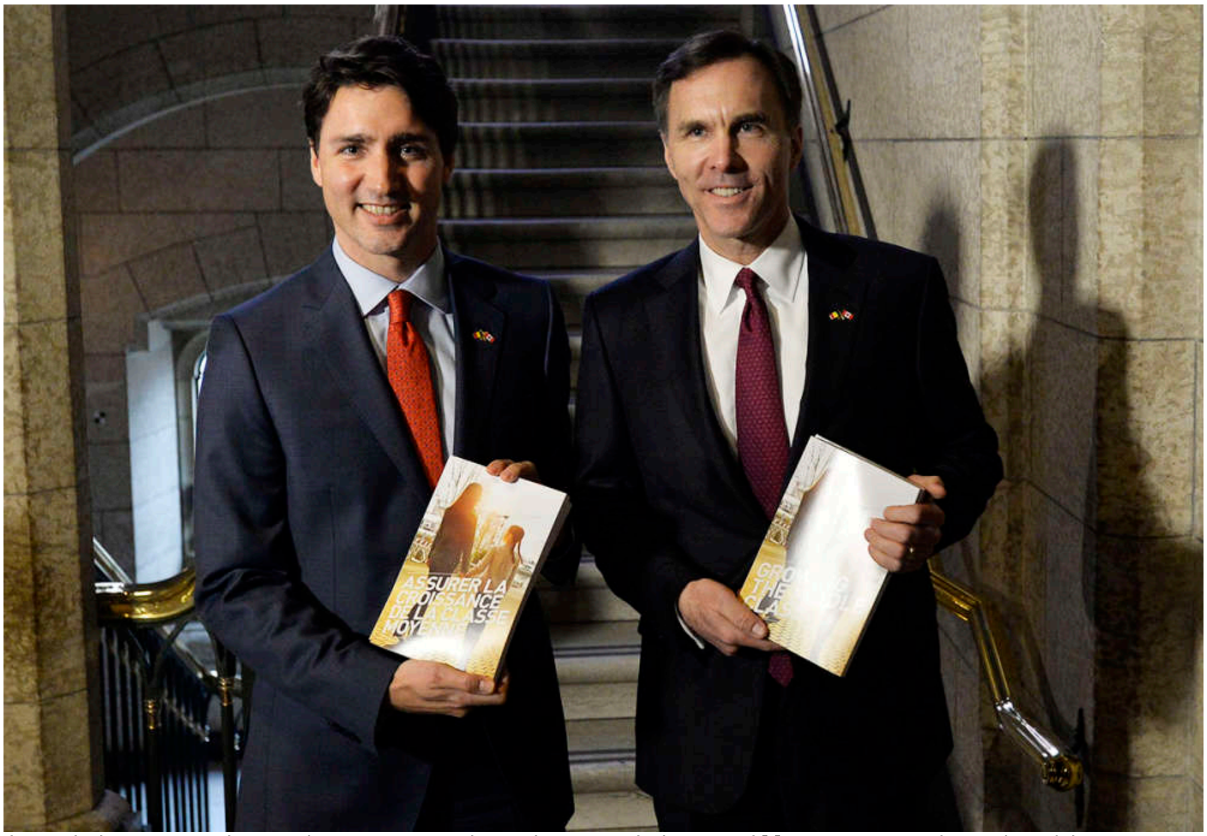
Andy Blatchford - Canadian Press Posted on April 24, 2016

Liberals may monetize public assets to help bankroll infrastructure



Prime Minister Justin Trudeau accompanies Finance Minister Bill Morneau as he makes his way to deliver the federal budget in the House of Commons on Parliament Hill in Ottawa on Tuesday, March 22, 2016. iPolitics/Matthew Usherwood

The federal government has identified a potential source of cash to help pay for Canada's mounting infrastructure costs — and it could involve leasing or selling stakes in major public assets such as highways, rail lines, and ports.

A line tucked into last month's federal budget reveals the Liberals are considering making public assets available to non-government investors, like public pension funds.

The sentence mentions "asset recycling," a system designed to raise money to help governments bankroll improvements to existing public infrastructure and, possibly, to build new projects.

For massive, deep-pocketed investors like pension funds, asset recycling offers access to reliable investments with predictable returns through revenue streams that could include user fees such as tolls.

“Where it is in the public interest, engage public pension plans and other innovative sources of funding — such as demand management initiatives and asset recycling — to increase the long-term affordability and sustainability of infrastructure in Canada,” reads the sentence in the new Liberal government’s first budget.

Asset recycling is gaining an increasing amount of international attention and one of the best-known, large-scale examples is found in Australia. The Australian government launched a plan to attract billions of dollars in capital by offering incentives to its states and territories that sell stakes in public assets.

Like the Australian example, experts believe monetizing Canadian public assets could generate much-needed funds for a country faced with significant infrastructure needs.

The Liberal budget paid considerable attention to infrastructure investment, which it sees as way to create jobs and boost long-term economic growth. The Liberals have committed more than $120 billion toward infrastructure over the next decade.

Proponents of asset recycling say enticing deep-pocketed investors to join in can help governments avoid amassing debt or raising taxes.

“Asset recycling is a way to attract private-sector investment into activities that were formerly, exclusively, in the public realm,” said Michael Fenn, a former Ontario deputy minister and management consultant who specializes in the public sector.

“It’s something that we should pay a lot of attention to and I’m really pleased to see the federal government is looking seriously at it.”

Fenn serves as a board member for OMERS pension fund, which invests in public infrastructure around the world. He stressed he was not speaking on behalf of OMERS or its investments.

Two years ago, Fenn wrote a research paper for the Toronto-based Mowat Centre think-tank titled, “Recycling Ontario’s Assets: A New Framework for Managing Public Finances.”

In Canada, he said there have been a few examples that resemble asset recycling, including Ontario’s partnership with Teranet to manage its land registry system and the province’s more recent move to sell part of the Hydro One power company.

For the most part, Canada’s big pension funds have been focused on international infrastructure investments because few domestic opportunities have been of the magnitude they tend to look for.

“That money is going offshore, it’s returning good returns for Canadians in the sense that the pension funds are making good returns, but it would be nice to be able to invest more of those funds in infrastructure in Canada,” Fenn said.

Australia’s asset recycling model has been praised by influential Canadians such as Mark Wiseman, president and CEO of the Canada Pension Plan Investment Board.

“With growing infrastructure deficits worldwide … we often reference this model with our own government and others as one to follow to incent and attract long-term capital,” Wiseman said in prepared remarks of a September speech in Sydney to the Canadian Australian Chamber of Commerce.

The massive CPP Fund had $282.6 billion worth of assets at the end of 2015. Wiseman’s speech noted more than 75 per cent of its investments were made outside Canada, including about $7 billion in Australia.

Last month, Wiseman was named to Finance Minister Bill Morneau’s economic advisory council, which is tasked with helping the government map out a long-term growth plan. The council also includes Michael Sabia, the CEO of Quebec’s largest public pension fund, the Caisse de depot et placement du Quebec.

In a prepared speech last month in Toronto, Sabia said financial institutions like pension plans have tremendous potential to drive growth through infrastructure investment. For the investor, Sabia added that infrastructure offers stable, predictable, low-risk returns of seven to nine per cent.

Asset recycling has also raised concerns.

Andrew McNeill, a researcher for one of Canada’s biggest unions, believes it’s basically another name for privatization, which he says has negative connotations.

Australia’s asset recycling model is being pushed “very aggressively by companies that profit from privatization,” said McNeill, who works for the National Union of Public and General Employees.

He has concerns governments will use the scheme to generate short-term financial injections for political gain. McNeill also said the model could eventually mean lower wages for workers.

A spokeswoman for Morneau’s office was asked about Ottawa’s interest in asset recycling, but she referred back to the budget and said there was nothing new to add on the issue, for the moment.