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A national infrastructure bank has to offer integrated services

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With all the recent talk about the vast need for infrastructure investment in Canada, an old idea has returned to the top of the public policy agenda: creation of a national infrastructure bank.

Establishing a Canadian Infrastructure Bank is an idea that's been floating around for some time. It has received renewed life because it has been identified as a key component of the federal government's infrastructure investment program.

The narrow purpose of a CIB is to provide low-cost financing to infrastructure projects in priority sectors, such as water, transportation and affordable housing. By providing loans or loan guarantees to provinces and municipalities at the federal government's low borrowing rate, a CIB could, if implemented correctly, reduce interest costs and save billions of dollars. But upon closer examination, a CIB responsible only for providing lending services would offer limited benefits.

This is because the actual difference between the interest rates available to the federal government and most provinces and large municipalities is quite small – somewhere in the order of 1.25 percentage points. As a result, the lending services of a CIB would only provide significant borrowing cost savings on the largest projects.

Furthermore, accessing capital at affordable rates is only one obstacle that provinces and municipalities face when delivering infrastructure.

In an era of tight budgets, a challenge facing all levels of government in Canada is finding new revenue streams to repay additional borrowing, no matter how low the interest rate. Borrowing from a CIB does not solve this challenge.

Evidence-based decision-making is often lacking when provinces and municipalities select infrastructure projects. This results in projects, such as the Union Pearson Express in Toronto, where nearly $500-million was spent on a niche airport rail service that carries fewer people than many city bus routes.

Once under construction, project delivery has been a problem, with cost overruns and delays plaguing mega-projects across the country. This draws scarce resources away from other priorities and undermines public confidence in government's ability to deliver critical infrastructure.

To maximize a CIB's benefit, its mandate should be broadened so that it provides project financing and expert project delivery support under a single roof. This follows the integrated structure of the British Infrastructure and Projects Authority, just launched this year.

In this model, the CIB would provide low-cost financing services to large infrastructure projects in priority sectors with capital values of at least $10-million. At this dollar value, provinces and municipalities can realize significant savings by borrowing at the federal government's low interest rate.

The infrastructure bank would also be responsible for screening projects applying for financing to ensure that they have a credible, independent cost-benefit study, and that the project is recognized as a top priority in the plans of the local jurisdiction. In this way, the infrastructure bank would not be selecting which projects get built, but creating an incentive for evidence-based decision-making across the country.

And the CIB would function as a national infrastructure implementation unit, providing expertise and working across government departments to effectively deliver large projects.

As Canada gets set to embark on the largest infrastructure building boom in a generation, success will depend on making sure that sufficient funds are available and that the money is well spent.

A CIB with a mandate to integrate project financing services and expertise in planning and managing large public works would be a positive step.