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Industry Perspectives: Creating an infrastructure bank requires a thoughtful approach

by Andy Manahan Jun 21, 2017

Well before it's stocked with pens, stationery and staples, key questions need to be addressed before the Toronto office door of the Canada Infrastructure Bank (CIB) swings open for business.

The federal government has proposed investing $35 billion to create an independent agency that would transform the way major infrastructure projects are evaluated and funded in Canada. It is hoped that this amount will, over time, leverage additional investments from the private sector such as Canadian public pension funds. It is believed that the office will be operating by the end of the year.

The overall premise of setting up this agency is worthwhile.

Despite best efforts, there continues to be a large infrastructure deficit and this will be a drag on our long-term prosperity unless we significantly ramp up core investments. For example, the CIB will develop a strategic plan that will allow for unsolicited proposals from private sector investors. If implemented correctly, this will help address our future roads, bridges, ports, transit, water and sewage system requirements, as well as non-traditional categories such as broadband infrastructure.

As one of the few individuals invited to speak to the parliamentary finance standing committee in Ottawa recently, I expressed that there were three important considerations.

First, project evaluation is a critical function, especially for the large projects that institutional investors are interested in. University of Toronto associate professor Matti Siemiatycki, who authored two reports on the CIB, envisions that it will become a centre of excellence that will collect data to make better decisions. In turn, this will result in more evidence-based priority setting — as opposed to political preferences. While every politician will have important priorities in each riding, it's critical that the agency also considers projects that have a positive return on investment.

My second point reinforces a stated goal — that these projects generate revenue — but that this could prove to be politically toxic. Currently, infrastructure is funded primarily from general revenues and nominally from fuel tax transfers. With ongoing deficit budgets and declining revenues from fuel taxes, however, there is a pressing need to shift to a user pay model for more asset classes. We have this for airports and increasingly for urban water systems.

By way of illustration, as cars become more fuel efficient and as we usher in an era of electric and connected vehicles, there must be a transition to find new revenue sources to pay for transportation infrastructure. This includes road pricing, or road tolls. It's a difficult decision, but the CIB board should be advocating this and governments must accept the evolving reality that new technologies will accelerate such a move.

Lastly, Finance Minister Bill Morneau has been signalling that Cabinet will have veto power over the CIB's decisions and could remove board members without cause. A true arm's-length agency would not be second-guessing whether a project evaluation was done correctly. The decision-making independence of the CIB should be sacrosanct — otherwise, private investors will view the political risk as too high. Consequently, this perceived intervention could drive away private investors who are unwilling to take on the additional risk that project specifications or parameters could be altered or that in an extreme case, a project could be cancelled due to Cabinet interference.

Even though the aim of the CIB is to engage the private sector in the design, construction, finance and maintenance of public infrastructure, critics have said that this innovative approach will lead to privatization of infrastructure. Public-private partnerships, such as the newly opened Hwy. 407 East and Hwy. 412 toll highways in southern Ontario, demonstrate that it is possible to retain public control of these types of projects with net revenue accruing to the province of Ontario.

Although long-term maintenance would be embedded in a cost per kilometre charge, the bonus would be the congestion management benefits, particularly in urban areas where other mobility options exist.

During the hearings, I suggested that rather than have politicians getting involved in decision-making at a later stage in the process, an alternate approach would be to have elected officials, along with experts, on the agency's board. This hybrid model would not only enhance accountability to the electorate for the $35 billion which the government is allocating to the CIB, it would also serve to ameliorate the possible veto power, especially when MPs are participating directly in the decision-making process on the CIB board.

While it would be useful to take a bit more time to think about how Canada's new infrastructure agency should be rolled out, it is also important to address these concerns quickly.

Our 150th anniversary celebration is a fitting time to seriously build up Canada's infrastructure.

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