
# Public infrastructure: building a more sustainable and equitable future

Public infrastructure is an excellent investment. It provides valuable public services that improve the quality of life in our communities, and also has important short-term and long-term economic impacts.

Over the short-term, public investment in infrastructure provides one of the strongest boosts to the economy in terms of stimulating economic growth and creating jobs. Over the long-term, public infrastructure improves life in the community for everyone, increases productivity, reduces costs for business and helps stimulate increased business investment.

Canada's infrastructure deficit remains over $100 billion. The Federation of Canadian Municipalities (FCM) estimates that municipally-controlled water and wastewater facilities alone need an injection of over $50 billion to renew infrastructure in poor or very poor condition. Local governments also bear much of the additional infrastructure costs for climate change mitigation and adaptation. The 2013 floods cost the Province of Alberta and City of Toronto $3 billion. The annual costs of natural catastrophes are forecast to rise to $5 billion annually by 2020 and to over $20 billion annually in 2050.

With interest rates remaining at historic lows, there is no better time for governments to undertake capital infrastructure investments. Despite higher levels of capital investment, debt servicing costs for local governments now average only 2.5 per cent of total revenues, less than half of what they were between 1990 and 2005. These levels are far below any provincial debt servicing restrictions on municipalities, which are typically set at 20 to 30 per cent of revenues. Municipalities have ample room to borrow to undertake capital investments, particularly if they can do so through low-cost public municipal financing authorities.

Municipalities are responsible for approximately 60 per cent of Canada's core public infrastructure but collect about 12 cents of every tax dollar. This means federal and provincial governments must also provide direct support to municipal governments for infrastructure investments.

### 2016 federal budget: a good start

The 2016 federal budget committed the government to $11.9 billion in infrastructure spending over five years, as part of "Phase I" of its infrastructure program:

- $3.4 billion over three years to upgrade and improve public transit systems;
- $5 billion over five years for investments in water, wastewater and green infrastructure projects;
- $3.4 billion over five years for social infrastructure, including affordable housing, early learning and child care, cultural and recreational infrastructure, and community health care facilities on reserve.

An additional $2.5 billion previously committed to infrastructure is being re-allocated in 2016/17, earmarked for post-secondary institutions and broadband access. This brings the revised 2016/17 infrastructure commitment total to $14.4 billion.

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Budget 2017 indicates that the bulk of this funding will be consumed by 2018/19, when the Public Transit Infrastructure Fund and the Clean Water and Wastewater Fund, which were set up to disburse funding through bilateral agreements with provinces, expire.

### 2017 federal budget: worrisome signals

While the 2017 federal budget committed the government to even more long-term infrastructure spending than a year earlier, there were some troubling indications that the federal government's commitment to long-term infrastructure funding is waning.

In the 2016 Fall Economic Statement, the federal government announced an additional $81.3 billion in infrastructure spending over 11 years. Budget 2017 provides details of how this funding will be allocated:

- $25.3 billion – almost one-third of the new funding – for transit infrastructure over 11 years;
- $21.9 billion for "green infrastructure," which includes water and wastewater systems;
- $10.1 billion for trade and transportation infrastructure;
- $21.9 billion for "social infrastructure," covering a range of projects including early learning/child care spaces, community cultural and recreational facilities, social housing, and support for Indigenous communities;
- $1 billion for "home care infrastructure";
- $2 billion for rural and northern communities.

The "social" infrastructure plan contains a large funding commitment for affordable housing, including $5 billion over 11 years for a National Housing Fund, $3 billion for federal-provincial-territorial partnerships in housing, over $2 billion for tackling homelessness, $2 billion for Indigenous communities and another $225 million for housing for Indigenous peoples not living on reserves.

However, one major change from a year ago is that the federal share of funding for projects undertaken with municipalities will be lowered to a maximum 40 per cent of total project cost, down from the 50 per cent amount for projects receiving Phase I funding.

Even more worrisome than this shrinking federal commitment is the announcement last October that the government is establishing a Canada Infrastructure Bank, which is designed to "leverage" private sector investment in infrastructure. Though much about the proposed bank remains unknown, some details were revealed deep in the federal Budget *Implementation Act* tabled in April.

The proposed Act confirms the federal government will provide $35 billion for the bank, to be invested along with private financing. While the Act doesn't specify what sectors the bank will invest in, Budget 2017 indicates it will be in "transformative infrastructure projects" with revenue-generating potential, including public transit, trade and transport infrastructure (such as toll roads and bridges), and "green infrastructure projects, including those that reduce greenhouse gas emissions, deliver clean air and safe water systems, and promote renewable power." This budget has allocated $5 billion to each of these areas.

The government plans to have the bank up and running by late 2017. It will be established as an arm's-length crown corporation with a CEO and board. The bank will be accountable to Parliament through a minister and subject to audits by the Auditor General. However, this would be at a lower standard and with less transparency than the Auditor General has over direct government departmental spending and the Auditor General may not be able to review specific projects to judge whether they provide value for money to the public.

Disturbingly, the proposed Act mandates that the board will have no direct representation from federal, provincial or municipal governments. Equally troubling, the Act stipulates that the bank must keep secret all information relating to proponents, private sector or institutional investors, except in exceptional circumstances.

The bank will also act as a centre of expertise on infrastructure projects for private sector or institutional investors to make significant investments, and is empowered to accept unsolicited private-sector bids. In other words, it is likely to become a "bank of privatization" as CUPE had warned last year.

This new bank is likely to lead to privatization of airports, public transit, highways and bridges, water and wastewater systems, hydro-electric utilities and transmission grids. This privatization – whether through full or partial asset sales, or through P3s – will directly affect the employment of CUPE members in these sectors, result in higher user fees for the public, and is also likely to require higher public payments over the long term, all to pay for the higher returns and profits demanded by private finance.

Having private corporations and investors own public infrastructure is bad public policy for other reasons as well, including lack of transparency and accountability, lack of integration with other public services and infrastructure systems, the overall negative impact on other public infrastructure, the potential environmental impacts and growing corporate power in our society.

Many have questioned the need for an infrastructure bank at all, or have argued that the infrastructure bank should rely solely on public financing as other public investment and development banks do. While it is true that large private sector investors in Canada like pension funds are looking for domestic opportunities to invest in safe infrastructure projects, it is not clear from a public policy perspective why the federal government should assist them in this way.

**P3s cost more, deliver less**

CUPE welcomes the government's elimination of the public-private partnership (P3) screen for large infrastructure projects. The future of PPP Canada is unclear: in 2015 Round 7 of project applications was suspended, and the 2017 federal budget makes no mention of P3s.

Perhaps that's because the negative evidence on P3s keeps pilling up: Ontario's Auditor General reviewed 74 P3s in the province, and found they cost on average almost 30 per cent more than publicly financed and operated projects – despite persistent claims they cost less. Other independent studies have uncovered the flaws in P3 policies and processes. In health care, the higher cost of P3s is already leading to cuts to front-line public services. P3s don't save money: they merely hide higher costs and debts by shifting them into future years.

The federal government's financial commitment to infrastructure renewal over the next decade is impressive. But because of the large infrastructure deficit, it still falls short of what's needed. The government is hoping to paper over that gap with the help of private sector financing, but that's not the solution to Canada's infrastructure deficit. We can't keep offloading the cost of infrastructure to future generations. Instead of leaving our children with an inflated bill, let's leave them with publicly-provided clean drinking water and wastewater treatment, efficient transportation systems and a good stock of social infrastructure.



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