DAILY COMMERCIAL NEWS

Budgets still under investing in infrastructure: CANCEA

Angela Gismondi June 6, 2019

There is not enough infrastructure investment being earmarked to build and maintain Ontario's aging infrastructure and infrastructure investment from all levels of government — especially the federal government — should be higher, says the **Residential and Civil Construction Council of Ontario (RCCAO)**, following the release of new, independent research.

The research, conducted by the Canadian Centre for Economic Analysis (CANCEA), evaluates the percentage of Ontario Gross Domestic Product (GDP) that is being invested into the province's infrastructure from the federal and provincial budgets. The analysis indicates systematic infrastructure underinvestment by the federal, provincial and municipal governments is putting the province's economy at risk.

The concern is continuing the trend of underinvestment in infrastructure and the growing investment gap could mean infrastructure projects such as roads, bridges, transit, sewer and watermain systems could be delayed or cancelled.

We have been doing this since 2010 and we are constantly having this deterioration,

— Paul Smetanin

Canadian Centre for Economic Analysis

"Ontario needs a lot of infrastructure investments and governments need to get their act together so that we can start making these proper investments," stated Andy Manahan, executive director of the RCCAO.

"The results of the bulletin show that the larger share of the underinvestment is due to the federal government. If Ontario and municipalities try to make up the shortfall for what the feds are underinvesting, their return on things like taxes generated would be less. To get the more optimal bang for the buck we really do need the federal government to step up and start making investments."

CANCEA has been tracking the issue through econometric analysis since 2010 and provided updates in 2011, 2014, 2015, 2016 and 2018. The updates show a continual decrease in investment relative to GDP and while dollar value of infrastructure investment grew by 11 per cent between 2011 and 2018, it has not been keeping pace with economic growth, explained Paul Smetanin, president and CEO of CANCEA. Investments as a percentage of Ontario's GDP decreased from 3.25 per cent to 2.79 per cent, a 14.2 per cent drop in investment, he added.

"Unfortunately, we are still trending in the wrong direction," said Smetanin. "We have been doing this since 2010 and we are constantly having this deterioration in the amount of investment and maintenance of our infrastructure. In Ontario we are just not keeping pace with economic growth but more importantly with population growth…While the absolute numbers might be going up year by year by incremental amounts, once you adjust that for economic growth and population growth we are actually declining."

This is the first analysis in which CANCEA looked at the investment plans within the federal and provincial budget announcements to track the trends.

Currently the provincial government has allocated $144 billion over 10 years for infrastructure. CANCEA estimates that Ontario spent $20.7 billion in Ontario in 2018 and will spend $20.9 billion this year. The federal government spent $3.1 billion in 2018 and is projected to spend $4.5 billion this year.

CANCEA found the combined the federal and provincial investment in Ontario infrastructure should be at 5.4 per cent of Ontario's GDP. The expected total investment over the next five years is 2.65 per cent of provincial GDP, leaving an investment gap of 2.75 per cent. From 2014 to 2018, the federal contribution has remained under 0.5 per cent of GDP, a quarter of the two per cent that should be earmarked for Ontario infrastructure.

According to the report, the combined annual dollar value of infrastructure investments is expected to decrease from 2019 to 2022 which translates to "a continued downward trend in the percentage of provincial GDP invested annually and a further move away from the econometric target levels for long term growth…Investments are expected to be at a 10-year low of 2.45 per cent seen in 2016 again by 2022."

"As a result of this continual decrease in investment relative to GDP, the target level — the level at which long-term real GDP growth is maximized, which is determined through econometric modelling — was revised from 5.1 per cent in 2011 to 5.4 per cent based on the 2018 update report (combined provincial/municipal, plus federal investment in the province)," states the report.

The report also states the share of infrastructure investments borne by the federal, provincial and municipal governments are unfairly allocated and "the federal government is a significant beneficiary, receiving a larger share of the benefit from the infrastructure investments made in Ontario than the share it directly invested."

"Previous reports that we have done show there is a systemic problem with the allocation of the cost of infrastructure in Ontario," said Smetanin. "The problem is that while the Ontario government and municipalities are investing in infrastructure, they are not getting the rate of return back through taxation revenues because there is another level of government that is taking their share but not repatriating those taxation dollars back to essentially the source that generated it."

The federal government remains significantly underinvested at 25 per cent of what benefit analysis suggests, states the report.

"If you were to allocate who should pay for infrastructure based upon who gets the benefits then you would expect the federal government to at least increase their infrastructure investment in Ontario by three times," said Smetanin. "Unfortunately given the projections in the federal budget, we see no shift towards any significant increase in funding infrastructure from the federal government."

CANCEA says increasing the percentage of GDP spent on infrastructure requires collaboration between all levels of government and that the investment should be split between the different tiers of government according to the expected future benefit.