

# Mowat Centre

ONTARIO'S VOICE ON PUBLIC POLICY

## **Submission to the House of Commons Finance Committee pre-Budget Hearings on *Ensuring prosperous and secure communities, including through support for infrastructure***

Brief prepared by the Mowat Centre

Oct 20, 2014

Sunil Johal

Matthew Mendelsohn

Noah Zon

720 SPADINA AVENUE, SUITE 218,  
TORONTO, ON M5S 2T9 CANADA



School of Public Policy & Governance  
UNIVERSITY OF TORONTO

416.978.7858  
INFO@MOWATCENTRE.CA  
MOWATCENTRE.CA

@MOWATCENTRE

## Introduction

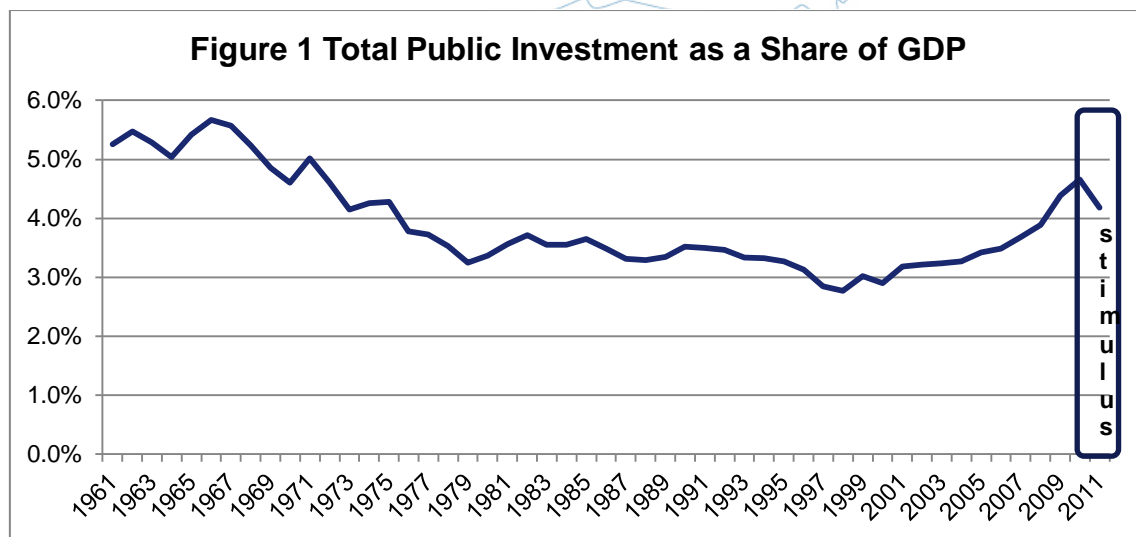
The Mowat Centre would like to thank the committee for the opportunity to participate in its pre-budget consultations. Our submission focuses on the role of infrastructure investments in enabling prosperous and secure communities. In particular this brief will focus on:

- Canada's need for infrastructure investments that support future prosperity;
- the importance of getting investment decisions right by linking them to the broader public policy goals of prosperity and sustainability;
- the need for new relationships among governments in Canada; and
- the way that the current federal approach disadvantages Ontario.

This submission draws heavily on analysis published by the Mowat Centre in August 2014 in *Rebuilding Canada*, available here: <http://mowatcentre.ca/rebuilding-canada/>.

## Need and Opportunity

Going back to this country's earliest days, infrastructure investment has been an important tool of the federal government to connect the country and lay the foundation for future prosperity. Airports and seaports, railways and canals are some of the historic economic infrastructure projects that made our current prosperity possible. Much of the infrastructure that we rely on today now dates from two generations ago, a legacy of a post-war public infrastructure boom. Public infrastructure investments—over five per cent of GDP through the 1960s—declined in the subsequent decades, with some recovery over the past decade (especially during the stimulus).



This period of lower levels of public investment was exacerbated by low levels of private capital investment in Canada compared to OECD peers, creating a shortage in the infrastructure that underpins prosperity and economic growth. This investment shortfall left a significant share of

public infrastructure in need of renewal, according to studies from the Federation of Canadian Municipalities and the Association of Consulting Engineers of Canada.<sup>1</sup> Nowhere is the cost of this underinvestment more clear than in some of our First Nations communities, who face, among other pressures, substandard housing and inadequate water systems.

The federal government, along with provincial, territorial and local governments in Canada, has recognized the need for infrastructure investments and responded with long-term investment plans. As these plans move forward, it is essential for our economic prosperity that they are adequate, aligned, and integrated with other policy objectives.

## Getting our Decisions Right

In addition to the pressures that result from the long period of relatively low public investment in infrastructure, Canada also needs to ensure that we have the public infrastructure that responds to our future economic and needs. The investments through the Digital Canada 150 strategy in broadband connectivity for rural and remote areas are an example of the necessary investments that lay the groundwork for economic growth without simply responding to economic patterns of the past century.

The increasing prominence of the service sector in our economy and the continued trend towards urbanization also demand different approaches to what we consider critical economic infrastructure. The productivity costs of congestion in Canada's major cities underscore the extent to which investments in urban transportation networks (particularly public transit) have become essential to the functioning of our economy. Federal infrastructure investment decisions ought to take into account today the way emerging technologies (such as driverless cars and the internet of things) might create new needs and cause existing infrastructure to fall out of step with the needs of the community and the economy.

Given the long life of assets, it is essential that the choices we make today on public infrastructure set us on a sustainable course. This means ensuring that the infrastructure investments we make today maximize the efficiency of our resource usage and minimize impact on air, water and land resources. It is also important that adaptation to climate change is integrated into design and planning.

## New Partnerships are Necessary

Meeting these objectives will be extremely difficult in the context of existing federal infrastructure investment plans. While the long-term commitments in the New Building Canada Plan are welcome, it remains true that federal infrastructure investments are by far the smallest contribution to public infrastructure in Canada. According to the Canadian Centre for Economic Analysis, the federal government is responsible for about 12 per cent of public infrastructure investments in Ontario, with provincial and local governments covering the remainder.<sup>2</sup> That

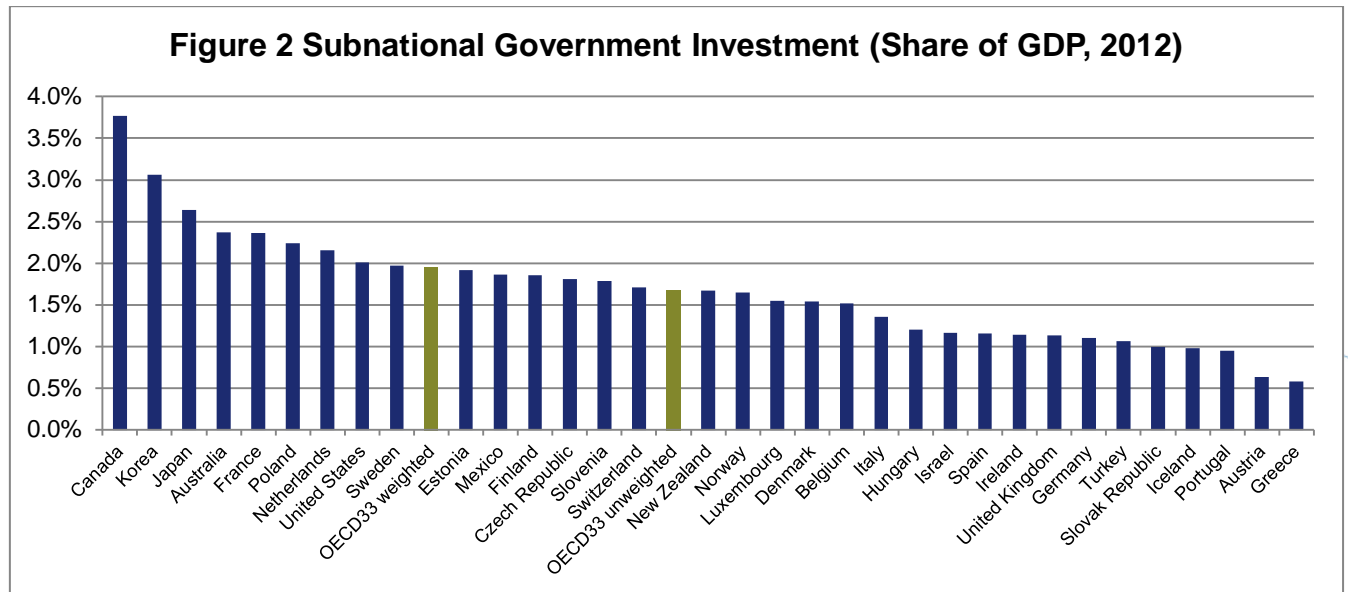
---

<sup>1</sup> Association of Consulting Engineers of Canada, 2004. Brief to the Standing Committee on Finance Regarding the Federal Government's Pre-Budget Consultation Process

<sup>2</sup> Smetanin, P., Stiff, D., and Kobak, P., Ontario Infrastructure Investment: Federal and

federal investment is equivalent to 0.37 per cent of Ontario's GDP, compared to 2.8 per cent in combined contribution from the provincial and local governments in Ontario.

Canada stands apart from OECD peer federations by a large margin in the role that subnational governments play today in public investment, well ahead of Australia, United States or Germany. Building adequate infrastructure to meet our needs depends on greater investment from the federal government.



It is not only the level of federal infrastructure investment that needs to be addressed in shaping a new partnership for Canadian infrastructure, it is the way that federal investment is managed. Federal investments are managed through a long list of programs which have often diverged from their original commitments on focus and funding level. It is exceedingly difficult to map which projects have been selected under which program and why.

A striking example of the transparency and decision-making challenges is the Green Infrastructure Fund, a \$1 billion federal commitment for the 2009-2014 period to pay for up to half of projects that promote clean air, reduced GHGs and cleaner water. The Infrastructure Canada web page on this program<sup>3</sup> lists \$639 million in investments in 18 projects in five provinces and territories. Even after accounting for \$170 million "transferred to other federal departments to support other high priority initiatives" and a further "\$45 million removed from department reference levels...and made available for other Government of Canada priorities," this still leaves \$146 million unexplained publicly.

Provincial Risks & Rewards. The Canadian Centre for Economic Analysis. 2014. [http://www.rccao.com/news/files/RCCAO\\_Ontario-Infrastructure-Investment\\_July2014-WEB.pdf](http://www.rccao.com/news/files/RCCAO_Ontario-Infrastructure-Investment_July2014-WEB.pdf)  
<sup>3</sup> <http://www.infrastructure.gc.ca/prog/gif-fiv-eng.html>; accessed 9 Oct 2014.

In addition to the drawbacks for transparency, the use of boutique programs, each with slightly different eligibility criteria and generally requiring contributions from various government and private sector partners creates challenges from a policy standpoint. The choice to design programs to leverage additional funding from provincial and local governments make the returns on federal investments appear larger, but skews local investment decisions to the criteria of the projects the federal government is willing to fund. The need to fit federal project selection windows for limited funds prioritizes the shovel-ready over the important.

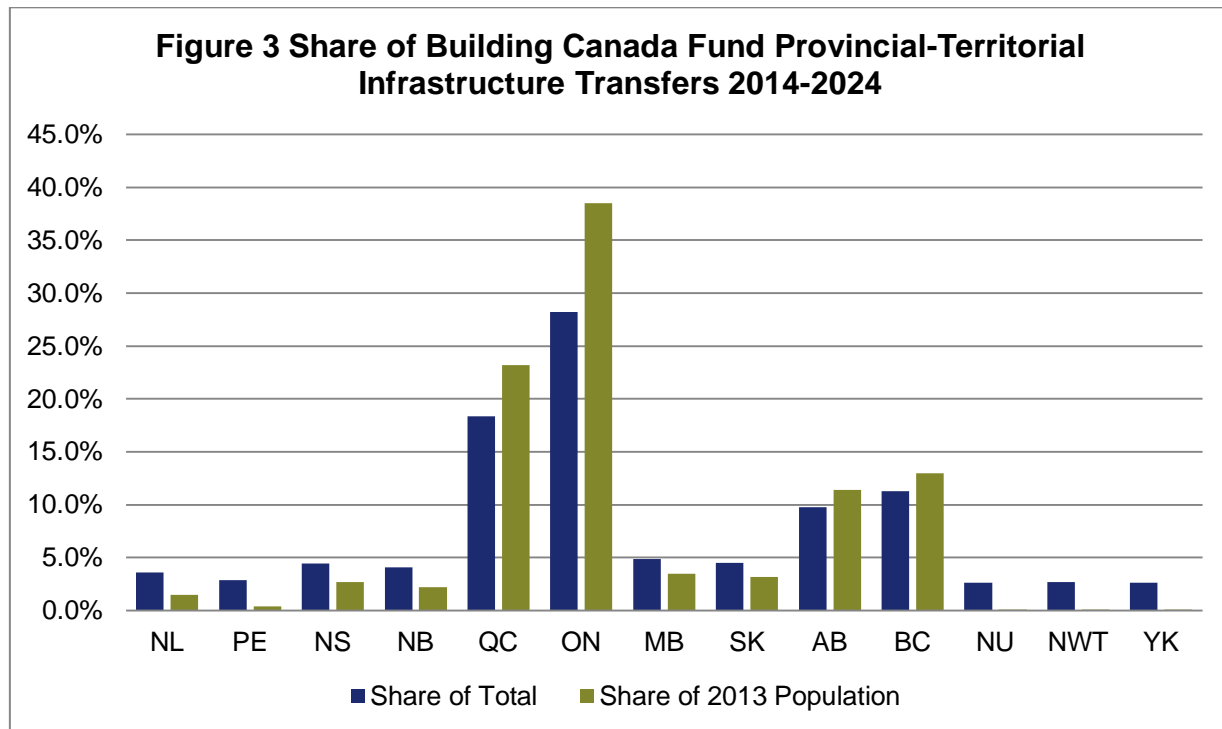
The federal government has a role in making sure infrastructure investments reflect national priorities that may not be emphasized in local or provincial decision-making. The investments in the Gateways and Border Crossings Fund and the Asia-Pacific Gateway and Corridor Initiative are good examples of this nation-building role. However, addressing the emerging trends that shape Canada's infrastructure needs going forward calls for a different form of partnership with provincial, territorial and local governments that ensures federal investments support local needs and local investments contribute to national priorities.

## Meeting Ontario's Needs

Ontarians in particular have reason to be concerned about the way the federal government makes infrastructure investment decisions. The largest of these concerns comes from the Provincial-Territorial Infrastructure Component of the Building Canada Fund in the New Building Canada Plan. This fund provides block transfers to provincial and territorial governments for infrastructure needs. Ontario is set to receive about 28 per cent of this \$9.6 billion dollar fund over the next ten years, compared to its 38.5 per cent share of the population.<sup>4</sup> The reason for this divergence is that the federal government has carved out one third of this fund to distribute to provinces on an equal basis—\$250 million per jurisdiction, regardless of size or need.

---

<sup>4</sup> Zon, N., Slicing the Pie: Principles for Allocating Transfer Payments in the Canadian Federation. July 2014. Mowat Centre. [mowatcentre.ca/slicing-the-pie](http://mowatcentre.ca/slicing-the-pie)



The project-selection approaches of other federal infrastructure programs have led to very inconsistent support for Ontario needs. For example, the province has received only 14.5 per cent of federal investments under the P3 Canada Fund and 33.1 per cent of the Strategic Infrastructure Fund, based on the best available public information. This does not line up with any rationale that is rooted in addressing Canada's infrastructure needs.

## About the Mowat Centre

The Mowat Centre is an independent public policy think tank located at the School of Public Policy & Governance at the University of Toronto and Ontario's non-partisan, evidence-based voice on public policy. We undertake collaborative applied policy research, propose innovative research-driven recommendations, and engage in public dialogue on Canada's most important national issues. Our policy areas of expertise are intergovernmental economic and social policy, state transformation, energy policy and not-for-profit policy.