Who pays the ferryman

The Kaikoura earthquakes have damaged structures in parts of State Highway 1, the rail network and Wellington's port.

Now the question is how to repair and replace this infrastructure along with funding New Zealand's other infrastructure needs.

Funding is not the ultimate problem. Central and local governments can tax and rate. And the private sector has funds available - the world is awash with cashed-up pension and sovereign wealth funds looking for a suitable return in a world of record low official interest rates.

So what is the problem? There are two. In the public sector, the problem is that public entities aren't enthusiastic about paying for infrastructure. No-one wants their taxes or rates to increase at a time when economies are doing it tough. This is a problem in many parts of the world.

The second problem is that in the private sector, funds managers don't think the rewards available for the investment justify the risk. Large infrastructure projects are not being structured in ways that balance the risks between the buyer and the funders.

New ways of delivering infrastructure are called for.

The need is acute in the US. Interstate highways were mostly completed in the 1960s and have had few upgrades since, and much other infrastructure built after the second world war is now aging. In the recent Presidential election many campaign promises were made to fix infrastructure and since then the incoming Trump administration has promoted an unorthodox plan to fund the upgrade of crumbling infrastructure.

Private financing backed by large tax credits is suggested. US corporations would be encouraged to repatriate billions of dollars currently parked overseas with a one-time lower tax rate. A resultant boost in tax revenue along with tax revenue from labour wages and business profits from the infrastructure projects would together help offset the tax credits.

It remains to be seen whether the plan is workable and whether it can gain the agreement of congress, but it is at least an innovative approach.

The need for upgraded infrastructure is so great that bold innovation and involvement by both public and private sectors are required.

The need is acute here too. Our growing population and economy and vulnerability to natural disasters are making unprecedented demands on our infrastructure.

While the focus is often on Auckland and Christchurch, much of our infrastructure needs are in regional New Zealand where there is a lot of roading, water and drainage infrastructure to provide and a small rating base to fund it. Wellington also has growing infrastructure pressures, more so now in light of recent events.

We need to look beyond taxes, rates and council borrowing to innovatively address the challenge of how to pay for new infrastructure, involving both the public and private sectors and those who benefit from it.

We do have a range of options.

The government successfully partially privatised its power generation assets and still owns many more. In many cases councils own assets that could be sold or partially sold to pay for 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 pay for urgently needed roading and other infrastructure. This is recycling one asset into another, higher priority asset.

There is also greater scope for the government and councils to use tolled roads or bridges, and cost-reflective pricing for water infrastructure.

The public-private partnership (PPP) model is well suited to meeting infrastructure needs - private partners can cover the project's upfront costs while recovering them over time from those who use it.

The PPP model is used in Asia, Europe, Canada and Australia. Successful PPP projects have used transparent tendering, independent monitoring, and the equitable sharing of risks, responsibilities and rewards among the public and private sector partners, based on sophisticated cost and revenue estimates. They have brought a closer relationship between those who benefit from the new infrastructure and those who pay for it.

The Auckland city rail loop would be a great candidate for a PPP.

It's time to have a more sophisticated debate about where our new infrastructure is needed, the quality standards which we aspire to, how we structure the deals, and who should pay.

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