

# **BUDGETING FOR INFRASTRUCTURE: THE USE AND MISUSE OF ACCOUNTING**

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# THE INFRASTRUCTURE PROBLEM

- The core problem in infrastructure policy
- Government (and public) want infrastructure, but don't want to pay for it
- Can 'innovative financing' solve this problem?
  - Sadly, no

# WHAT IS INFRASTRUCTURE

- Capital assets providing a flow of services to a group of users
  - Roads, ports, rail
  - Telecommunications
  - Schools and hospitals ('social infrastructure')

# TWO CRITICAL DISTINCTIONS

- Capital vs current
  - Infrastructure belongs in capital account
- General government vs government business sector
  - Infrastructure may be in either

# CURRENT EXPENDITURE

- Current expenditure
  - Welfare payments, public services
  - Costs incurred as benefit is provided
  - Most relevant budget measure is primary surplus
  - Can only be financed from tax revenue

# CAPITAL EXPENDITURE

- Acquisition of physical assets
  - Roads, schools, hospitals, typically funded from tax revenue
  - network utilities typically funded by users

# GENERAL GOVERNMENT & GOVERNMENT BUSINESSES

- General government
  - 'on budget'
  - Funded by tax revenue
- Government businesses
  - Marketed services
  - Return dividends to government

# SOMETHING FOR NOTHING ?

- Innovative financing blurs categories
- Appearance of 'free' infrastructure
- Reality is that the public must always pay

# TRICKS OF THE TRADE

- Sale and leaseback
- BOOTs
- PPPs
- Privatisation and 'capital recycling'

# THE SALES PITCH

- ✪ ‘Keeping these businesses would cost the Government \$12 billion over the next five years. That’s \$12 billion spent on new coal trains and new wharves that can’t be spent on roads, schools or hospitals’
- ✪ Queensland government ‘facts and myths about asset sales’ 2009

# THE REALITY

- Selling income-generating government businesses provides no additional scope for capital investment by general government

# THE SOLUTION

- Infrastructure investment must be funded by the public
  - User charges for government businesses
  - Stream of tax revenue for general government
- Not the message governments want to hear, but voters have recognised the truth

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