Infrastructure incentives

Local body elections are showing up a gap between the necessary and the desirable.

Council candidates are incentivised to promise the 'desirable' - funding for the arts, living wage subsidies, free public transport, promotions, entertainment events, free swimming lessons, subsidies for heritage houses and other social spending. 'Free buses, a thousand new council houses and no asset sales' is the promise of one mayoral hopeful.

Fewer candidates campaign on providing necessities like roads, bridges, footpaths, drains, water storage, pipelines and utilities.

As a result we tend to elect candidates who've promised what's desirable rather than what's necessary – but then reality bites.

In many places infrastructure is aging or inadequate. Auckland can't keep up with the infrastructure needed to house or transport its population and many smaller centres can't afford to upgrade their water or sewage systems.

Local government says the infrastructure deficit raises the need for additional funding sources such as local taxes or a share of mining royalties.

This could make the situation worse. More revenue would likely lead to more spending on desirable things while necessary infrastructure would continue to have a lower priority because the incentives on councillors would not have changed.

The legislation governing councils creates wrong incentives for councillors and candidates by not defining their role plainly.

The Local Government Act doesn't clearly enough prioritise the responsibility to provide necessary infrastructure. Its wording is so loose that it allows councils to do just about anything they want.

The result is rates rises up to 10% per year and increased debt – and still not enough new infrastructure.

It doesn't have to be this way.

In many cases councils own assets that could be sold or partially sold to fund the building of new infrastructure.

Shares in council-owned ports, airports or other facilities – assets that are not strictly essential for a council to own - could be sold to fund more essential infrastructure.

There is also scope for councils to use private sector funding to build and operate infrastructure using the BOOT model.

Under this model a private operator may build and operate a tolled road or other asset for a period of time before transferring ownership of it to the council. This is a public-private partnership model that is well suited to local government infrastructure needs.

There is currently a great deal of global capital available for investing infrastructure. Large pension funds are seeking low-risk, stable projects to invest in, and local authority infrastructure would be a good fit.

Low interest rates make this a good time for investing in infrastructure assets.

Infrastructure provision is not an insurmountable problem.

We just need better incentives on local government to use available opportunities to build it.

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