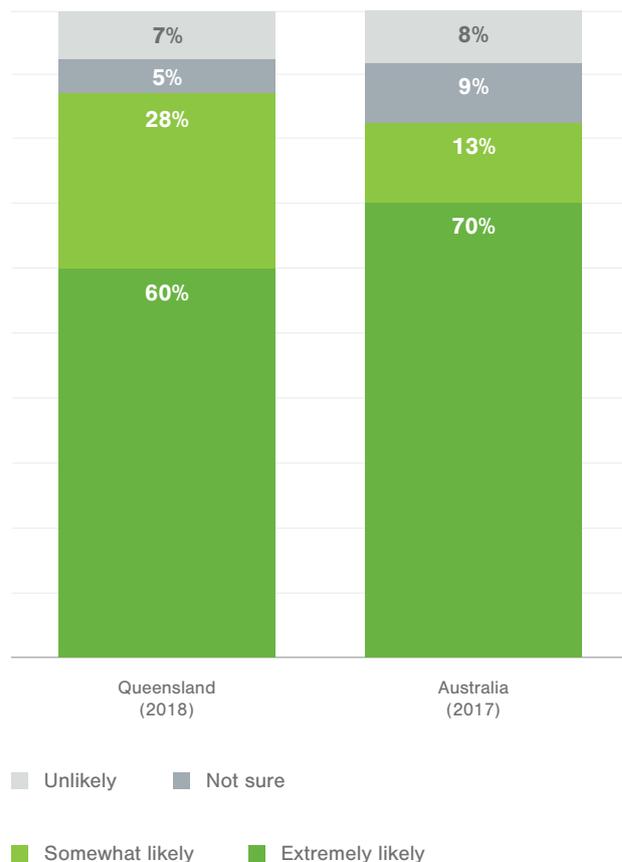
Participants were less selective about the regulatory approach, with 45% having no preference whether investment was through a regulated or unregulated method.

In terms of investment size, most participants expressed interest in single investments of under \$600 million, with one in three preferring single investments of under \$200 million.

“There is a glut of money for investment”

“Appetite is not short. Plenty of people are looking for opportunities. When projects do come to market they get significant interest.”

Sentiment toward future infrastructure investment in Queensland and Australia

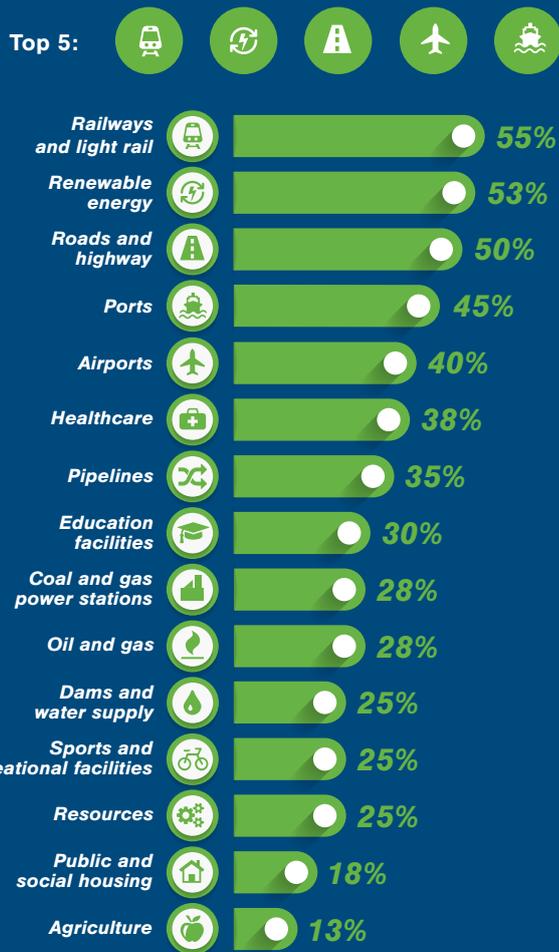


Queensland base total sample (n=43)
 Q7: Current sentiment toward (more) investment/development in QLD in the foreseeable future?
 Australian base total sample (n=25) (source: Australian Infrastructure Investment Report 2017)

“Queensland has a lot to offer and lots of growth so if it’s out there communicating opportunities I’m sure it will have no trouble attracting investment.”

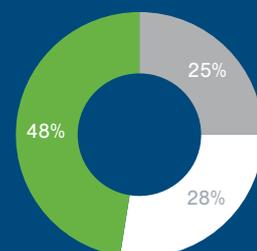
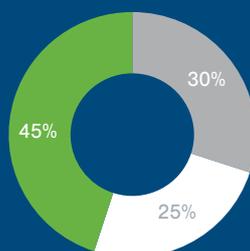
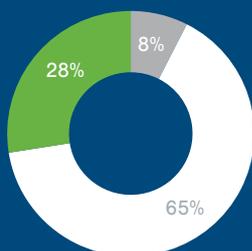
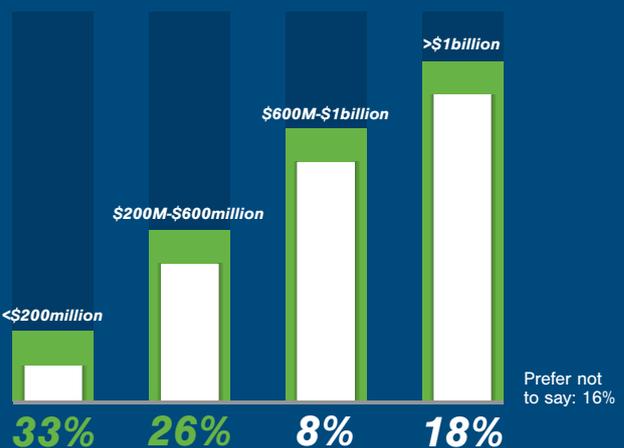
The appetite for infrastructure investment in Queensland...

Investment preferences in an ideal market



Rail and renewable energy are highly prospective, with companies not already in these asset classes showing interest.

Size of single investment (\$AUD)*



*Totals adding to +/-1% of 100% are due to rounding

Attractions to investing in Queensland

The knowledge of participants and partners, good track record of infrastructure business and value to be found were cited as the top three key strengths of the Queensland market.

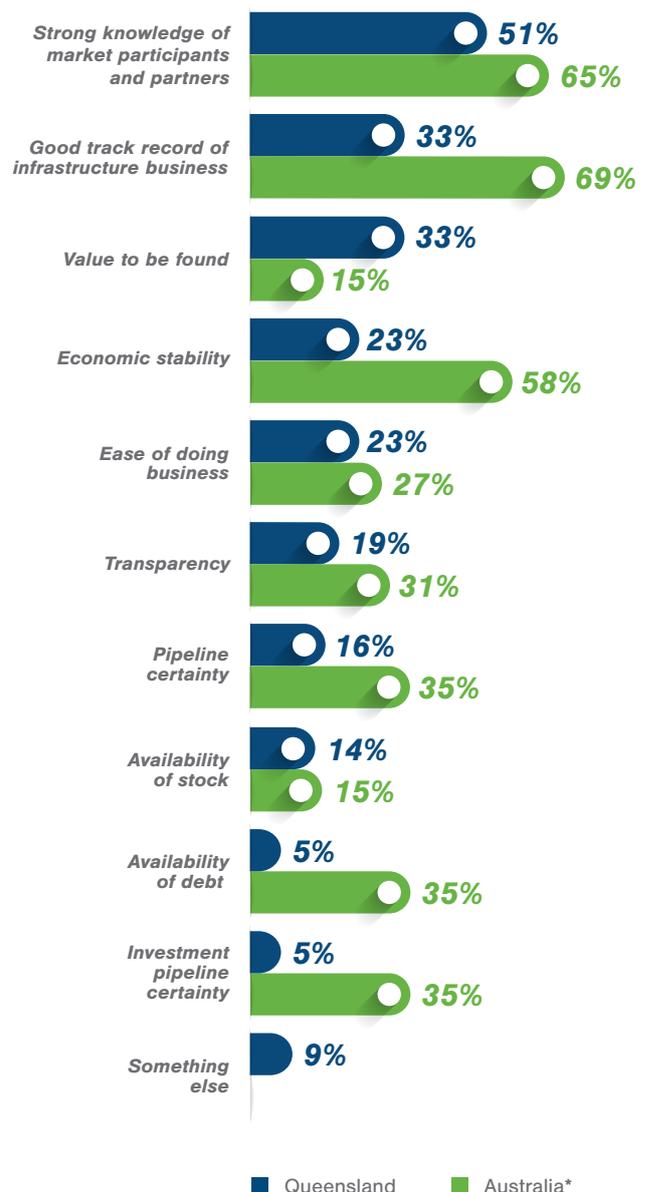
Discussions with participants also highlighted Queensland's rich and plentiful mining and renewable energy resources, experienced people within government and (mostly) transparent processes as significant contributors to Queensland's attractiveness.

Interestingly, some stark differences can be seen between metrics attracting infrastructure investment to Queensland and those attracting investment to Australia, generally (source: Australian Infrastructure Investment Report 2017).

In particular, the broader Australian infrastructure market is much more likely than Queensland to be seen as having a good track record of infrastructure business, economic stability, availability of debt and investment pipeline certainty.

A third of participants noted 'good track record' and 'value to be found' as key metrics that would attract them to the Queensland market.

What makes Queensland (and Australia) attractive for infrastructure investment?



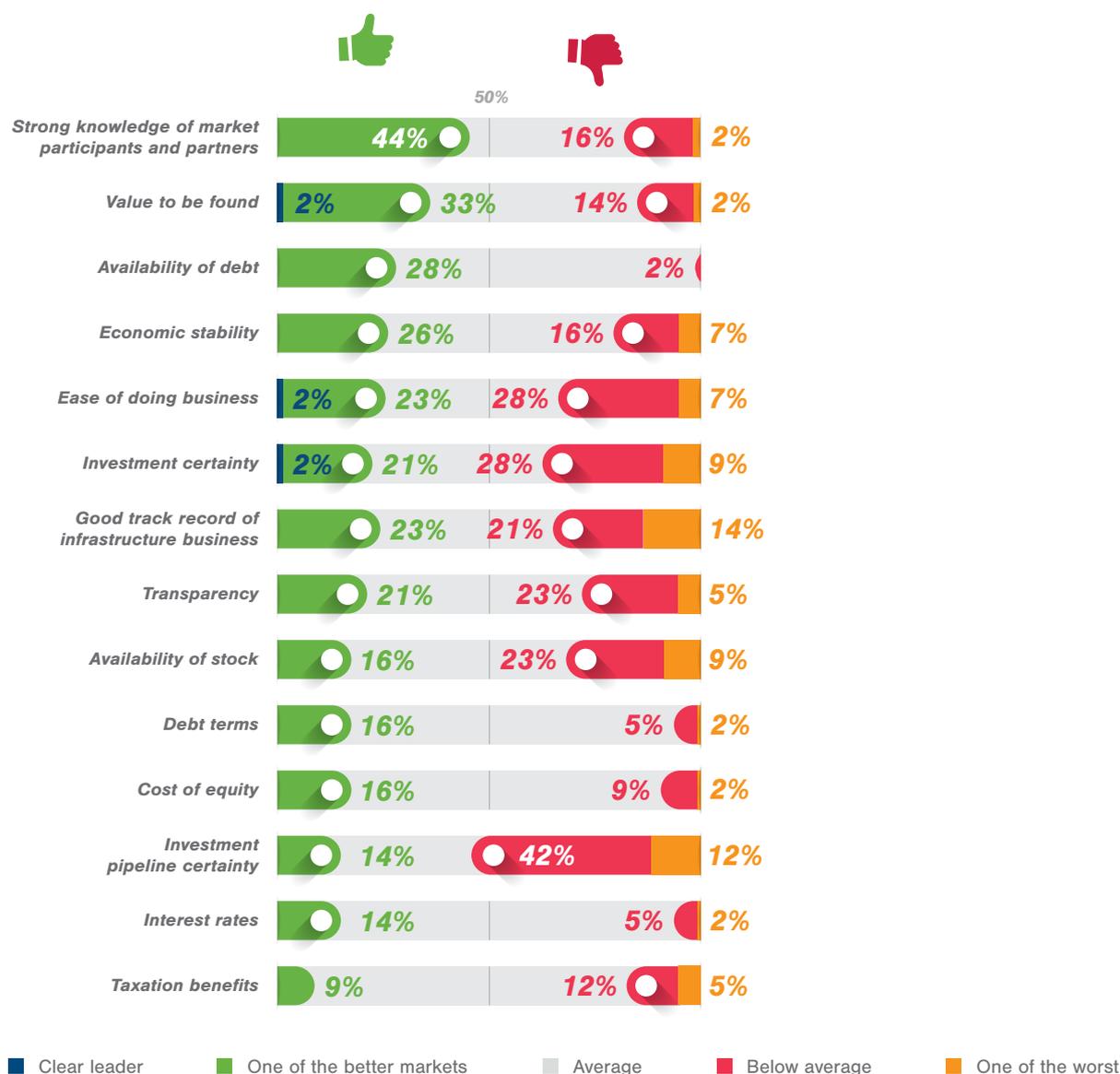
Queensland Base: Total sample (n=43). Q13 What aspects attract you most about investing/developing in Queensland infrastructure? (tick all that apply)

*Compared to Australian base sourced from the Australian Infrastructure Investor Report 2017.

Queensland's performance against competing national and global markets

Comparatively, Queensland was most commonly seen as one of the better markets when it comes to the knowledge of market participants and partners, and the potential for the private sector to realise value through investment.

How does Queensland compare to other infrastructure markets?



Queensland base total sample (n=43)

Q8: How does Queensland currently compare to other infrastructure markets on your radar in terms of...?

*Australian base total sample sourced from the Australian Infrastructure Investment Report 2017 (smaller sample)

Queensland's performance against competing national and global markets...

When compared to other markets, Queensland was perceived to be one of the stronger markets for knowledge of participants and partners (44%), value to be found (33%) and availability of debt (28%).

Perceptions of Queensland as a strong performer wane against other metrics, in many cases due to participants positioning it as neither a leader nor a loser.

Notably, participants strongly positioned Queensland less favourably in terms of investment pipeline certainty, with over half (54%) stating that Queensland was below average (42%) or one of the worst (12%).

There is a sense that other markets, particularly Victoria and New South Wales, have much fuller pipelines of private infrastructure work and are much better at communicating their pipeline intentions with industry.

Queensland also compared less favourably to other markets when it came to investment certainty and ease of doing business, with around one in three participants (37% and 35% respectively) stating Queensland was below average or one of the worst.

Interestingly, despite Queensland's track record in infrastructure business being one of the more commonly acknowledged strengths, 35% of participants considered it to have performed below average or one of the worst. This suggests that even at its best, Queensland was considered to be performing below other markets.



Queensland's performance against competing national and global markets...

Queensland placed as the second most compelling Australian market for infrastructure investment behind New South Wales

Despite Queensland's mixed performance on the key metrics, it was still seen as a compelling market for private infrastructure investment.

Participants cited recent major project activity, such as the Cross River Rail, Queens Wharf, Toowoomba Second Range Crossing and the Logan Enhancement Project, as signs that Queensland may be on an upswing after

several years of low activity. Wind-, solar- and hydro-energy were also noted as having strong growth potential in Queensland.

Consistent with Australian Infrastructure Investment Report 2017 findings, New South Wales remained the most compelling market for private infrastructure investment.

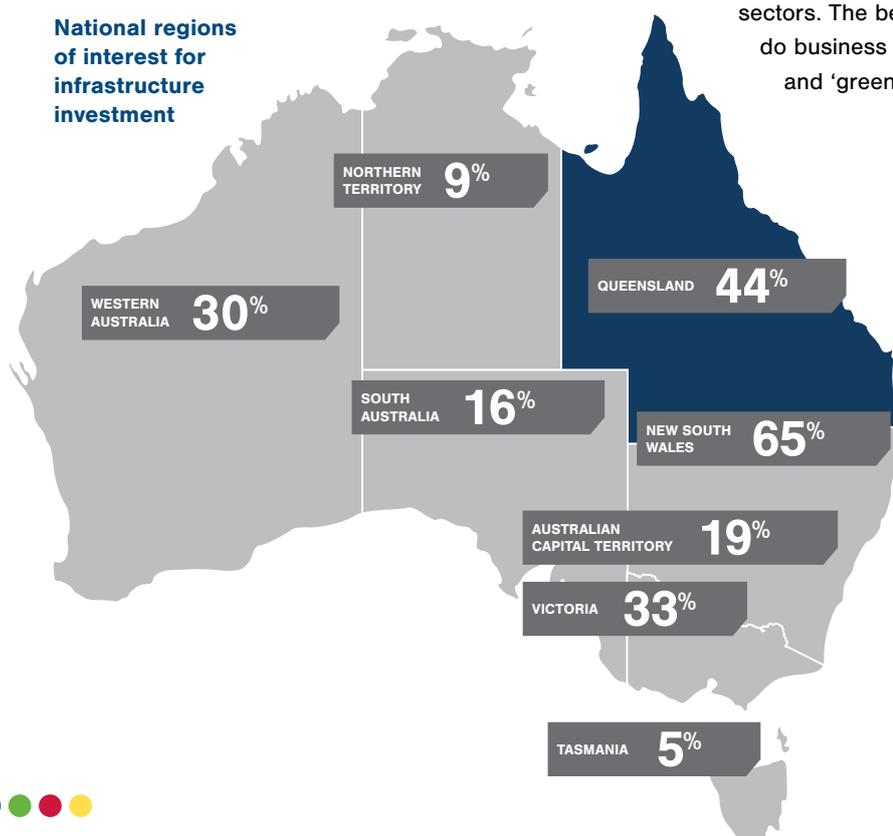
Participants commonly lauded the New South Wales Government for its recent efforts in stimulating and supporting private sector investment. The government's release of assets to the private market and the ripple effect this has had on freeing-up the state budget for additional infrastructure spending was commended. The New South Wales Government's supportive processes for Public Private Partnerships and other innovative investment models were also seen as strengths.

Participants also held a common view that both New South Wales and Victorian markets were reaching saturation.

Western Australian and South Australian markets were viewed as having ample opportunity for private investment, particularly in the renewable energy, resource and mining sectors. The belief that these markets are easier to do business with, particularly in relation to 'red' and 'green' tape further drove this appeal.

“Melbourne and Sydney are hot, if not over-heated”

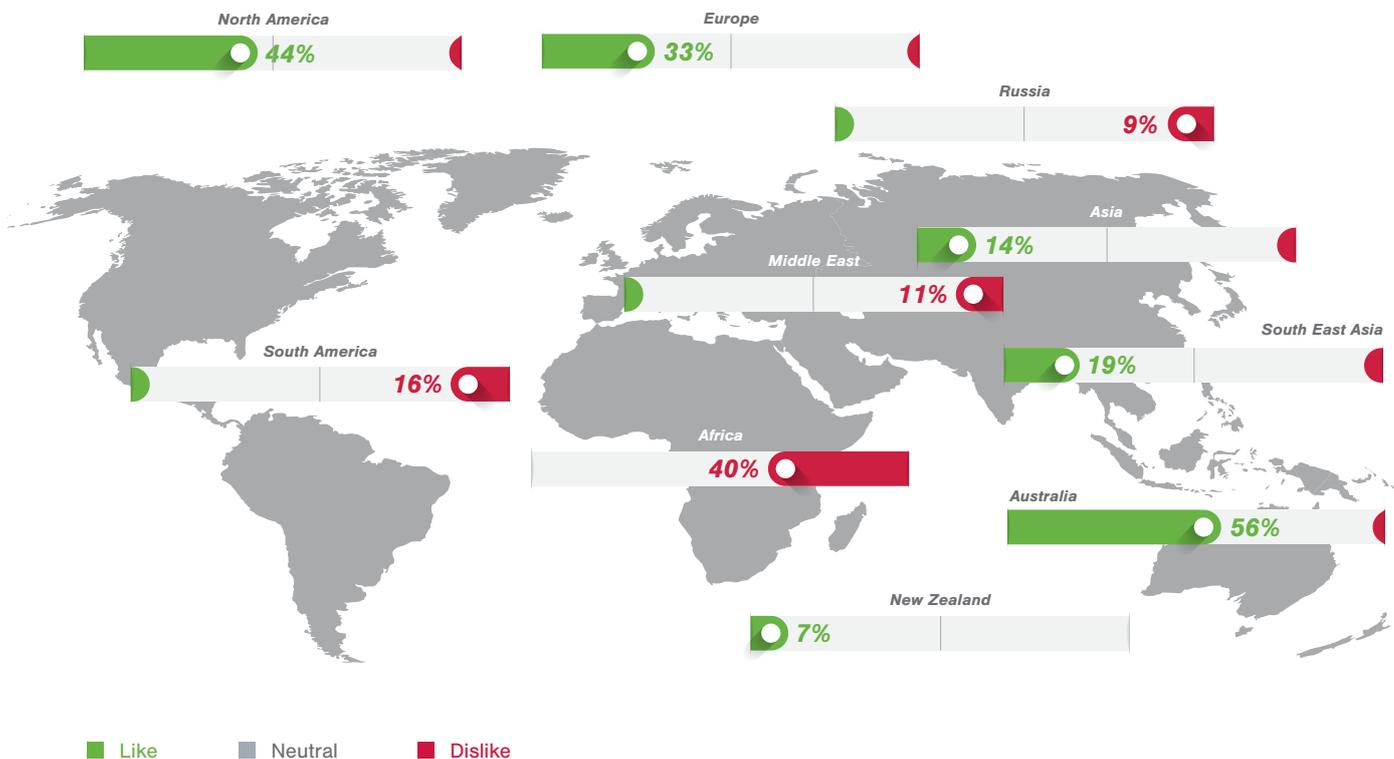
Queensland base total sample (n=43)
Q9: Which Australian regions do you consider 'stand-outs'? Most compelling investment opportunities and least compelling investment opportunities?



Queensland's performance against competing national and global markets...

For participants, Australia was considered to be the most compelling market for investment opportunities, followed by North America, Europe and Asia.

Global regions of interest for infrastructure investment



North America and Europe

- ✓ Active and agile
- ✓ Clear pipeline
- ✓ Untapped resources
- ✓ Lower operating costs
- ✓ Low sovereign risk
- ✓ Well-established markets

South East Asia and Asia

- ✓ Active and agile
- ✓ Lower operating costs
- ✓ Very supportive of long-term partners
- ✓ Actively looking for capital partners

Base total sample (n=43).
 Q9: Which global regions do you consider 'stand-outs'? Most compelling investment opportunities and least compelling investment opportunities.

Challenges to investing in Queensland

Queensland stands as an attractive market for private sector infrastructure investment but there are challenges to overcome to ensure its potential is realised.

Political uncertainty

Political uncertainty was said to be the number one barrier impacting investment appetite and market confidence with nine in ten (93%) participants stating that it was having a significant or somewhat significant impact.

A government that shift positions at the whim of populist policy was highlighted as a major cause of uncertainty for participants, particularly those in the more politicised sectors of energy, mining and resources. Even in renewable energy, where an emissions target has been set, and election announcements, such as Powering North Queensland and the more recent announcement of CleanCo, have been made, participants were still indicating caution. The sense that the Queensland Government had not followed up announcements with action and the fact that the Federal Government's position on renewables was still unclear, was also causing participants to pause.

A higher level of social risk said to be present in Queensland compared to other markets was another factor undermining certainty. More so than other states, the Queensland Government was regarded as being heavily influenced by populations living in the large and diverse regional centres, marginal seats and the voices of activists and other minority groups..

Political intervention by way of government ownership or authority over inter-dependent assets (e.g. freight rail, the energy transmission assets) and their role as wholesalers, retailers and regulators in the energy market were all regarded as significant risks driving investor uncertainty. This was particularly felt by investors in the energy and mining and resource sectors.

The lack of alignment between Federal and Queensland Government priorities was perceived to be hampering the budget opportunities, and contributed further to political uncertainty.

Lack of investment opportunities

A lack of *investment opportunities*, particularly in major projects, was reported as the second largest challenge to Queensland investment.

While participants acknowledged the recent upswing in activity after many quiet years, the resounding sentiment was that there are still fewer opportunities in Queensland. Some participants reported that the lack of activity had led Fund Managers to move their focus and resources away from Queensland to more active and agile markets.

“There is a lot more happening in other states so we’re finding the more active and agile markets are getting the attention and resources of our Fund Managers instead”

Increased competition for assets

The *increased competition for assets* when there are limited opportunities was also commonly cited by participants as being a significant challenge. This, coupled with historically low interest rates and a significant amount of capital available, has meant competition has continued to grow. As a consequence, the market is seeing some investors bidding for projects that may not be an optimal match with their expertise, and larger companies competing on much smaller projects, disrupting the market for smaller players.

Challenges to investing in Queensland...

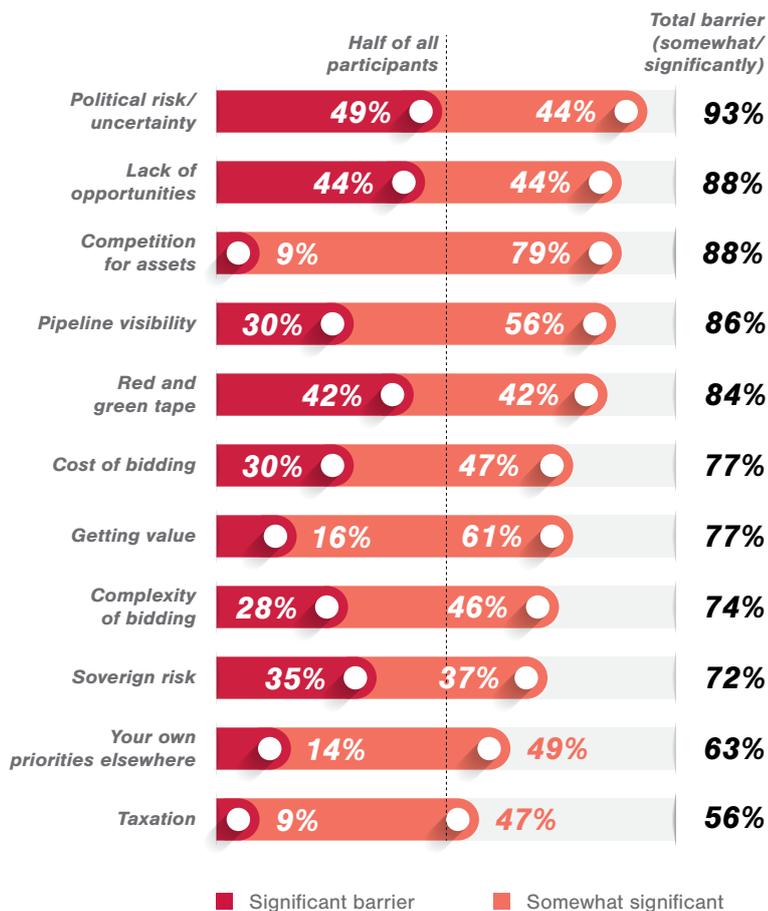
“The complexity of bidding is not driving efficiency; it’s just driving longer bid times and increased costs for proponents”

Increasing cost of procurement

The *increasing costs of procurement* (bidding) due to growing response timeframes, amount of design work required and significant expenses incurred was also seen as a barrier to Queensland investment. It was specifically noted that the tendency for government to shortlist three or more proponents, rather than two, was considered an unreasonable burden on industry given the increased complexity of bidding.

The sense that procurement processes were more commonly looking to award on the cheapest (initial) price rather than the overall strength of the project team and their approach was also criticised for sending the wrong message to the market, and reflected short-term thinking rather than prioritising the longer-term success of a project.

The extent to which market aspects present as barriers to investing in Queensland



Challenges to investing in Queensland...

“Bidding costs sit around 10% of total project costs, both in direct costs and time. It’s a significant cost for medium size firms particularly”

Onerous and inefficient bidding processes were said to be making it harder for industry to recognise a likely return on investment, making some opportunities less attractive. Some suggested it simply increases overall project prices for government as proponents look to try and recover their costs should they win.

A limited investment pipeline and discernible vision

Queensland was viewed as having immense potential held back by what industry perceives as a lack of clear, discernible vision and pipeline for private sector investment – almost nine in ten participants indicated that this presented a significant/somewhat significant barrier for them.

Participants commonly held the view that the project pipelines made visible to industry were limited to what the Queensland budget can achieve, rather than based on what industry and government may be able to achieve together, or what the Queensland economy needs. The strained relationship between Federal and Queensland Governments was seen to further dampen the state’s investment potential.

Visioning was thought to be further constrained by political thinking and voting cycles, and was not supportive of the longer timeframes and lead times (e.g. 10-15 years) that industry typically needed for investment planning.

Other markets, in particular New South Wales and Victoria, were thought to be braver and bolder in their visioning. The New South Wales Government’s acknowledgement that they can only achieve their infrastructure objectives in partnership with the private sector through taking a longer-term view was noted by participants as an area Queensland could learn from, and adopt.

“Queensland’s ability to get ahead is hamstrung by the current State and Federal relationships. Other States are getting the spoils”

“Other States make bigger, braver decisions. Queensland seems to chip away and not look at the bigger picture...bandaids instead of long-term thinking”

“In other States there’s greater clarity on what government want long-term, but you don’t see that in Queensland”

“There’s opportunity for much more social and economic prosperity in Queensland than what’s being planned for”

Influence of policy settings

A spotlight on Renewable Energy

Of all asset classes, participants were (by far) most optimistic about renewable energy infrastructure investment in Queensland, especially in the short to medium term, as the State:

- produces some of the best solar and wind resources in the country
- presents some site opportunities with reasonably close access to existing transmission infrastructure
- has a renewables target and announced commitments from government.

However, even in the buoyant renewable energy market, participants highlighted that Federal Government indecision (in the short term) and the Queensland Government's perceived lack of follow-through on key announcements and initiatives still presented a significant barrier to investment.

The Power North Queensland election announcement and The Clean Energy Hub expressions of interest which market tendered for in late-2017 are two examples where participants felt they hadn't seen enough action, responses or updates.

Other barriers to investment in renewable energy noted by the participants as needing attention included:

- insufficient transmission networks and grid access in some regions, reducing the financial viability of prospective projects
- lack of facilities for storing production prior to transmission, preventing industry growth
- inability to find skilled on-the-ground workers
- costly and time-consuming approval and establishment processes
- inefficiencies working with multiple network authorities (e.g. Powerlink, Ergon Energy, Energex) – one participant reported having to wait more than six months for a response to an enquiry about a minor technical issue with the transmission network
- difficulties working with the Australian Energy Market Operator due to the constantly changing rules and general disorganisation.

“If there's no action we need to look at opportunities elsewhere, otherwise we're wasting our time.”

This lack of information and demonstrable action, coupled with the lack of bi-partisan support between Federal and Queensland governments on renewable energy policy is undermining certainty and holding back private sector investment.

“They need to sort out the Government Owned Corporations. They're not able to think outside the box, their timeframes are extreme, they've got a long way to go to become an agile and efficient machine!”

Influence of policy settings...

A spotlight on Market-led Proposals and Public Private Partnerships

On the whole, participants applauded the Queensland Government for adopting investment pathways such as MLPs and PPP.

More resounding however, was the feedback that the MLP framework was onerous, unclear and too inefficient for industry (and government) to benefit from it.

The following sentiments regarding MLPs were commonly expressed by participants:

- The concept was applauded in theory and two successful examples were recognised:
Brisbane International Cruise Terminal and Logan Enhancement Project
- The initiative was commonly criticised for the way in which it is being executed
- The application process is costly and time-intensive – processing times (of up to two years) are incongruent with market needs
- There has been no improvement on the ‘red’ and ‘green’ tape requirements despite the expectation there would be
- The ‘Uniqueness’ criteria is still unclear and challenging
- There is no clear pathway or opportunity for first discussing ideas with government before a detailed application
- The very low approval rate is discouraging
- Follow-up has been lacking, investors have been left in the dark

The following sentiments regarding PPPs were commonly expressed by participants:

- Knowledge and understanding of the different types of PPPs is not widespread
- The ‘user pay’ model tends to be most widely known, but not a model many consider to be attractive – too much risk (recent examples don’t paint a good picture for investors)
- The ‘Availability’ model is considered more attractive providing the share of risk can be balanced
- Some investors see great application for PPPs, particularly for social infrastructure projects

Unlocking investment in the regions

Though infrastructure investment interest tends to focus more heavily on South East Queensland, where most of the larger, more securely funded major projects are located, many participants emphasised that they were not adverse to nor inexperienced in investing in regional Queensland. Given the right market context, where certainty and return on investment was easier to find, many claimed they would welcome regional investment opportunities.

The Surat Basin (west of Toowoomba), North Queensland and Gladstone were the main regional areas of interest.

The Surat Basin was noted by investors as a growing infrastructure hub, rich in resources and with supporting infrastructure network starting to develop, driven primarily by private sector investment.

North Queensland was also highly prospective across a range of asset classes, driven in part by population growth and increased defence and agricultural spending. Development of dams, rail, health, telecommunications, airports, ports and oil and gas were of particular interest to investors in this region.

Some participants also considered Gladstone a highly prospective region for port development, given it was already a large established hub and located furthest from the Great Barrier Reef. The nearby Curtis LNG project was also a positive signal for some investors.

In light of this interest, participants noted that there are two key region-specific challenges hampering investment:

- **Brain drain** – with the extended lull of activity in the regions (particularly in North Queensland) since the reduction of investment in the mining industry, participants reported that the ability to find skilled, on-the-ground contractors has become significantly harder and more costly. It was said to be hardest on the small, short term projects to attract the same number and quality of contractors as they do not offer sufficient long-term certainty to consider relocating with their families to the region.
- **Lack of supporting infrastructure** – for those in the business of supply, the large distance from population centres and the lack of adequate transmission infrastructure in many of the regions was challenging. For example, North Queensland is rich in resources but lacking a large pipeline to transport product to

market. Inter-dependencies with government owned assets (e.g. rail) presented further challenges, and risk to supply costs and reliability.

Stimulating private investment in the regions by procuring public sector initiated projects in bundles

The concept of procuring a bundle of smaller infrastructure projects together had strong appeal amongst participants. The likely benefits would include:

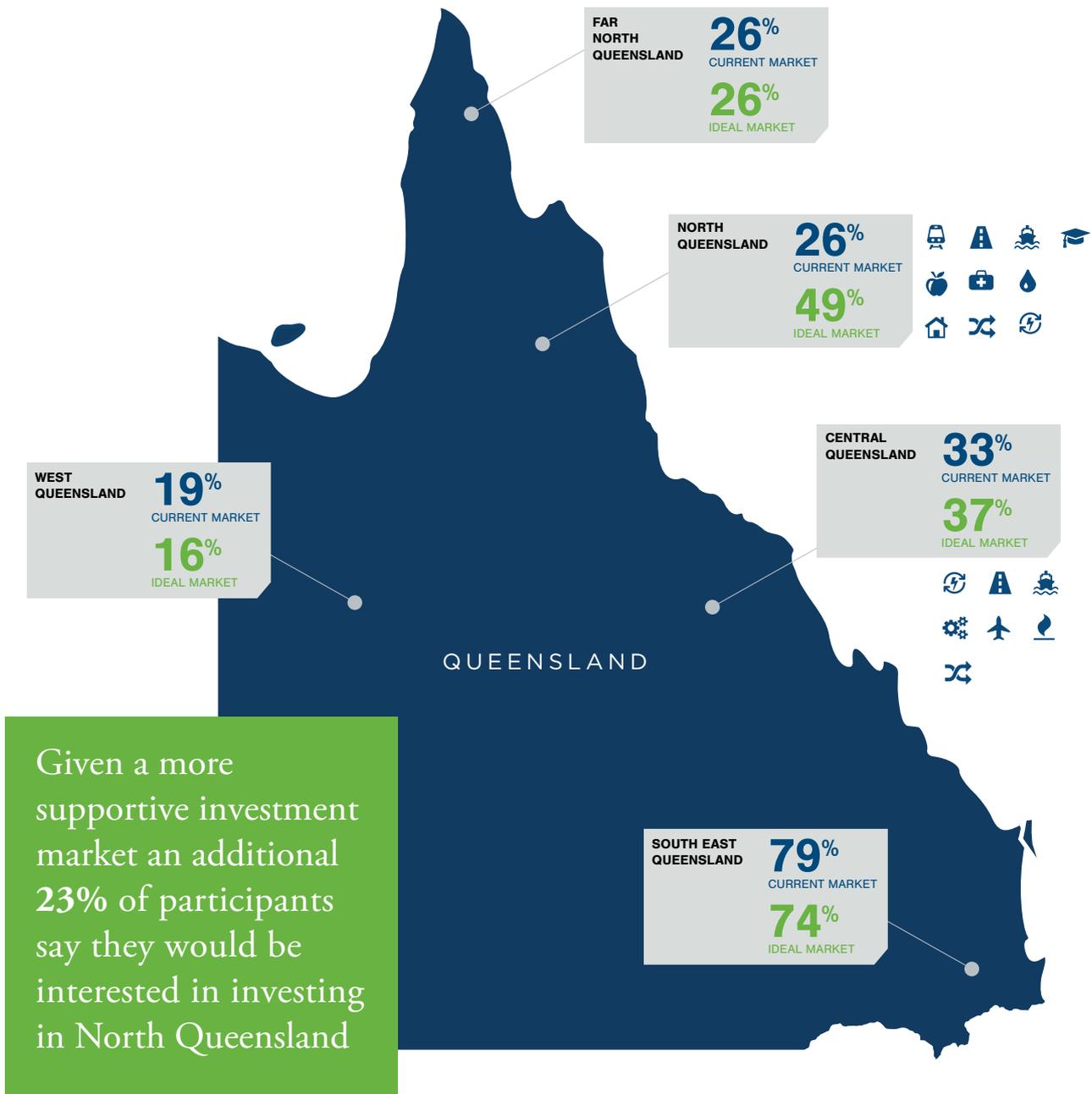
- streamlined procurement and contract management
- cost and time savings for industry and government
- improved access to skilled workforce, equipment and supplies and finance
- appealing to medium-sized companies

Procuring projects in bundles is likely to have high uptake from industry providing projects are procured together, delivered in a block timeframe and scope allows for economies of scale – i.e. bundled projects must have sufficient synergy for investors to be able to apply operational and/or design efficiencies across each project to benefit from economies of scale.

Participant's indicated that bundling social infrastructure (telecommunications, powerlines, water, hospitals and roads) would provide the best investment opportunities. Successful examples in other markets reinforce investor interest - for example, the Western Australia schools and Victorian suburban roads upgrade programme.

Unlocking investment in the regions...

The influence market conditions have on investment interest in the regions
(current market vs ideal market conditions)



“The area west of Toowoomba is really opening up with lots of investment opportunities - the private sector is driving a lot of this.”

Base total sample (n=43).

Q14: In the current market context, which Queensland region/s are appealing destinations for investment/development?

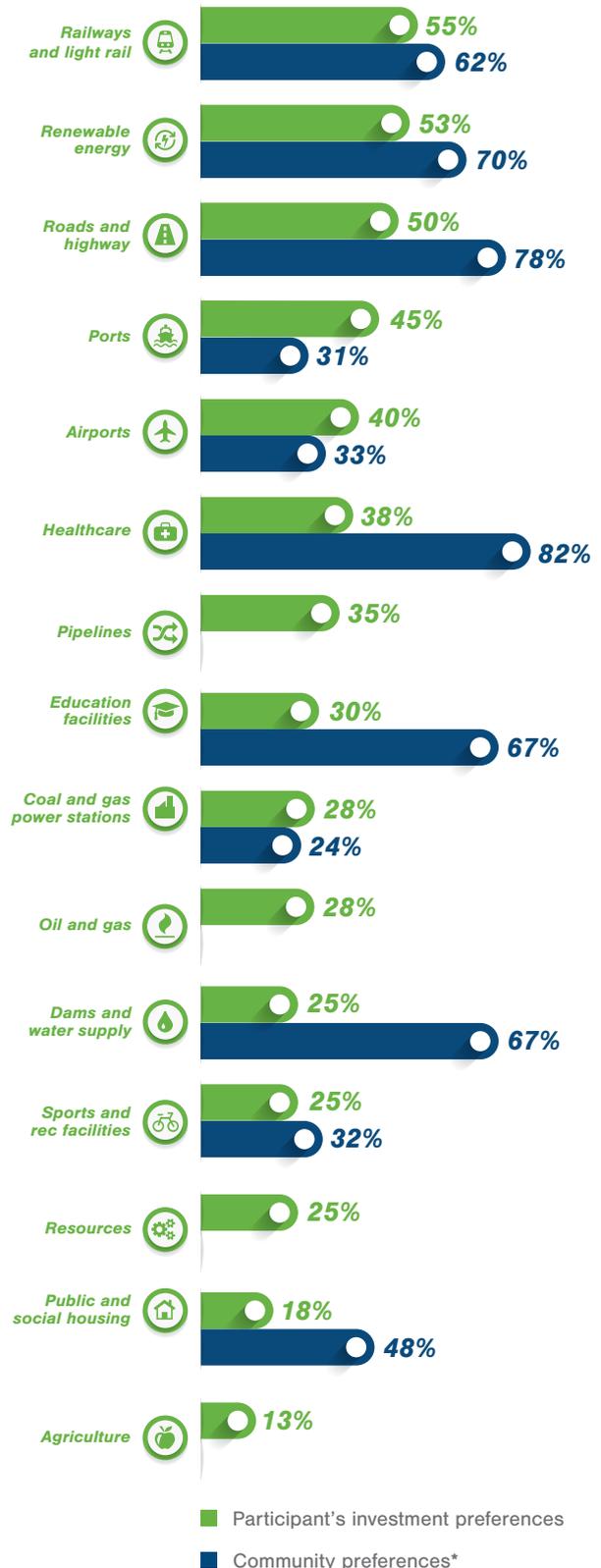
Q33: Thinking about an ideal market context, which Queensland region/s are appealing destinations for investment/development?

Aligning industry and community preferences

To enable a better understanding of how well participant's interests align with community preferences, data from this survey was compared to earlier research conducted on Queenslanders attitudes towards infrastructure.

Findings revealed:

- strong alignment in the areas of rail, renewable energy and roads and highways.
- a lack of alignment on key social infrastructure - healthcare, education facilities, public and social housing - where community places a much higher preference for development
- a lack on alignment on dams and water supply, which was a key preference of regional Queenslanders.



Base total sample (n=43).
*Community Data Source: IAQ's 'Asset and Capital Research Report', 2016: Sample (n=1000)

Conclusion

If key challenges can be overcome, there is potential for increased private sector investment in Queensland's infrastructure market.

While Queensland may be regarded as 'resource rich' and having a strong knowledge-base among market participants and partners, investors are also looking at other national and global markets for investment opportunities.

This report highlights the significant role that greater certainty, political stability, investment pipeline visibility and opportunity for public sector led private investment could play in facilitating infrastructure investment in Queensland.

Participants demonstrated that they are ready and eager to invest in Queensland and would welcome initiatives that support their capacity for investing into the regions and improving the efficiency of the tendering and procurement processes.

In response to these findings, IAQ has carefully put together a set of practical and actionable recommendations for the government and private sector.

These recommendations are included in a separate document - *Uncovering critical influences on private infrastructure investment in Queensland: Recommendations*.





