Residential & Civil Construction Alliance of Ontario

Constructing Ontario's Future

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Province should take more aggressive approach to selling Crown assets to finance infrastructure, new report says

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A new report released by the Residential and Civil Construction Alliance of Ontario (RCCAO) calls for Queen's Park to take a more aggressive approach to "asset recycling" as a way to finance public goods such as infrastructure. The report, entitled *"Unlocking Ontario's Advantages: Building New Infrastructure on the Foundation of Existing Public Assets,"* is intended to provide advice to both the Premier's Advisory Council on Government Assets being chaired by Ed Clark and to the Ontario Government directly.

Report author Michael Fenn, who served as a Deputy Minister for the Ontario Government and CEO of Metrolinx, states that "the goal of the study is to provide objective and practical guidance to decision-makers on how capital assets held by the province might provide better returns."

"If properly structured," Fenn concludes that "asset recycling can be used at each stage of the public asset's lifecycle, from asset acquisition through public-private partnerships (P3s) or concessions, through asset management by private operators, and finally, to the full or partial sale, lease or joint venture as part of a government disposition of non-core public assets."

An interim report released by the Clark Panel in November has focused on making existing arrangements with Crown Corporations such as the Ontario Power Generation and the Liquor Control Board of Ontario more efficient and market competitive. If the goal is truly to build new infrastructure for the 21st century, this approach is too modest as it is projected to result in only $2 billion to $3 billion per year. By contrast, the Province of Ontario has committed to invest over $130 billion to infrastructure over the next 10 years.

RCCAO Executive Director Andy Manahan suggests that "if the province is unwilling to consider new revenue streams to help build infrastructure, then a much more ambitious public asset recycling program will be required to achieve the targets."

Among other things, it would enable public-sector pension funds, like the Canada Pension Plan, which invests billions in infrastructure outside the country, to invest more at home.

Fenn's report recommends that there must be greater access to financial resources beyond general taxation in order to address the critical mass of necessary investment capital. Further, "any revenues that are generated must be dedicated in an infrastructure trust such as the Trillium Trust and be beyond reach of short-term fiscal pressures."

The report also identifies a key role for the Government of Canada, through the creation of a Canada Infrastructure Sustainability Bank. This “infrastructure bank” would allow the Federal Government to use its improved financial position creatively to advance employment-creating infrastructure projects, in concert with other orders of government in Canada.

Ontario’s fiscal challenges are not insurmountable but more aggressive measures are necessary to:

- achieve a balanced budget by 2017-18; and
- meet the additional commitment of dedicated transportation funding of $29 billion over the next 10 years.

Queen’s Park has correctly placed a priority on making significant infrastructure investments over the next decade but clearly these cannot be financed through traditional sources of capital investment by the public sector.

Relevant examples of projects from Ontario and Britain are used throughout the report to determine which approaches worked and which did not. The report looks at the way public opinion can facilitate or impair a commitment to innovative methods of financing, building and operating public infrastructure, including private infrastructure that meets public needs. While the perceived shortcomings of some P3s have been profiled recently, the report illustrates that P3s can work well, if well-designed. It also points out that some accounting rules may actually discourage sound investments in infrastructure.

The right infrastructure projects can anticipate the needs of the future economy and a world afflicted by the effects of climate change, lagging social integration, globalization and security threats. Above all, major infrastructure investments can contribute to economic prosperity and can boost the fiscal prospects facing all orders of government.

Fenn emphasizes that “we need to approach the challenges of infrastructure renewal and expansion not with an incremental, episodic or project-by-project approach. We need ‘joined-up’ policy and programs, reflecting grander scale, quicker delivery cycles and better intergovernmental collaboration.”

The full report can be found at http://www.rccao.com/

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