

Infrastructure bank just one tool to ensure the right investment

by LINDSEY COLE Mar 7, 2016

The concept of a Canadian Infrastructure Bank (CIB) is one tool that if designed and structured properly could help build on the federal government's plan to spend \$125-billion over the next 10 years on infrastructure, a new report suggests.

"The federal government is going to roll out huge amounts of money for infrastructure," says the report's author Matti Siemiatycki, an associate professor at the [University of Toronto](#).

"We have an issue with how we select projects in Canada. We don't always use evidence in our decision-making...and then once we decide to move forward with projects we have a problem with cost overruns. Let's create an integrated agency that has a banking function...but let's also task that agency with providing a screening goal for project selection and then also functions as a centre of excellence in terms of project delivery."

This is one of the key points he makes in his report, *Creating an Effective Canadian Infrastructure Bank*, which was commissioned by the **Residential and Civil Construction Alliance of Ontario (RCCAO)**.

"The purpose of an infrastructure bank is to provide low interest loans and credit enhancement services to provincial and municipal governments investing in priority infrastructure projects," Siemiatycki explains.

"The cost of financing is reduced by taking advantage of the federal government's top credit rating."

He says the small difference between interest rates that the federal government has access to in order to borrow money and the lending services of the CIB could be beneficial, but only for large infrastructure projects of at least \$10 million.

"Despite this restriction, if a CIB can shave 100 basis points off the cost of borrowing \$500 million, it would save the borrower \$100 million in interest payments over a 35-year loan term," Siemiatycki states, adding the CIB must provide funding that is in addition to and not a replacement for existing federal grants for infrastructure.

He is also quick to point out that an infrastructure bank isn't the solution to many of the existing problems Canada faces when it comes to infrastructure.

"The problem is paying the money back. The real issue is that either they (municipalities) don't collect enough tax revenues or they've had a hard time finding places to cut in their budgets," he explains.

"They are already pressed. They are financially constrained."

What's more, oftentimes only the capital costs are considered when projects are assessed when the full lifecycle needs to be taken into account.

"It's not just the capital costs. We have intense debates and discussions about where the capital money is going to come from and then exhale once the projects are built and don't always appreciate and account for how much the operating costs are," he states, adding if you make a mistake "that money (for operations) is often on the books of municipalities."

Lastly, selecting the right projects for infrastructure dollars is critical, he says.

"If you're not, then all of the money spent is going to just add to our debt and not solve our problems," Siemiatycki states.

In his report, he recommends that all large projects applying for financial support from the CIB should have an independent study of the project's benefits and costs. The project should also be identified as a top priority by the sponsor government. The infrastructure bank would then certify that these "project evaluation reports" have been conducted thoroughly following best practices before financing is approved.

"I am not suggesting that the federal government picks projects," Siemiatycki clarifies.

"My suggestion is that the federal government would say that if you're applying for money from the infrastructure bank then you have to present an independent cost-benefit study that actually shows that this project will meet its expectations."

Creating a Canadian Infrastructure Investment Agency is "where the real power of this is," says Siemiatycki.

He adds similar processes to a government infrastructure bank have been successful in other jurisdictions such as the United States, Britain and the European Union.

RCCAO executive director Andy Manahan says this report could provide valuable advice to the federal government.

"We were interested in this subject because the federal government has some crucial decisions in the near future and is under a lot of pressure to make the correct choices," he says in a statement.

"We think this report will assist Prime Minister Justin Trudeau and Minister Amarjeet Sohi in implementing a well-designed infrastructure bank."