

Brief to the House of Commons Standing Committee on Finance



2011

Pre-Budget Consultation

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ASSOCIATION OF CONSULTING
ENGINEERING COMPANIES | CANADA

ASSOCIATION DES FIRMES
D'INGÉNIEURS-CONSEILS | CANADA

Executive Summary

Infrastructure is an investment – not an expense. It is an investment in the economic, social and environmental prosperity of this country. The recent infrastructure investments made possible by the Building Canada Fund and the Stimulus Action Plan were clearly helpful. However, in spite of these recent efforts, infrastructure investment in Canada has significantly declined since the 1960s. ACEC recommends that parliament and the federal government begin work immediately to develop a national, long-term infrastructure investment strategy. The resulting plan could be executed in 2014 once the budget has been balanced and as the Building Canada Fund is scheduled to expire. This will allow future investments to have the most meaningful impact on the country's infrastructure deficit.

Introduction

The Association of Consulting Engineering Companies (ACEC) is pleased to make this submission to the House of Commons Standing Committee on Finance as it begins its annual consultations in preparation for the 2011 federal budget. ACEC represents companies in Canada that provide professional engineering services to both public and private-sector clients. These services include the planning, design and execution of all types of engineering projects, as well as providing independent advice and expertise in a wide range of engineering and engineering-related fields. Through offering these services, ACEC member companies have a direct influence on virtually every aspect of our economic, social and environmental quality of life in Canada.

ACEC applauds the government's recognition of the importance of public infrastructure to Canada's quality of life and economic well-being. We wish to commend all the parties for their commitments during the recent election to work with all levels of government and the infrastructure stakeholder community to develop a long-term infrastructure investment strategy.

ACEC is also cognizant of the spending and tax constraints within which the federal government currently finds itself. It is also mindful that the government has committed to achieving a balanced budget by 2014. The time period between 2011 and 2014 could be wisely spent by prioritizing the country's infrastructure needs and developing a plan for future investments.

ACEC is prepared to work with the government and other stakeholders in the creation of a long-term infrastructure investment strategy that will promote a sustained economic recovery, create quality sustainable jobs and contribute to future balanced budgets.

Recommendation

ACEC recommends that parliament and the federal government begin work immediately to develop a national, long-term infrastructure investment strategy in accordance with the commitments made by both leading parties in the last election. The plan should set priorities, identify clear objectives, establish the roles and responsibilities of all partners, and measure the return on investment. We further recommend that the development of the strategy begin during the 2011-2012 fiscal year in order for roll-out to be achieved in time for the expiry of the Building Canada Fund in 2014.

ACEC recommends that the following measures be included as features of a sustainable infrastructure investment strategy:

- A commitment to close and stabilize the infrastructure deficit over the long term;
- Realistic timetables that balance the long-term urgency of infrastructure investment with current fiscal pressures;
- Adoption of sound asset management practices to quantify the condition and remaining service life of existing infrastructure;
- Ongoing assessment of transportation, environmental, health and education infrastructure needs to accommodate the condition of current infrastructure, changing needs, adaptation to climate change, and population growth;
- A robust prioritization, sequencing and assessment of projects and programs;
- Clearly defined roles and responsibilities for each level of government (needs assessment, planning, investment, operations and maintenance);
- A predictable infrastructure investment plan that will allow governments, public agencies and private firms to appropriately develop and allocate resources to plan, finance, design, construct and operate infrastructure projects;
- An annual evaluation of progress and return on investment.

The framework for the development of this strategy is equally important. While all three levels of government will play a role in the development and implementation of this strategy, the federal government must assume a leadership role to safeguard the interests of Canadians across the country. Stakeholder participation will be an integral part of this process, as well as parliamentary oversight of the proposed strategy.

ACEC proposes a three-stage approach for consideration in the development of a long-term infrastructure investment strategy:

- STEP 1:** A stakeholder working group should be created to provide the necessary expertise for the development of an infrastructure investment strategy. Possible models for this working group would be the National Round Table on the Economy and the Environment, or the Municipal Infrastructure Forum proposed by the Federation of Canadian Municipalities to the Minister of Transport, Infrastructure and Communities in February 2011.
- STEP 2:** This working group should provide its input and recommendations to the Ministry of Transport, Infrastructure and Communities for the development of an infrastructure investment strategy in consultation with the working group and other levels of government.
- STEP 3:** The proposed infrastructure investment strategy should be presented to the Standing Committee on Transport, Infrastructure and Communities or the Standing Committee on Finance for consideration, amendment and approval.

Rationale and Benefits

Infrastructure is an investment – not an expense. It is an investment in the long-term economic prosperity of this country. A national infrastructure investment strategy will:

- promote a sustained economic recovery in Canada by eliminating the economic costs of the ongoing infrastructure gap;
- create quality sustainable jobs in multiple sectors, including Canada's design, technology and construction industries;

- contribute to future balanced budgets by reducing the cost of infrastructure projects and maximizing the economic benefits of these investments.

The recent infrastructure investments made possible by the Building Canada Fund and the Stimulus Action Plan were clearly helpful and ACEC applauds the government for this wise expenditure and successful execution. However, these programs are not a substitute for a long-term infrastructure investment strategy (nor were they intended to be). In spite of these recent efforts, infrastructure investment in Canada has significantly declined since the 1960s as will be outlined below.

The Need for Investment

In 2004, TD Bank Financial Group released its landmark study *Mind the Gap: Finding Money to Upgrade Canada's Aging Infrastructure*. This study identified a 50% decline in annual government per capita capital investment from 1962 to 2003. The resultant infrastructure investment shortfall was calculated to be as high as \$125 billion in 2004. The more recent 2010 study *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth* commissioned by the Residential and Civil Construction Alliance of Ontario (RCCAO) calculates that infrastructure investment declined from nearly 6% of GDP in 1960 to approximately 3% of GDP in 2004. Allowing infrastructure investment to continue at these levels will ensure that the Canadian infrastructure gap continues to grow.

Economic Growth

The RCCAO study referenced above is noteworthy because it directly addresses the consequences of the infrastructure investment gap. Infrastructure underinvestment imposes significant costs on the Canadian economy. The impact of infrastructure upon our lives is often unrecognized and largely taken for granted. Similarly, the consequences of underinvestment are often gradual and not immediately recognizable. The RCCAO study predicts that public infrastructure underinvestment will cost the Canadian economy 1.1% of real GDP growth annually over the next fifty years and reduce the long-term profitability of Canadian businesses by an average of 20%. A national, long-term infrastructure investment strategy can **eliminate the economic costs of infrastructure underinvestment and promote a sustained economic recovery** in Canada.

Job Creation

A national, long-term **infrastructure investment plan will also create quality sustainable jobs in multiple sectors** including Canada's design, technology and construction industries. In March 2010, the Conference Board of Canada in its series of reports, *Lessons from the Recession and Financial Crisis*, concluded that of all fiscal stimulus measures, infrastructure investment has had the largest impact on economic growth. This conclusion not only validates the government's stimulus spending on infrastructure, but also demonstrates the ongoing value of infrastructure investment to Canada's economic health and prosperity. However, sporadic, time-limited infrastructure programs create uncertainty and will make it difficult to retain skilled jobs or develop Canadian industries. A national, long-term infrastructure investment plan will continue to support the creation of quality sustainable jobs across the country.

Balancing the Budget

A sound infrastructure investment is sustainable and predictable. These qualities **will contribute to future balanced budgets by reducing the cost of infrastructure projects and maximizing the economic**

benefits of these investments. The forces of supply and demand impose higher costs when a large number of projects have to be completed within a short timeframe. A long-term strategy can reduce the costs of individual infrastructure projects by providing a reliable and sustainable rate of investment over a longer period of time. Short-term programs also tend to produce low-complexity projects that can be completed within a short timeframe. These are not necessarily the projects with the most strategic or sustainable economic value. Research by the Federation of Canadian Municipalities demonstrates that infrastructure investment costs rise over time. The cost of repairing a road crack can rise from \$1 a linear metre for crack filling to \$15 for resurfacing, to \$45 for rebuilding – all within a period of five to ten years. A long-term strategy can rationalize investment decisions by directing infrastructure resources where they will produce the greatest benefit and create the greatest savings. In short, a long-term infrastructure investment strategy will contribute to achieving balanced budgets for the future by reducing the costs of delivering infrastructure projects, and maximizing the economic benefits of these investments.

Conclusion

Public infrastructure is one of the core responsibilities of government and an essential, often unrecognized, part of the Canadian economy. ACEC recommends that parliament and the federal government begin work immediately to develop a national, long-term infrastructure investment strategy. The resulting plan could be executed in 2014 once the budget has been balanced and as the Building Canada Fund expires. This will allow future investments to have the most meaningful impact on the country's infrastructure deficit. ACEC hopes that the federal government and the Parliament of Canada will seize this opportunity to promote a sustained economic recovery, create quality sustainable jobs and contribute to future balanced budgets.

About ACEC - Canada

Founded in 1925, ACEC represents nearly 500 independent consulting engineering companies, and 12 provincial and territorial Member Organizations. Consulting engineering in Canada is a \$21.4 billion a year industry that employs more than 100,000 Canadians. Canada is globally recognized for its engineering services and is the fifth largest exporter of engineering services in the world with 30% of its work performed at the international level.

ACEC advocates for a business and regulatory climate that allows its members to provide the highest level of services and the best possible value to their clients. Moreover, as part of a regulated profession, the engineers employed by ACEC companies are obligated by law to act with fidelity to the public interest.

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