

Cash flows for desalination dry up

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THE project meant to secure Melbourne against water shortages is facing a crisis: a money shortage because of the global credit squeeze.

Premier John Brumby's \$3.1 billion desalination plant, the cornerstone of his plan to drought-proof Melbourne, appears to be in trouble as major project finance dries up around the world.

Banking sources say the project faces a funding gap of between \$1 billion and \$2 billion. Some in the infrastructure industry say a mere \$300 million to \$500 million is available from banks for all major projects across the country.

The shortfalls confront the Brumby and Rudd governments with either finding the money to bail out the controversial plant, along with a string of other projects across the country, or shelving it.

For Mr Brumby, who has staked Melbourne's water, and his political, future on desalination, the latter option is unthinkable.

Sourcing finance for big-ticket infrastructure projects is now a major dilemma arising from the international money malaise for the private and public sectors.

Earmarked for Williamsons Beach near Wonthaggi, the desalination plant is meant to be a public-private partnership (PPP) with up-front funding from private operators. Two consortia, Bass Water (led by the French company Veolia) and Aquasure (led by the French company Degremont), are jostling for the desalination contract. A decision on the winner is scheduled for mid-year.

But with final bids due this month, sources from both groups have confirmed they have not secured the funds needed to build Australia's biggest desalination project.

"They (the State Government) asked for it to be fully funded. As a matter of fact, it won't be," a source said.

From the opposing camp, another source said: "At this last minute there's people running around the globe trying to get finance. Projects all over Australia are not getting done. You can go to any bank in Australia and you ain't going to get any money."

It is difficult to see how the State Government can pick up the tab for a desalination plant, or even a part. Its coffers are under mounting pressure, while key revenue such as stamp duty falls away. As of Friday Mr Brumby remained committed to a budget surplus of at least \$100 million.

Infrastructure industry sources said the commonwealth and states were now looking at emergency plans for the Federal Government to shore up struggling PPPs across the country.

"The commonwealth is actively looking at options," an industry source said.

As Victoria's biggest civic project, the desalination plant is likely to be among those in need of federal support.

Infrastructure industry figures are hopeful the Federal Government will follow a British plan to establish a special bank to help finance struggling PPPs.

But after doling out tens of billions of dollars to pump-prime the economy, the Federal Government is under pressure to tighten its own belt.

While the Government has vowed to press ahead with big infrastructure spending, its razor gang is looking for cuts, rather than new projects.

It seems unlikely any federal support for the desalination plant will come from the already cash-strapped Building Australia fund, overseen by businessman Rod Eddington.

The fund has found itself with less money than first hoped — just \$12.6 billion, rather the \$20 billion anticipated in the May budget.

Infrastructure Partnerships Australia executive director Brendan Lyon said he would not be surprised if Canberra came to the aid of Victoria's desalination plant, as well as other PPPs.

"All governments are talking to one another about the challenges of debt markets and the challenges facing the infrastructure sector from the global financial crisis."

Since its surprise announcement in 2007, the desalination plant has become increasingly central to the government's water strategy, due to the worsening drought and the effect of bushfires on Melbourne's already stretched water reserves.

State Government figures warned the bidders may be trying to use the media to put pressure on the Government in the tough closing negotiations.

Government spokesman Matt Nurse said the Government could not comment on how the desalination project would be financed.

"The project to build Australia's largest desalination plant is on track, however as there is a competitive bidding process under way we are unable to comment on the bids from the two short-listed consortia," he said.

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