



Public Infrastructure Spending

The Australia Institute Conference

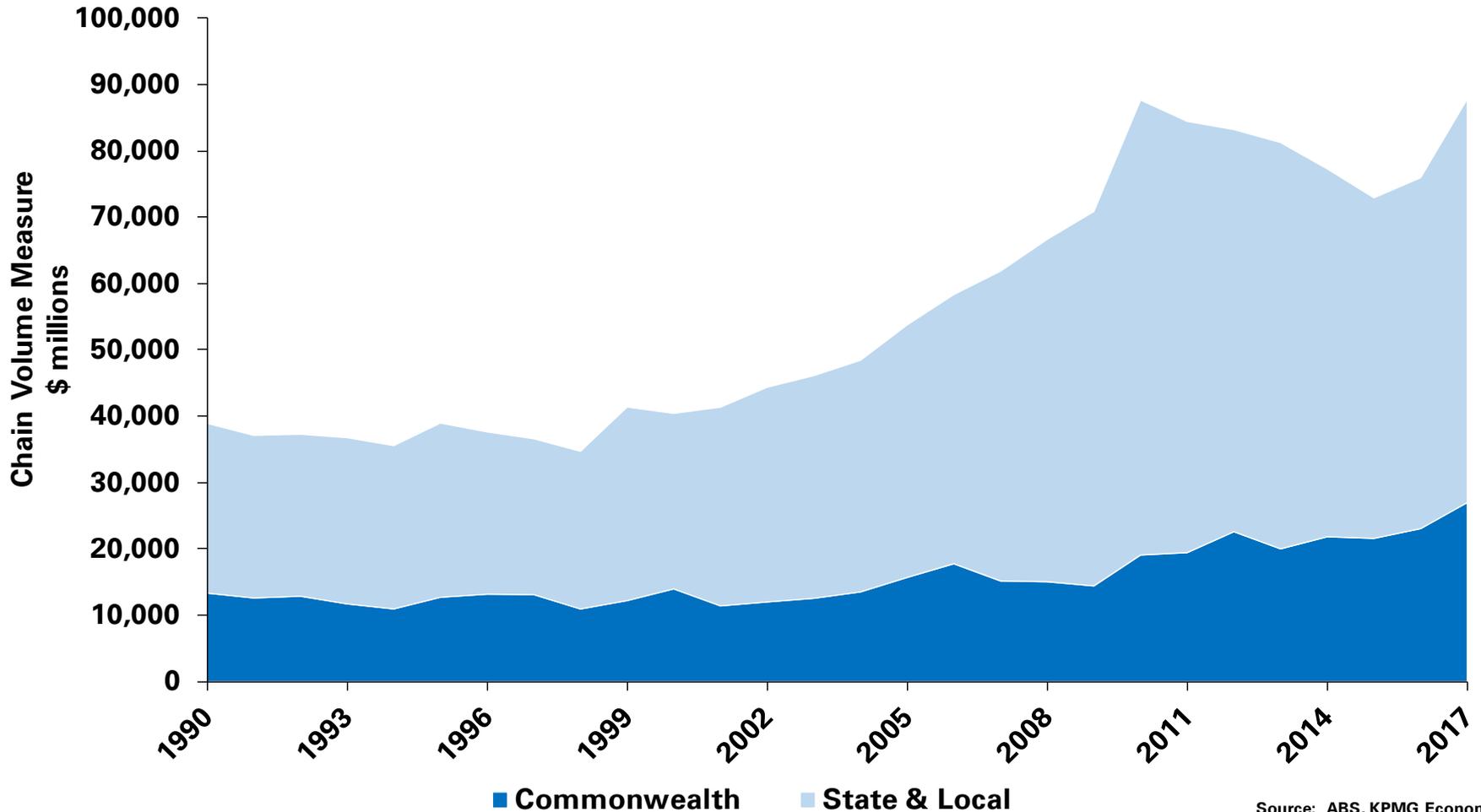
17 October 2018

Show me the money...

- Government has a crucial role in providing and maintaining public good infrastructure in society
- In simple terms government needs to be regularly investing in infrastructure to:
 - *At a minimum*, maintain its existing functionality
 - *Typically*, maintain per capita service standards
 - *Ideally*, enhance outcomes for the population
- We regularly see politicians in the high-vis vest and hardhat announcing new projects, but it's hard to reconcile whether government is spending enough or on the right assets

Government is spending more...

Gross Capital Formation - Public Corporations & General Government Commonwealth and State & Local Governments, \$ real



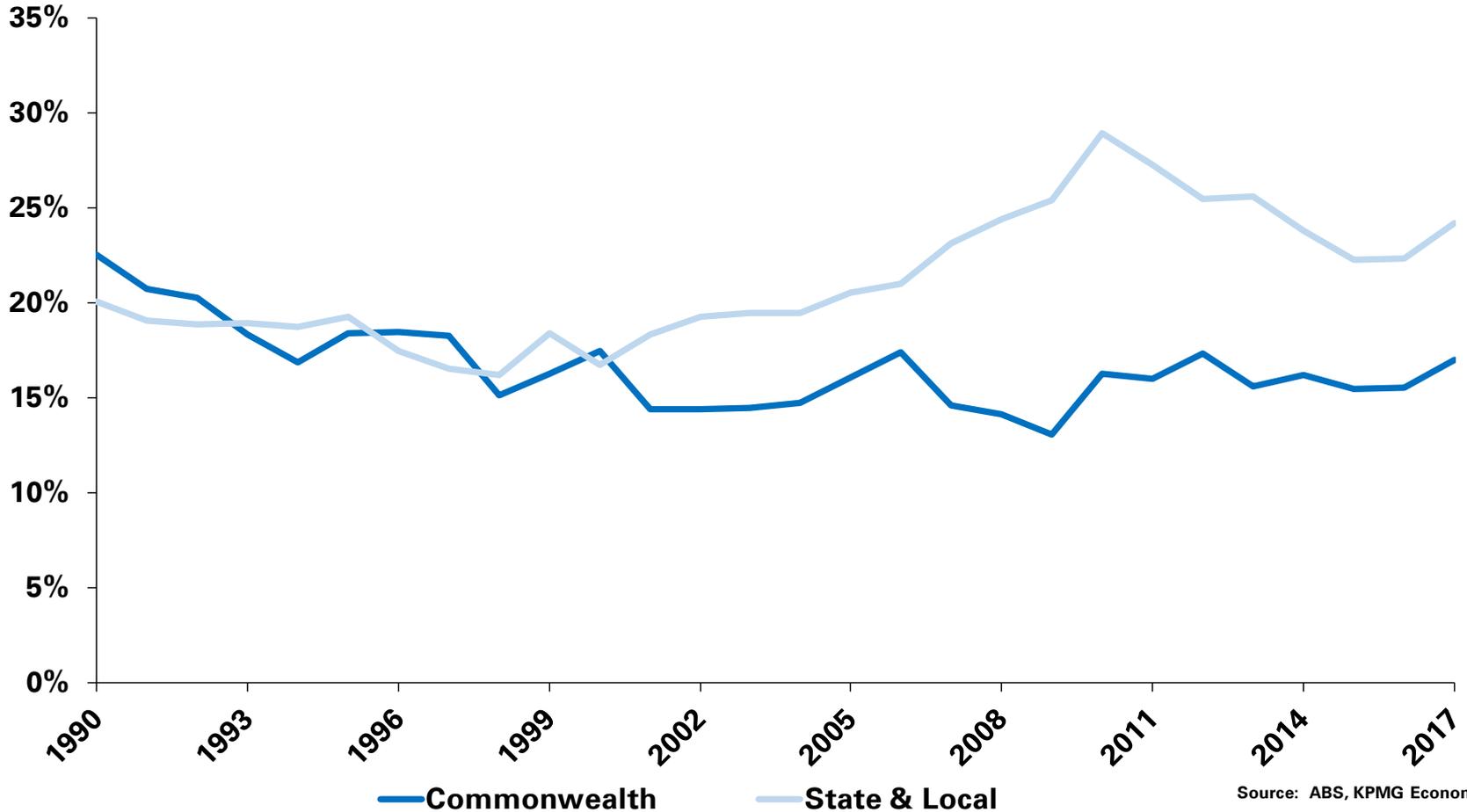
Source: ABS, KPMG Economics



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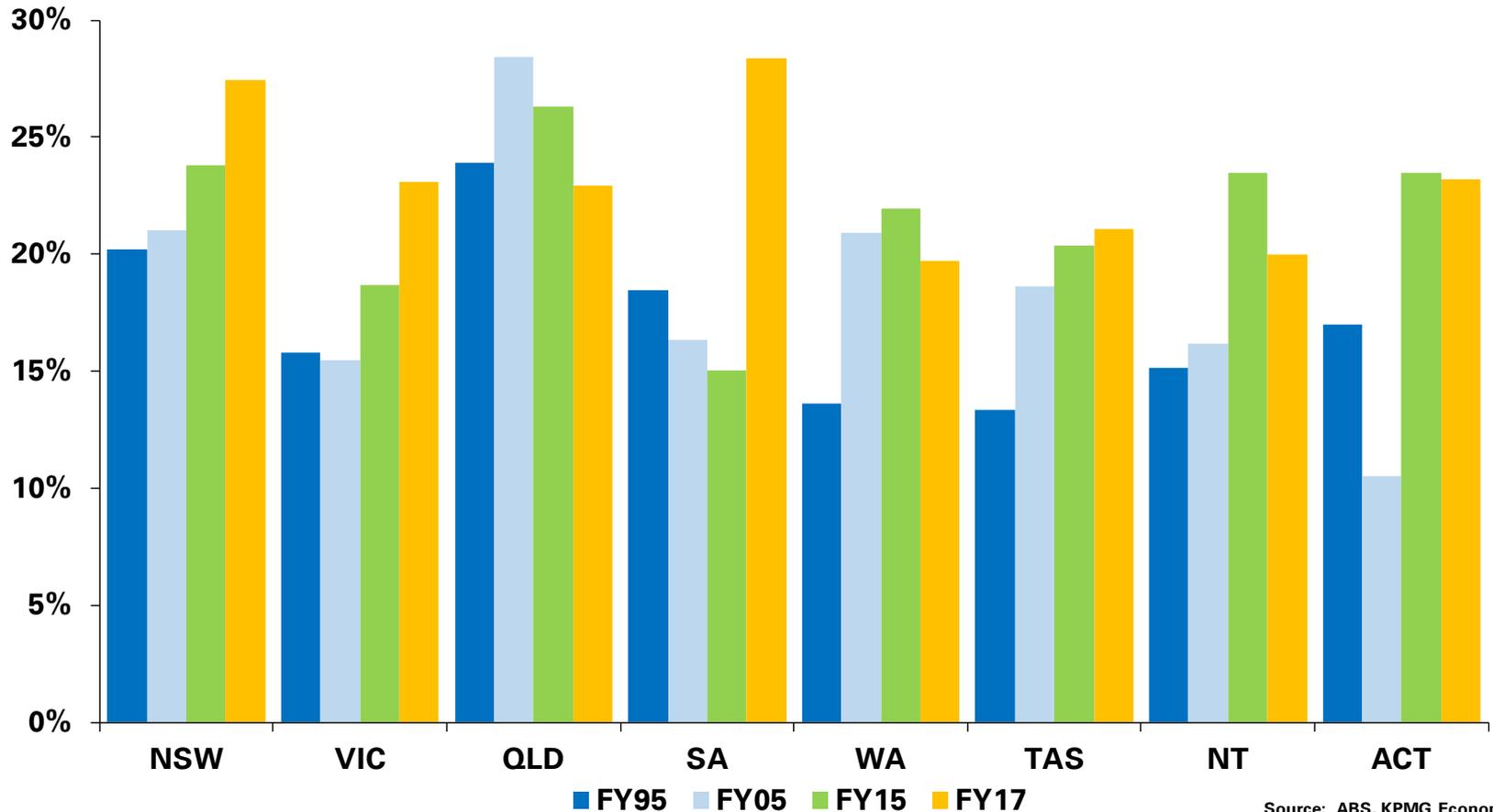
In both absolute and proportionate terms...

Spend on Gross Capital Formation as % of Total Government Expenditure, \$ real



but some are spending more than others...

Gross capital formation as % of Total Government Expenditure, \$ real



Source: ABS, KPMG Economics

and is even more pronounced on a per-capita basis...

Gross capital formation per capita expenditure by jurisdiction, FY17



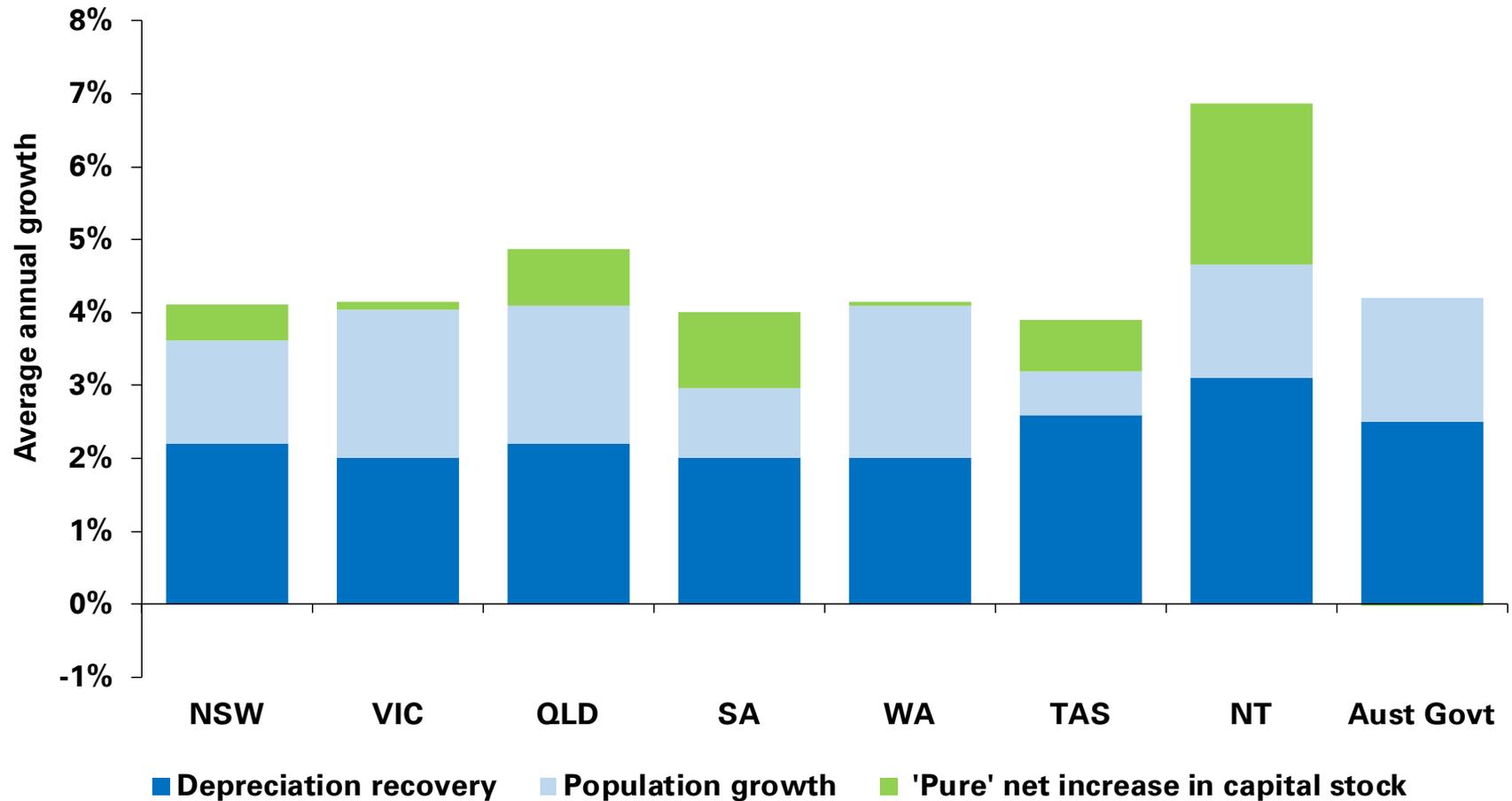
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and some are doing it better than others...

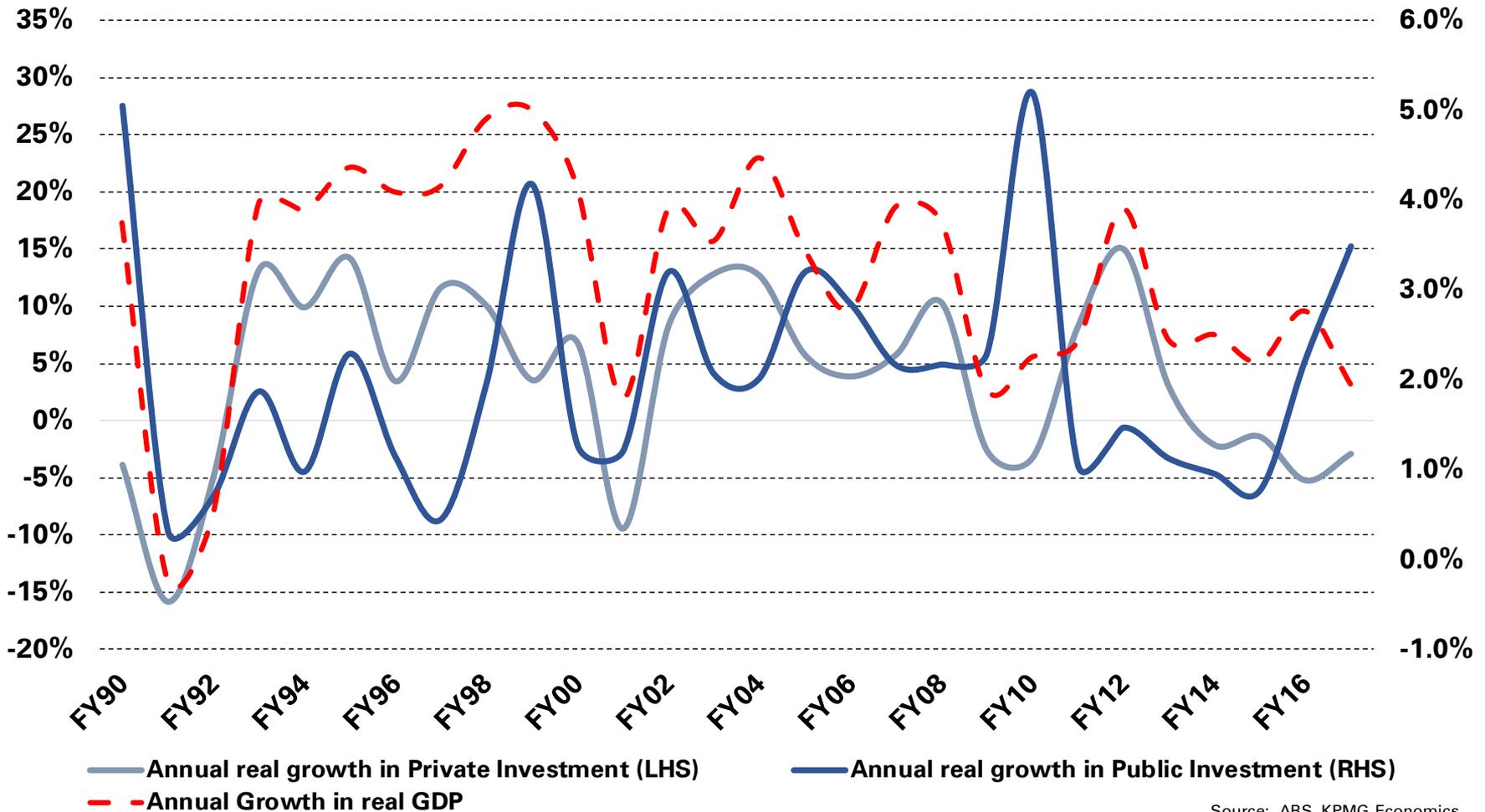
Average annual gross capital formation expenditure as a % of Non-financial assets by component, FY06-FY17



Source: ABS, KPMG Economics

finally, it also matters when you spend it...

Real Growth in Private Investment, Public Investment and GDP, Australia



Source: ABS, KPMG Economics



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KPMG's findings and recommendations...

- Public sector capital stock is “consumed” at a rate of 2.5% per annum
- Just to ‘stand still’ Australia needs to spend about \$45 billion on public sector assets each year
- Capital spend just equivalent to depreciation does not maintain the ‘status quo’ if there is growth in the population
- KPMG recommends minimum level of **efficient** public sector expenditure per annum should be between 5.5% and 6.0% of the value of non-financial public sector assets
- As per today’s NFPS assets this equates to around \$100 billion – actual spending in FY17 was \$86 billion
- Current investment in NFPS is insufficient and should be raised by between 15% and 25%
- Ideally investment should be counter-cyclical to private sector spend
- Efficient public sector capital expenditure is therefore a function of *how* it is spent, *what* it is spent on, and *when* it is spent



Thank you



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