



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Transport, Infrastructure and Communities

TRAN • NUMBER 074 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, May 28, 2013

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Chair

Mr. Larry Miller

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•(1645)

[English]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): I'd like to call our meeting to order. I apologize to our witnesses, but things were out of our hands.

Mr. Kelly, I'll turn it over to you for your presentation.

Mr. Dan Kelly (President and Chief Executive Officer, Canadian Federation of Independent Business): Terrific. Thank you very much, Mr. Chair.

It's a pleasure to be here this afternoon. I did want to share with you a few views of small and medium-size businesses.

A deck was passed around to each of you, and I'll stick to that, if I could. I believe there are 10 minutes to speak about the federation, our work on red tape, questions about government spending, and the infrastructure gap, if any. Those are the subjects that we'd like to discuss.

For those who need a quick reminder, the Canadian Federation of Independent Business has 109,000 small and medium-size firms as members. All of them are 100% voluntary members of CFIB. No one, unlike a union, is forced to become a member of the federation. We represent all sectors of the economy, all regions of Canada, and all of our funding comes from our membership. We don't receive any support of any kind from government.

Our policy positions are based on one member, one vote, and we do a variety of polls of our membership to determine their views and opinions, some of which are shared in this presentation with you today.

One of the questions that was asked in the committee background notes was around red tape and regulation. We have done a great deal of work on red tape in Canada. The estimate is that the business community pays \$30 billion in red tape compliance costs each year. It is one of the best estimates we found in the country, something which we're very proud of doing every couple of years at CFIB.

The burden of red tape falls disproportionately hard on smaller and medium-size firms. That stands to reason. If you're a larger firm, obviously you can spread that cost over a larger base, a larger number of employees, but if you're a very small business, the cost of complying with red tape is about \$5,500 per employee. That's about five times more than the cost to comply with red tape for larger firms.

The government has done some really good work on red tape. We think that the Red Tape Reduction Commission made some very

good recommendations. Minister Clement has implemented some of those policies, so there have been changes to the way that red tape is made in Canada at the federal level, which we think is very positive.

Some provinces are also starting to get on board. The Government of British Columbia, for example, has been a leader in red tape reform for many years.

With respect to procurement, government contracts, infrastructure dollars, in general when we ask our members why they don't sell to government, the top four reasons, outside of the fact that the government may not purchase their product or service, are that the procurement system is too complicated; businesses may be unsure of the needs of government or government agencies; the paperwork requirement that does come into play; and also an inability to contact the purchaser, which is related to their ability to understand where the needs are.

I should note that our study on procurement-related issues is very similar to data that was collected by the office of small business and procurement that is run by Public Works and Government Services Canada.

Beyond our concerns about red tape, I want to speak a little bit about the much discussed infrastructure deficit that exists in Canada.

Small businesses do favour spending on infrastructure. They favour government spending on infrastructure, core infrastructure services. But municipalities have been crying poverty for an awful long time. This government has allocated more dollars in its recent budget to infrastructure spending at the local level. I'm not suggesting that the federal government shouldn't play a role in spending on municipal or local infrastructure, but I have to say that I think our members do question whether municipalities are as broke as they claim to be, and whether they are making proper spending decisions on their own. We feel that if they had better control over government spending, government wage levels, government benefits, there wouldn't be the huge need for them to cry poverty and ask the provincial governments and the federal government for transfers of dollars to spend.

We're going to be releasing some new data tomorrow, but I thought I'd share this with you now, on the spending at the big city level in Canada. It's a report called "Big City Spenders", and it does challenge that notion that municipalities are cut to the bone. Adjusted for inflation, municipal spending has increased, operating spending has increased by 55% over the last decade, while population has increased by about 12%.

This study shows that the three biggest cities spend about a third more than they would have, had they stuck to some measure of inflation and population growth. Overall, this means that across Canada, municipalities were spending about \$86 billion more over the past decade than was needed to stick to inflation and population growth.

How much more infrastructure could municipalities have purchased if they weren't overspending themselves? Would the TTC need as much money from the federal government and the provincial government if there were some restraint on wages and benefits, particularly government pensions that are offered to civil servants?

There is no doubt that good-quality infrastructure is important to small business. We don't accept that there's a giant infrastructure deficit, as is suggested by municipal governments. But there's very little work done on how municipalities, and governments in general, spend on infrastructure. We feel that governments could get much better value if infrastructure were easier to access for small and medium-sized companies, and importantly, if it were 100% open to non-unionized firms, allowing them equal access to government spending.

We've done some surveying in the past. Some data on slide 9 shows that our members favour—this was an Ontario survey—the Ontario government's outlawing union-only contracting in the public sector. The vast majority, 84% of our members, felt that this was appropriate.

Our members don't like the idea of new dedicated levies, such as are being discussed in many provinces to help them deal with their so-called infrastructure deficits. This issue is at hand in Ontario right now. We have done some surveys in Alberta and have had results similar to these.

There's been a great deal of data, some of which has been shared with the committee by other groups and organizations, as to how much more we could get if we ended things such as union-only preference policies, those that exist provincially and municipally. The City of Hamilton study showed that work that was originally slated to cost \$1.1 billion might have to be 20% to 40% higher because of union-preference policies. The Government of Quebec is suggesting that it is 30% to 40% more that it had to spend because of closed contracting.

We feel that if this policy were changed, if the federal government were to insist that there be no union-only preference policy allowed if there are any federal dollars in a project, governments in general would get a much better bang for their buck.

Those are the main points I wanted to raise. Our recommendations in total are to end union-only preference policies in all circumstances. We ask that you challenge municipalities to fix their own houses before you shower them with more federal tax dollars for various projects, and that you continue to focus on reducing red tape, as this is really helpful to small and medium-sized firms in accessing such things as government procurement and in helping you keep costs down.

As one quick side note, we know that in the recent federal budget there was some notion that infrastructure spending would be linked

to an employer's ability to participate in apprenticeship training. The concept sounds very good, but it may bog down on detail. For many firms, especially for small firms, finding and processing apprenticeships in their business can be a significant challenge, particularly in provinces such as Ontario that have terrible journeymen-to-apprenticeship ratios. The Ontario government has been very beholden to unions under that policy in particular, and we are worried that such a policy on the part of the federal government may gum up the system with more red tape than is needed.

Those are the points I wanted to make. I'm delighted to take questions when the opportunity arises.

• (1650)

The Chair: Thank you very much.

We'll now move to Mr. Thomas for 10 minutes, please.

Mr. Gregory Thomas (Federal Director, Canadian Taxpayers Federation): Thank you, Mr. Chair.

I would like to take a moment to thank the committee for providing the Canadian Taxpayers Federation with the opportunity to appear before you today. I would also like to thank the committee very much for this important discussion of how competition in infrastructure contracts can save taxpayers money.

My name is Gregory Thomas. I am the federal director of the Canadian Taxpayers Federation. We are a federally incorporated not-for-profit citizens group dedicated to lower taxes, less waste, and accountable government. We represent more than 84,000 Canadians who voluntarily support us across the country.

We believe that all governments need to be responsible with taxpayers' money and transparent in the way they spend that money. When governments are accountable and responsible with the money they are investing in infrastructure, every constituent benefits. We welcome this discussion of how competition can lower the costs of infrastructure expenses. With the current government deficit and Canada's level of debt, our government needs to look at more cost-effective ways of funding the development and maintenance of infrastructure. We believe the cost of infrastructure can be reduced if more competition is injected into the system.

We don't actually believe that the federal government should fund provincial and local infrastructure, but we will argue that if the federal government is going to take that course of action, then the bidding on these projects should be transparent and open. If the bidding process is not fair and open, you get higher prices and lower quality, which hurts everyone and costs everyone more money.

There are two main concerns that we'd like to address within this issue. The first concerns waste and lower costs, and the second concerns accountability and transparency.

The issue of cost can be examined in light of current developments. If you look at the daily carnage from the Charbonneau commission in Montreal, you see that federal taxpayers were sending unaccountable money to local and provincial governments in Quebec, and Montrealers and Canadians were paying inflated prices for asphalt and concrete pipe of questionable quality. We have examples in Hamilton where a water treatment plant was delivered at a much higher cost than it otherwise would have been, and also of major collapses of infrastructure in Montreal—sinkholes, flooding—that are inexplicable.

We believe that open tendering, mandated by the federal government if there are going to be federal funds involved, is a common-sense initiative. Obviously, when 70% of the construction industry is blocked from bidding on a project, there will be fewer bidders and you will likely get higher costs. It doesn't matter whether it's non-union businesses or union businesses that the government prevents from bidding; if some of the potential competitors aren't allowed to come to the table and bring their best bids, we're all going to end up paying. Allowing competition will enable decision-makers more choice about the best company, and it's the most cost-effective and the fairest way to proceed with these projects.

Transparency and accountability is another important issue in contracting. When political cronies' companies are the only ones allowed to bid, or where we have provincial or local rules that somehow impede the ability of all Canadians to bid on all Canadian contracts, again the taxpayer pays more.

This goes to the way the Canadian government tenders its military contracts, as well as the infrastructure contracts that it funds.

To conclude, we're grateful that this discussion is taking place. We believe that government should increase competition through open tendering, and we are very optimistic and hopeful that this discussion will bring about positive change in Canada when contracts are awarded.

• (1655)

The Chair: Thank you very much.

Mr. Hollands, you have 10 minutes, if you please.

Mr. Bruce Hollands (Executive Director, PVC PIPE Association): Mr. Chair and members of the committee, thank you for having me here today, and thank you for addressing this very important subject.

I echo some of the comments of my colleagues, Dan and Greg. I think municipal governments have more money than they say they have. I think we can find efficiencies there. I also think that open tendering is very important. I'm with the PVC PIPE Association of North America. We're responsible for the water and sewer pipes that go under the ground to service residential areas as well as buildings, and we certainly echo some of their comments.

Canada's underground infrastructure is at a crossroads. It's corroding at an alarming rate. Government officials have the opportunity to take an active role in reforming local procurement practices to ensure adoption of sustainable and cost-effective materials.

According to the Canadian Water and Wastewater Association, the total estimated replacement value of Canada's water distribution and waste water network is \$250 billion, and it's probably much higher than that, and more open procurement processes that include the life-cycle costs of water and sewer piping are critical to spending this money more wisely.

McGill University's Saeed Mirza has argued that municipalities must consider the full cost and depreciation of infrastructure, as well as the operation and maintenance of assets over their service lives when making purchasing decisions. This often has not been done across the country when it comes to water and waste water infrastructure. We're just buying the stuff, not calculating its depreciation, and then saying, "Well, we have a crisis now." It has been improperly managed by municipalities, you can be sure of that, and procurement is at the heart of it.

The Canadian federal government can play an important role in reshaping outdated municipal procurement policies by requiring that federal funds transferred to municipalities for water and waste water infrastructure be spent in an open and competitive manner. Numerous organizations in the United States, such as the Competitive Enterprise Institute, the National Taxpayers Union, the American Legislative Exchange Council, and the United States Conference of Mayors, recently and very significantly are all discussing the issue of open procurement for water and sewer piping.

Many members of the U.S. Congress and state legislatures have also identified procurement reform as critical to mitigating the future cost of the investment in water and sewer infrastructure. In fact, the number is quite astounding. It's \$2.28 trillion, according to the U.S. Conference of Mayors' report, that will need to be spent over the next 20 years on water and sewer piping because it's corroding. It's corroding because of the materials that are being used in the systems, such as iron piping and corrosion-prone concrete piping, which of course we see used a lot in Canada. The author of the report, Richard Anderson, said, "Only by modernizing procurement practices and the assumptions upon which pipes are selected can municipalities achieve much needed cost savings and performance improvements in their underground infrastructure at a time of dwindling financial resources."

The same arguments apply to the Canadian municipal sector. Reforming procurement practices for underground infrastructure would ensure that bidding is aligned with modern asset management standards that consider life-cycle costs and materials performance in all public projects.

Since piping networks are the largest component of a water utility's assets, their performance is critical to holding the line on costs. Unfortunately, utility operators often exclude widely used materials, claiming that they need to study them further, or rely on myths to avoid breaking old habits, which is also described as habituation. "Habituation tendencies associated with procurement of materials, in particular, can pose a real financial danger," according to the U.S. Conference of Mayors, "because as manufacturing technology and materials science advance the procurement official may be making spending decisions today based on information from yesterday, last year or the last century for that matter."

The Competitive Enterprise Institute contends that open competition for water and sewer piping is essential to meeting future U.S. underground infrastructure requirements. Again, the same arguments apply to Canada.

The corrosion eating away at North America's underground infrastructure, as I mentioned before, has to do with the materials used in the systems today. In the United States, the figure is \$50 billion annually wasted on corrosion. In Canada, the figure is over \$5 billion.

Despite these huge costs, many municipal utility operators continue to fail to consider the cost benefits of using non-corroding piping materials. As Rick Anderson of the U.S. Conference of Mayors said, "The conventional approach to water pipe replacement decision-making has been to merely replace the pipe with roughly the same product regardless of price, and based on manufacturer's recommendations."

• (1700)

The burden of old technology materials is not limited to the cost of repairing and replacing failed pipelines. It includes the cost of losing treated water from leaking systems, averaging between 20% and 50% in most water treatment systems.

Montreal is a case in point. More than 40% of the water pumped through its systems leaks and comes out of the piping networks because of water main breaks. In North America over 300,000 water main breaks occur every year. As our networks corrode and leak and break rates increase, higher energy costs and stricter quality control standards continue to drive the pumping and treatment costs higher.

The City of Montreal is investing colossal sums of money in repairing its water and waste water infrastructure. Since pipe represents up to 60% of the capital investments in these projects, it's possible to realize significant savings through better management of pipe procurement. For inexplicable reasons, most tenders for Montreal water mains are limited to suppliers of corrosion-prone concrete pressure or ductile iron pipes.

Yet the city has other options, including PVC pipe, one of the safest materials and up to 70% less expensive to use, according to the U.S. Conference of Mayors. Approved by regulatory authorities and independent standards and certification agencies, PVC meets or surpasses all health and safety standards and regulations governed by Canadian and U.S. law for drinking water and sanitation systems. It also has the lowest break rate of all piping materials.

There's a reason I'm bringing this up. I'm not trying to sell you on PVC. The point I'm trying to make is that this great product is excluded from many markets in Canada, Montreal being one of them. I'm just pointing out to you all the attributes. You wonder why this product isn't allowed to bid when it meets all the standards.

Calgary is a great example that you can look to in Canada. It has been using PVC for 35 years. Today more than half of its system is made of PVC pipe. The result—this is incredible—is it has the lowest water main break rate in all of Canada.

Prior to using PVC pipe in the 1970s, Calgary's system performed like that of Montreal's, poorly, with high break rates and high water

loss caused by corrosion. Today it's the best system in Canada, arguably in North America.

PVC lasts in excess of 110 years, according to the American Water Works Association. A European study determined its longevity at 170 years.

Recently Toronto, a long-time user of smaller and medium-sized PVC pipe, voted to allow PVC in all sizes. It goes right up to 48 inches, and soon up to 60. This was driven by a staff report arguing that open competition for large-diameter water pipe would help make infrastructure renewal in Toronto more affordable. Denzil Minnan-Wong, the chair of the public works committee, concurred with this.

I have a couple of additional points. The surface of the pipe is so smooth that, according to a professor at the University of Toronto, Canada could reduce its greenhouse gas emissions by 5% if all water systems were using PVC pipe. It's lightweight. It uses less energy than competing piping materials.

A new study by the National Taxpayers Union in the United States suggests that the United States could save \$371 billion on future investment requirements for water pipe infrastructure if it were to include open competition and PVC in its bidding processes down there.

Essentially the message I'm bringing to this committee is this. There's a trend in the United States, a recognition that there's a problem with procurement. Piping is very expensive. It's a great area to start. It's not complicated. Just allow all the piping materials that meet the standards out there today to compete.

The federal government can play a key role. If you give money to localities, don't let them spend it in ways that are not competitive. Ensure they spend it in an open and competitive fashion and get better taxpayer value for the people of Canada.

Thank you.

• (1705)

The Chair: Thank you very much.

We'll start with Ms. Chow, but because....

Sorry?

Ms. Olivia Chow (Trinity—Spadina, NDP): [*Inaudible—Editor*]...short time she is here, she can table her motion now.

The Chair: I was just going to say that because of our time here today, we're going to have four rounds of five minutes. Every round always goes slightly over, but we'll try to keep it to questions and answers.

Ms. Morin.

[Translation]

Ms. Isabelle Morin (Notre-Dame-de-Grâce—Lachine, NDP): Thank you, Mr. Chair. I will be very quick.

Our colleague gave us a nice surprise today. I want to give notice of the following motion:

That the committee undertake a study of the economic, environmental and social impacts of each of Canada's international airports on their neighbouring communities; that this be the committee's next study; and that the committee report its findings to the House.

I would like us to debate this motion next Tuesday. Thank you.

I now yield the floor to Ms. Chow.

[English]

Ms. Olivia Chow: Thank you.

Mr. Kelly, the Canadian Chamber of Commerce, the Canadian Construction Association, the Canada West Foundation, the Toronto Region Board of Trade, the Greater Toronto CivicAction Alliance have all said that they are very worried about the \$171-billion infrastructure deficit that the municipalities are facing. They have all, each one of them, called on the federal government to play a bigger role so that there would be long-term predictable funding. That seems to be quite contrary to what you're pushing for.

Having said that, it sounds like there is common ground between you and me. Your presentation, which I really appreciate, said two key things, that government regulations and paper burden are a big problem, at 67%. I totally agree.

President Obama has introduced a streamlining of the approval process to cut the red tape. They were able to cut their approval process on their infrastructure funds by 50%, so it's much, much faster. Their way of doing it is that once they approve the project, they put the money up front, you go with it—of course there are legal agreements—and then it's done. They monitor it and evaluate it.

The Canadian style is that we approve the project, sign all the legal agreements, you do the spending, and then every time you have a receipt, you go back and forth, and the Canadian government approves the receipts and then sends out the money.

What is it that you support, the American style or the Canadian style? How do you think the Canadian government—never mind all the other levels of government, because we're talking about the federal government here—could cut red tape and streamline the approval process? That's question one.

Two, I noticed that in response to the question of why they don't sell to the federal government, 21% said there was too much paperwork; 24.5% said there was no means of determining what the government wants; and 26.5% said that the government's tendering and bidding process was too complicated. All of the top tier in terms of the complaints, it seems to me, goes to the question of red tape.

What could we do in a concrete way to streamline the process, make it a lot easier for the municipalities or the people doing business with the federal government, and save everybody some money?

The Chair: You have two minutes, maximum.

●(1710)

Mr. Dan Kelly: Sure.

On the first comment, about the other business associations that are supporting the need for more federal dollars for infrastructure, I will say that what's happening in Manitoba is a disturbing example. The big business groups in Manitoba did support an increase in the PST to pay for infrastructure, and now, after the government in Manitoba has adopted that, they have backed away from it, recognizing that the money is actually not going to go to infrastructure, but is going to be spent in general government operations. The big business groups that have signed on are now recanting from that decision when they've seen it in practice.

What I will say about red tape is that there has been some good work started in Canada. Much more needs to be done. The one-to-one rule which the federal government has implemented is, we feel, a really good practice. We'd prefer to see it as a two-to-one ratio, where for every new rule or regulation that is adopted, two drop out, as the B.C. Liberals put in place years ago.

There is no easy answer to this. This is not a sexy file for governments or politicians to get involved in. It is through constant oversight and reviews of every new rule and regulation that comes on the books.... That is important.

In terms of phasing out some of them, you hit on a really good area for us. The approval processes in governments in general are ridiculously long. In some cases it is resourcing for those that need to do the approvals, but the problem is also just the number of steps in that process and the lack of differentiation by size.

If some of our members in Banff, let's say, want to put out a new garbage bin, they have to go through a process similar to that for building a mine. This is the kind of thing that needs to be addressed by government.

This is not something I can give you a fulsome answer to in two minutes.

The Chair: Thank you very much, Mr. Kelly.

Mr. McGuinty, for five minutes.

Mr. David McGuinty (Ottawa South, Lib.): Thank you, Mr. Chair.

Thank you very much for being here, gentlemen.

When I heard Mr. Hollands mention the need for additional conditionality to be imposed by the federal government on municipal spending, I was reminded of the letter I got from the mayors of several cities across the country when the government was erecting 9,000 billboards on the economic action plan and forcing those cities, in fact, to pay for the billboards. I thought that was an interesting example of how at least the power exists to impose conditionality. I don't think it was the right way to go, but....

I want to go back to where my colleague from the NDP left off on how to improve the situation. The federal government is the largest employer in the country, the largest landlord in the country, and the largest procurer of goods and services in the country. There have been a lot of changes to the federal procurement system, which have been met with very, very mixed reviews about efficiency.

Long-term contracts of very large sizes are forcing your CFIB members out of the business because of the subcontracting that's going on, making it very difficult. I've seen no evidence from the office you mentioned, the office for small and medium-sized businesses, or from the work you've done, Mr. Kelly, that it has actually been more efficient and that there's been more value for money for Canadian taxpayers.

Let's just proceed on the basis that we're not talking about telling provinces and municipalities what to do. Let's just pretend we have a responsibility. As the old biblical maxim goes, "Physician, heal thyself." What three things should the federal government do right now to actually ensure that the money it spends on an annual basis through procurement of all kinds is done more efficiently and is better value for money for Canadians?

Mr. Dan Kelly: One of the issues you raise is something we would share as a common cause. At the federal level there have been a lot of master agreements created that really have cut out a lot of small and medium-sized firms from bidding on federal government contracts. That's not in the infrastructure game. That is on, you know, translation services. We hear from this a lot—

• (1715)

Mr. David McGuinty: Staffing, furniture, painting—

Mr. Dan Kelly: Temporary staff agencies, for example; we hear from that an awful lot too.

I think the thinking is that this is saving taxpayers' dollars. I'm not sure that's actually the case, so we share the view that the federal government needs to revisit some of those master agreements for federal government procurement.

On the issue of what the federal government can do, though, with respect to its revenue sharing, the money it spends on municipal or local infrastructure, I think one of the biggest things the federal government could do to the better would be to end and prohibit any union-only preference policy that would exist at a more junior level of government, to ensure that any federal dollar is fully open so that any firm of any size, regardless of the structure it has for its staff—whether it's unionized or non-unionized—has equal access to the government procurement. We think it's fair.

Unionized firms of course should be as eligible to bid on government work as anyone else, but smaller and medium-sized firms that are not unionized should also have the ability to do that. In many, many cases in some of Canada's largest and medium-sized cities, that's just not the case today. That would be one of the areas where we feel it would be most effective to get a better bang for the buck.

Mr. David McGuinty: If we look at the costs municipally around the country, I understand that the fastest growing areas are in policing, social services, and environmental compliance. When you say things like—and I'll use your language—the municipalities are

crying poverty, it's mostly based on overspending, and they're not as broke as they claim to be, do you think there is widespread agreement among municipalities?

Mr. Dan Kelly: Oh, municipalities definitely don't agree.

Voices: Oh, oh!

Mr. David McGuinty: Right.

Two different governments have been in power now. We brought in a gas tax transfer to recognize the fact that Canadian cities don't have the revenue-raising powers that many of their competitor cities have around the world.

I don't think that when we were drafting the Constitution in the mid-1800s we really knew that we would emerge as a country of city-states, the way the world is moving, so municipalities are really having difficulty with their revenue-raising powers, with property taxes, bylaws, water, etc.

On the fact that we're trying to help municipalities meet some of their quality-of-life and infrastructure needs of the kind Mr. Hollands singles out—and hats off to Mr. Hollands for even talking about climate change and adaptation to climate change—what are we supposed to do, then? Are we supposed to take it at face value that we're sending too much money to cities, that they're all kind of bloated, and that it's a kind of fat-cat situation?

The Chair: There isn't much time left, Mr. McGuinty, so perhaps Mr. Kelly could respond.

Mr. Dan Kelly: I will say it's not always about what cities are spending their money on, although we do have some questions on that from time to time. It's how they spend the money. There is the fact that municipalities have massively underfunded pensions. The federal government has taken some steps to address this, and the Ontario government is taking some steps to address underfunded pensions. Municipalities have only recently started to admit just how underfunded their pensions are. The fact that wages and benefits levels have exceeded any in the private sector, along with the fact that now public sector workers are making vastly more than those doing similar occupations in the private sector, is the problem.

It's not necessarily just what cities are spending their money on, but how they're spending that money. We're not spending it on infrastructure, because all of the dollars are getting sucked up in salaries, benefits, and increasingly, pensions for workers. If we started to make those more reasonable, we think cities would find lots of extra dollars to dedicate to infrastructure and then the maintenance of that infrastructure.

The Chair: Thank you.

Mr. Poilievre, go ahead for five minutes.

Mr. Pierre Poilievre (Nepean—Carleton, CPC): Thanks for being here, gentlemen.

The question of municipal revenues is an interesting one. Stats Canada data demonstrate that municipal revenues have grown by 70% in the 10 years from 2001 to 2011. In the same time, inflation and population growth have totalled 30% combined. In other words, revenues from municipalities have vastly outpaced the need over a 10-year period. A similar trend, though not as pronounced, was present in the previous 10 years. So over the last 20 years, municipal revenues have been growing vastly, more quickly than has the need, as evidenced by inflation and population growth.

On top of that, the federal government has uploaded municipal costs by becoming a major funder of capital projects. In the early nineties and before, there was no federal funding for municipal infrastructure, zero. Municipalities provided that service without any help from the federal taxpayer. Arguably, according to municipalities, they had fewer traffic problems and shortfalls then than they do now.

Why do you think this massive growth in municipal revenue has failed to satiate the demands of municipal leaders?

• (1720)

Mr. Dan Kelly: Thank you for that question. We've shared similar concerns over this issue for some time.

Municipal revenues have been growing vastly more than is needed. I would argue that municipalities have been one of the most effective lobbying groups in Canada over the last decade. That eight-cent figure they claim—they get eight cents of every tax dollar—does not factor into the fact that they get giant amounts of revenue shared with them by provincial, and now federal, governments. That needs to be taken into consideration.

Municipalities have access to growth forms of revenue. Those growth forms of revenue are the transfers they get from the federal and provincial governments. We're not suggesting the federal and provincial governments have zero role in municipal infrastructure, but we think they have gone far enough. Before additional dollars are dedicated, we want to make sure municipal spending is held to a higher account.

That started to happen at the federal level. Some provinces are getting on board. Much more needs to be done at the federal and provincial levels, but very few leaves have been overturned in terms of the gap that exists between levels of municipal wages and benefits and those for similar occupations in the private sector. Much more of their staffing is at the junior level where there are direct comparators that exist in the private sector, and the wage scales, benefit scales, and in particular, pension scales, are not even on the same planet.

Mr. Pierre Poilievre: If I could add to that, the research I have done through Stats Canada has shown that there has been, as you say, a corresponding increase in the cost of personnel at municipalities, which has also grown at twice the combined rate of inflation and population growth over the decade.

It is potentially the explanation for the outcome of all of the tax money that is going into this field.

Mr. Gregory Thomas, do you have anything to add on this?

Mr. Gregory Thomas: The Canadian Taxpayers Federation takes a slightly harder line than our colleagues do. We believe that the

federal government's involvement in funding municipal infrastructure has been bad for the country.

The United States has been held up as an example. Since the financial meltdown in 2008, the United States has borrowed 50 times as much money at the federal level as the Canadian federal government has—50 times. Over \$6 trillion in public debt has been added and squandered at the federal level by the Government of the United States.

At the federal level in Canada, the corrosive effect of federal infrastructure funding is that voters receive goods they're not paying for. They're being paid for with borrowed money. There is no cost benefit to that new sewer pipe, the new curling rink roof, all the stuff that federal pork-barrelling is paying for. The net effect of it is that voters, ratepayers at a municipal level, are no longer able to give credit or assess blame for well-managed and poorly managed infrastructure projects, because every sign has the federal flag, the province's flag, and the city's coat of arms. Every time you dig a ditch in this country, there's an MP, an MPP or an MLA, a city councillor, and a mayor standing there, and everyone is taking the credit.

It's an unconstitutional way of doing business. The federal government is using its spending power Trudeau-style to invade an area in which they have no specific expertise. Instead of focusing your attention on federal transportation issues like the St. Lawrence Seaway, oceans, military procurement, replacing the air force, and so forth, you're mucking around in areas where the feds have no specific expertise and nothing to add.

• (1725)

The Chair: Thank you. We're way over the time.

Mr. Adler, you have the last five minutes.

Mr. Mark Adler (York Centre, CPC): Thanks so much, Chair.

Thank you, gentlemen, for being here this afternoon.

This is a very fascinating discussion. As you know, we've been holding these hearings now for a few weeks, and we've heard some very interesting things over that period of time.

I want to begin with Mr. Thomas. Right at the beginning of your talk you mentioned what the Canadian Taxpayers Federation stands for. Could you please repeat those few things?

Mr. Gregory Thomas: We stand for lower taxes, less waste, and accountable government.

Mr. Mark Adler: That's interesting. It's pretty much the antithesis of whatever the NDP stands for.

Mr. Hollands, you talked about procurement habituation. Could you please expand upon that? I found that to be very interesting. It seems to me a lot of what you're saying is that purchasing decisions are based on old information, and it's largely a result of this closed-shop process that cities are facing, and that leads perhaps to more being spent on process and perhaps labour, and as a result the product that is used is inferior.

Is that what you were getting at, or is it a possibility?

Mr. Bruce Hollands: It's not the process that's more expensive. It's that the process lacks the ability to ferret out all the products that exist in the marketplace to help spur a truly competitive process. For instance, in our case, in the water and sewer industry, the engineer determines which piping materials are allowed to be included in the bidding process. For instance, in Montreal they exclude PVC. In other cities in the country and in the United States, that's done with ductile iron, for instance.

Mr. Mark Adler: Why would that be? I understand that in Montreal some of the piping is still wood.

Mr. Bruce Hollands: They're no longer making wood. It was just never replaced.

Mr. Mark Adler: It was never replaced. So when it is replaced, why would PVC not be considered to be an option if it has a 100-year to 110-year lifespan?

Mr. Bruce Hollands: I think Montreal is a special case. I think there are inquiries and arrests that are taking place, which helps to explain what's going on there.

The concept of habituation is that we've always done it this way and we're going to continue doing it this way. That's what the U.S. Conference of Mayors' report has pointed out. They're continuing to buy, for instance, ductile iron piping. Before that it was cast iron, and now it's ductile, but the ductile iron is thinner walled so it lasts for a shorter period of time underground. People think it's strong because it's iron, you see. They continue to limit the specifications to exclude modern materials like PVC. That's procurement habituation.

Mr. Mark Adler: For Canada's three largest cities, Montreal, Toronto, and Vancouver, how would you rate the below-grade infrastructure in terms of adequacy at the moment?

Mr. Bruce Hollands: I'm not familiar as much with Vancouver. I'm very familiar with Montreal. Montreal would have to be the worst of the three, and probably Toronto would be the best, along with Vancouver. I know that Vancouver has certain limitations in the city proper. I think it only allows iron piping, which tends to not perform as well. Toronto might be ahead of Vancouver, but they might be even.

Mr. Mark Adler: What grade would you give Toronto's below-grade infrastructure?

Mr. Bruce Hollands: It's difficult to say. I'm more familiar with U.S. figures right now. It's certainly not an A-plus grade; maybe a B grade. Their procurement policies have been improved, but as well it's been a long time that they've been following a more restricted procurement in many areas.

Mr. Mark Adler: Thank you.

Mr. Kelly, regarding the underfunded pension levels in municipalities, we see every year, especially in Ontario, where they publish the names of people who are making \$100,000 or more. That book seems to be getting thicker and thicker every single year. It doesn't matter who seems to be in power at the provincial and municipal levels.

How does that affect the underfunded pension levels? As a result, how does that affect the adequacy of municipal infrastructure?

• (1730)

Mr. Dan Kelly: This is a larger point. That is, we feel that senior levels of governments are getting played. They are backfilling for decisions that municipalities make to pay excessive wages to government staff. Therefore, they have that option. They won't reform their own houses so long as they have access to push the problem up. Unfortunately, both the federal government and the provincial governments have been showering more and more money to the municipalities for infrastructure so they don't have to themselves, and they can use operating money to pay for wages and benefits.

This is a big problem that needs to be addressed. Again, we don't have a position on whether the federal government should be out of it altogether. Certainly, if you are going to be playing a role, you should be ensuring that it's done fairly and that it's not simply just displacing other municipal dollars to allow them to spend in whatever way they'd like.

The Chair: Thank you very much. We are out of time.

I want to thank Mr. Kelly, Mr. Thomas, and Mr. Hollands for being here. We apologize for the disruption today, but that was out of our control.

The meeting is adjourned.

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