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Chair

The Honourable Wayne Easter

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● (1555)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): I'll call the meeting to order. We're dealing with the order of reference for Bill C-44, an act to implement certain provisions of the budget tabled in Parliament on March 22.

I apologize to the witnesses for the delay. We will try to proceed with this panel for one hour and the next panel for one hour.

To start, we have the Canadian Union of Public Employees, Mr. Sanger, senior economist.

Toby, the floor is yours.

Mr. Toby Sanger (Senior Economist, Canadian Union of Public Employees): Thank you.

Thank you very much for inviting me.

I'd like to say at the outset that I welcomed this government's promise in the election and in ministerial mandate letters to establish the Canada infrastructure bank to provide low-cost financing for new municipal infrastructure projects.

I also strongly welcomed the promise to set a higher bar for openness and transparency in government and the promise to stand up for and strengthen the middle class and those working hard to join it.

I was very happy to hear the Prime Minister say that they'd end the undemocratic practice of using omnibus bills to prevent Parliament from properly reviewing and debating proposals. This is why I and others, I think, are so disappointed in these plans for the infrastructure bank in Bill C-44. They represent broken promise after broken promise.

Right from the outset, it won't provide low-cost financing for municipalities. That was the promise in the election campaign and in the ministerial mandate letters. Instead, the priority has shifted to leveraging higher-cost private sector capital. In a recent report that I wrote, I demonstrated how the higher cost of private sector finance could mean that these projects could cost twice as much. No one has disputed those figures. In fact, people have said that the rate of return on the private sector side is larger than that. This means we'll get half as much bang for our buck in terms of infrastructure—less infrastructure, not more.

The bank won't be open, transparent, or accountable to Canadians. The federal Auditor General has limited power to review the operations of crown corporations, less than direct public projects. This legislation also threatens anyone who discloses information about projects relating to proponents with a $10,000 fine and six months in jail. Investments are supposed to be in the public interest, but the legislation bars officials from being on the board.

It won't help strengthen the middle class and those working hard to join it. Yes, jobs will be created from infrastructure investments, but many more could be created if the money were to go to construction and employment and not to higher financing costs. Higher user fees associated with these projects will hurt middle and working classes the most. They'll also be bad for the economy, taking money away from other spending.

The bank was designed—as we'll find out—by a small, privileged group of financiers who stand to benefit the most from it, including BlackRock Inc., the biggest asset manager in the world, which recently hired top civil servants. As others have said, if this isn't a conflict of interest, I don't know what is. The infrastructure minister and the Prime Minister say they consulted with unions and others, but we know the design for this came from the finance minister's economic advisory council, which is dominated by CEOs.

And it's included in the budget omnibus bill.

Another concern is that the bank also won't help with the type of comprehensive national infrastructure planning that we need. Instead, private interests that dominate it will focus on what will maximize their private profits. Allowing it to entertain unsolicited proposals will mean that they'll also cherry-pick public assets to privatize for the greatest profit. It will result in a patchwork of privatized projects, driven by no other logic than private profiteering off public infrastructure. The initial $35 billion in federal public funding would just pave the way for this.

Now, I was very surprised to hear the finance minister say yesterday that cabinet would approve projects, because from my reading of the legislation—and I think that of most others—that's not the case.

Instead, the government should do what they promised and what Canadians voted for. It should establish a public infrastructure bank that provides low-cost financing—and that means public financing—for new municipal infrastructure projects. There's no shortage of financing available for the Government of Canada to borrow at low interest rates. Also, if this were done through a public bank and lending institution, such as the Business Development Bank of Canada, CMHC, or EDC, then its investments and borrowing wouldn't need to increase the deficit or net debt any more than the current proposal would.

Number two, it should also ensure much stronger accountability, transparency, and review by auditors general over the bank and its projects. It should provide full public disclosure of all details in business cases, value-for-money assessments, and contracts. It should also have public officials on the board so that it acts in the public interest. We should ensure that public infrastructure projects remain public and aren't secret deals.

● (1600)

You should also establish a public and transparent process, using evidence-based analysis for truly objective project planning of what should be the priority public infrastructure projects across the country. We should use this type of proposal to engage in truly sensible national infrastructure planning.

Thank you very much.

The Chair: Thank you, Mr. Sanger. You called it as you see it.

From the Institute of Fiscal Studies and Democracy, we have Mr. Khan, who is a director, and Mr. Bartlett, who is chief economist.

Mr. Khan.

Mr. Azfar Ali Khan (Director, Performance, Institute of Fiscal Studies and Democracy): Thank you so much.

Thank you, Chair, vice-chairs, and members of the House of Commons Standing Committee on Finance. It is an honour to be with you today.

[*Translation*]

I'll quickly comment on Bill C-44, in particular regarding Canada's critical infrastructure.

[*English*]

The Institute of Fiscal Studies and Democracy—of which I am the director of performance, and my colleague, Randall Bartlett, is the chief economist—recently published a piece on assessing the risks and opportunities associated with a Canada infrastructure bank. The key premise underlying our piece is that a national infrastructure plan and strategy is required, supported by evidence. This should be the first priority.

[*Translation*]

Our work in this area enabled us to identify three key factors. These factors form the basis of the steps needed to develop a work plan and national strategy for critical infrastructure.

[*English*]

First, a thorough assessment of our current infrastructure stock needs to be performed. Specifically, is this stock delivering, or on track to delivering, the benefits expected from it at the time it was approved? A report by the U.K.'s National Audit Office highlighted the cost and challenges of delivering major projects in government, with a number of recurring issues affecting performance.

Of the 149 major projects in the U.K. as of June 2015, with a total life-cycle cost of 511 billion pounds, successful delivery of 34% was considered to be in doubt or unachievable unless action was taken. Infrastructure investments alone are not a guarantee of infrastructure outcomes.

[*Translation*]

The second step is to conduct a strategic analysis of future infrastructure needs in Canada.

[*English*]

This analysis would identify the economic, social, and environmental benefits expected of infrastructure investments. It would consider factors such as demographic trends, population growth, current and projected economic activity, trade corridors and future drivers of economic growth, the environment, and any significant regional variations and needs.

Finally, by understanding the condition of our current infrastructure stock and our future needs, we can identify our infrastructure gap relative to the future infrastructure needs. This is the evidence base, at a minimum, that we feel is needed to develop a national infrastructure plan and strategy.

Currently, estimates of the national infrastructure gap in Canada range from zero to $1 trillion. While estimates always come with some uncertainty, this is a wide range by any measure, and not one on which to build a national infrastructure strategy.

[*Translation*]

It's critical to understand where we are and where we're headed. Only then can we draw a roadmap to help us reach our destination.

[*English*]

In fairness, budget 2017 identifies an ambitious data initiative on Canadian infrastructure to provide the intelligence to better direct infrastructure investments. Further, the budget implementation act identifies the collection and dissemination of data to monitor and assess the state of infrastructure in Canada as one of the functions of a Canada infrastructure bank.

In our view, this data initiative identified in budget 2017—and the function it gives to a Canada infrastructure bank—is precisely what is required first and foremost in order to have an evidence-based national infrastructure plan and strategy. Details on this initiative are to be announced in the coming months, and we are very much looking forward to understanding the details and timelines expected of this initiative. Let us develop the plan first, and then put in place the right strategies and instruments, such as the infrastructure bank, that are tailored to best achieve that plan.

● (1605)

[*Translation*]

Unfortunately, these initiatives are in the wrong order. We put the cart before the horse.

[*English*]

Thank you for your time and the opportunity to speak to you today. I look forward to answering any questions you may have.

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

Mr. Dachis is next, from the C.D. Howe Institute. Welcome. The floor is yours.

Mr. Benjamin Dachis (Associate Director, Research, C.D. Howe Institute): Thank you very much.

My name is Benjamin Dachis. I'm associate director of research at the C.D. Howe Institute. We're a national non-partisan public policy think tank.

I'll be summarizing some of my recently published research that's available on the C.D. Howe Institute website. I've brought copies for anyone interested, and also some work that we're going to be publishing by Steve Robins of Harvard University next month.

The key message from our work is that the government's move to create an infrastructure bank is very much a step in the right direction, and it's now time to get the details right. We think the bank requires independent governance, a deep commitment to evidence-based decision-making, and less political involvement in negotiating with potential private sector and local and provincial government partners.

First of all, it's really important to remember the benefits of using private investment in place of taxpayer-supported debt. Government funding for infrastructure has two hidden costs on the economy. The first is greater risk on the taxpayers, and the second is the economic harm of taxation.

One of the common arguments that you're going to hear favouring government infrastructure investment is a lower borrowing rate compared to pretty much everyone else. It sounds like the government should do the borrowing, right? Well, not so fast. All this lower borrowing rate is a result of lenders viewing taxpayers as the guarantors of any cost overrun or late delivery. Sharing risk with institutional investors instead can be a better deal for everyone.

Second, every taxpayer dollar the government uses for infrastructure has to come from someone's taxes, and those taxes mean some businesses don't make an investment, and some people work less. Governments can reduce the economic harm of this by relying on users instead to pay for infrastructure rather than taxpayers, with institutional investors providing the financing in place of governments. That is the case for private investment infrastructure.

The question now is how we do it right. First of all, where necessary, Ottawa and the provinces should be creating independent regulatory bodies overseeing infrastructure assets to ensure that their owners, either governments or private institutional investors, act in the public interest and for long-term sustainability. Importantly, that should not be the role of the bank.

Our forthcoming work is going to point to a number of key design elements of the proposed infrastructure bank. First, on governance, the bank should have a single objective in its mandate clearly defining what projects the bank should pursue. Its independence should be enshrined in the legislation in a way that protects it from day-to-day political influence, and it should have an independent board with fixed terms.

Second, the federal government is going to need to create standardized project planning and create consistent cost, benefit, and risk metrics. It should also require the collection of this data receiving federal funding and having more than, say, $100 million in capital costs. Budget 2017's commitment to better data collection in infrastructure is definitely a positive step in this direction.

Finally, for the bank's analysis to be viewed as credible, rigorous, and fact based, it must be seen as independent of the political needs of the government of the day. Australia's experience with Infrastructure Australia is very instructive. When it was first established, it operated with a board with limited independence and even had members from government departments on the board. That discouraged states and municipalities there from participating. They saw the bank as being insufficiently independent. In 2014 the Australian federal government amended this mandate to create a truly independent board to address the concerns of states and municipalities. Board members now can only be replaced for cause, and one-quarter are appointed on advice of other levels of government.

Statutory independence means that the minister may not give direction to the bank on the content of any analysis nor require the bank to proceed with projects with negative net benefits. Any initial deployment of public resources should be approved by the Minister of Infrastructure and Communities or together with cabinet. That's absolutely needed to have the appropriate level of democratic oversight, but that kind of ministerial approval should happen at the very beginning of the process. Once the bank begins to procure with private or other government partners, the bank should have the ability to proceed to close the transaction without further ministerial approvals, and that will ensure market confidence in the procurement process.

In sum, the government's proposal for an infrastructure bank is an excellent idea if done correctly, and the broad strokes of a good proposal are in the legislation. More institutional safeguards are necessary. The best way to do so is an important question for this committee to consider as it investigates this bill.

● (1610)

With that, I look forward to your questions.

The Chair: Thank you very much.

Turning now to Mr. Manahan, with the Residential and Civil Construction Alliance of Ontario.

Mr. Andy Manahan (Executive Director, Residential and Civil Construction Alliance of Ontario): Thank you, Chair Easter, vice-chairs, and members of this committee.

My name is Andy Manahan. I am the executive director of the Residential and Civil Construction Alliance of Ontario, and I have been in that position for about 11 years.

Obviously, we are a provincial association so this is a rare opportunity for me to speak in Ottawa and I really appreciate it.

One of the things that's different about our organization is that we're a labour management organization. I'm not aware of any other across Canada that has both contractor associations and construction unions, so our members will be the ones who will be building some of the projects through the Canadian infrastructure investment agency or other infrastructure funding programs that are already in existence or may exist in the future.

I should say right off the top that we did commission a report independently, about 2009, and it did recommend an infrastructure bank but it didn't flesh it out, so when we heard in 2015 that the government in Ottawa was contemplating an infrastructure bank we decided to commission a report, and we actually used the “infrastructure bank” phrase. That particular report resulted in a round table where the deputy infrastructure minister and an assistant deputy minister from Ontario and many other bright lights, including Ben and others, participated in that round table to hash it out.

I should say there was certainly not a unanimous position that this is the way to go, but overall we thought that if it were done correctly the bank or agency would have a lot of merit.

As a result of that round table we commissioned Matti Siemiatycki, who will be here later this afternoon to talk about and provide more detailed recommendations on how this organization could be operationalized. I'll let Matti talk in more detail about that.

I want to keep it very simple in terms of what our organization and I think are some of the key roles of this agency. I think project evaluation, as we've heard from Ben, is a critical function.

I just got the KPMG report yesterday that talked about various things like the infrastructure funding gap or the deficit across Canada, and to my mind... You know, some people are still using the $123-billion deficit, even though that figure is about 10 years old. Some of the infrastructure modelling work that we have done is agent-based modelling, and it looks at it from a different perspective. Rather than how deep the hole is, what are we spending on infrastructure in relation to the GDP? Currently across Canada we're at 3.1% GDP. An optimal point from a macroeconomic point of view would be 5%, so it's an aspirational target.

I think where you want to get into what the dollar amounts are is when you get to local or regional-level budgets, but I find that using those sorts of assumptions in terms of engineering, full replacements, or other aspects like that, is not very helpful. I would suggest that the big boy kind of management consulting firms get off that track of talking about how big the deficit is, because it doesn't really help us.

While there exists a large infrastructure gap, there is likely a long list of projects that meet criteria, such as of social and environmental importance, but how do we determine the best sequence of projects among so many worthy projects? I think we could probably, all across your ridings, come up with projects that are really good right now, but I think it's critical that we also look at projects that have a positive ROI, return on investment, from a variety of perspectives.

Secondly, I want to talk about revenues. I think Matti will get into this as well, but it's really important that projects generate revenues. I know this is sometimes politically toxic in terms of things like road pricing, or tolling, but gas tax revenues are declining. We've seen that in the U.S. with respect to the highway trust funds, both federally and locally. It's probably not as severe in Canada, but we're heading in the same direction because cars are becoming more fuel efficient and there are more electric vehicles, so there has to be a transition.

I think May of 2016 was when I heard the finance minister talk about bold ideas and policy approaches. I'm thinking now that we're getting into an era of connected vehicles, autonomous vehicles, and more electric vehicles, and I think that's really going to link together very nicely with road pricing.

What's happening in the States—and I just found out about this on Friday at a conference I was attending—is that there are 14 western U.S. states that are looking at how to transition from gas taxes to road pricing. It's an experiment without any real dollars—it's like a Monopoly money game—but they have over 5,000 participants in this voluntary program and they're trying to figure out what's going to happen. The results aren't out yet, but I think this is something we need to watch in terms of the Smart Cities initiatives that are happening in the U.S., and now here in Canada.

● (1615)

I want to mention that one of the reasons Ben made some of the points that he did about the independence is that sometimes politicians do things that can send out really negative signals.

To my mind, during the 2015 campaign, when a decision was made that the Champlain Bridge was not going to be tolled, that sent out a negative signal regarding whether or not we could count on revenues in the future. I can give you many other examples, but the one I want to highlight is the Scarborough subway extension. The agencies that did the business case analysis for that alignment looked at it and said light rail transit was the way to go. Because of former Mayor Ford of Toronto and the popularity of that gentleman and the premier of the day and then the connection of Ford to former Prime Minister Harper and Finance Minister Flaherty, all of a sudden a political decision was made, despite the best evidence, that we needed to build a subway, which has now turned into a one-stop subway. Our members are probably going to build that and we're going to benefit, but, quite frankly, if you have an LRT with more stops, at each stop you're going to have residential construction. How would you do an innovative finance on that? Value capture. There are a lot of creative things that get hurt when there's that kind of negative political interference. I'm not saying it's across the board, but I just want to provide those examples.

With respect to governance, that's probably the overarching important issue out of all of this. Metrolinx had a situation in which its president and CEO, I think, was put in a position of conflict, because he had to report both to the Metrolinx board of directors and to his political masters at Queen's Park. If he had had that independence, he probably would have been more forceful in saying LRT, light rail transit, was the way to go.

I won't belabour that, but I think you get where I'm coming from. Is this an extreme example? No. I think even with further evidence that you've probably all heard, that ridership numbers are not as high as they should be and that costs continue to rise and are exorbitant, there seems to be no course correction on this particular thing.

I think as the agency evolves, there should be not a go-slow approach but an approach that looks at specific sectors. Should it be trade and transportation or transit? Should we look at water in the future for those communities that have full-cost pricing or conservation-oriented pricing? Yes. Do we need to look at green energy transmission? Yes.

There are lots of different ideas, but to ensure that we're successful as we roll this program out, we need to take those sort of evolutionary steps.

I'll end it at that. Thank you very much.

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

I have a question for the committee before we go to questions, which will be five-minute rounds. Because of the delays in the House today due to tributes and other matters, that is really going to run us late tonight, to the extent that we probably can't do the witnesses for part 4 divisions that aren't done yet.

The question is when do we do it? We have two panels tomorrow afternoon. We have two panels Thursday afternoon. We could do them before we start on the bill on May 29, but we're already going until nine o'clock that night, so we would crunch ourselves for time. Would it be possible to do the divisions on Thursday morning? Are we okay with that?

● (1620)

Mr. Raj Grewal (Brampton East, Lib.): If we're sitting on the 29th anyway, what does it matter if we sit for another 30 minutes that night?

The Chair: It might be longer than 30 minutes if one of those witnesses is....There are service fees, on which there are already three or four people on the question list. There's the infrastructure bank, and I believe there's Infrastructure Canada, so they could be lengthy.

If we meet on Thursday morning, then if we have to meet on the 29th, we can, but I don't think we can do a thorough hearing unless we do it Thursday morning.

Is Thursday morning Okay?

All right, so we'll inform them.

Sorry, folks, for the interruption. We'll go five-minute rounds, starting with Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome, everyone. Please excuse the delay today. I have two or three comments, and then I'll ask a quick question.

I've heard some viewpoints on infrastructure. I'm very familiar with the P3 model in Ontario. I was on a bond desk for one of the major banks, and I understand how the financing works for P3s and the different models of the build to maintain, operate, and so forth. We're having the York Spadina subway extension come up to Vaughan and, starting in a couple of weeks, we'll have a brand new hospital being built in the city of Vaughan, which is a P3 model. As well, our government here has put forward a historic plan to invest over $180 billion in infrastructure over the next 12 years.

A saying I've heard that struck me as important is this one: progress over process. We want to get projects built. We don't want to chat about them for a long, long time. I think that's been one of the causes of the infrastructure gap or deficit, however you want to measure it and whatever relative means you want to measure it by. This progress over process means basically getting the shovels going as quickly as possible.

When I tack back to the infrastructure bank, I say to myself that this is one tool to accelerate and broaden the infrastructure build and the capital that's going to be utilized to build this infrastructure. That's the way I humbly look at it. I understand the importance of governance and evidence-based decision-making for the projects, but the idea is a very powerful idea. I applaud our government for putting it forward. I applaud our government for having the flexibility in governing to look at this mechanism in addition to the other models out there in Canada. Also, I applaud ourselves for looking at process, but more importantly, looking at progress.

I have a quick question for the C.D. Howe Institute.

When you look at infrastructure build-out, you see that the role private capital can play is very powerful. I'd like you to comment on that, please.

Mr. Benjamin Dachis: When it comes to the importance of private investment, it can't be emphasized enough that the public debate here misses the really core benefit, which is that transfer of risk. In Canada, when we have public procurement entirely led by the public sector and we have projects like this—a good example is the York University subway extension in Toronto—that go massively over budget and are severely delayed, guess who's on the hook for that? When you have the public sector leading the procurement, taxpayers pay the costs at the end of the day.

When you move to a model where you have private finance so you have that kind of risk-sharing, the risks of the project don't go away, but the key, though, is that it's not the taxpayers in the end who have to pay the bill. This goes to the key importance of making sure that, in Minister Sohi's words, we're investing in “shovel-worthy” and not just “shovel-ready” projects.

It's really important to be picking the right projects. Rushing ahead to get things built without putting in place the proper business plan, which the private sector can help with in establishing what makes some sense, because a private investor is going to have to do a lot of due diligence on projects.... All these sorts of things are really important in making sure we're getting the best bang for our buck.

The Chair: You have time for a very short question.

Mr. Francesco Sorbara: Mr. Manahan, I'm not going to touch the politics of the Scarborough subway—

Mr. Andy Manahan: Sure.

Mr. Francesco Sorbara: —so don't expect that. I would like to get your comment on how important governance is in terms of getting the infrastructure bank mechanism in place correctly.

● (1625)

Mr. Andy Manahan: Yes, I've read the recent media about the changing circumstances. I think the view we have is that true arm's length is much better than veto power, or recall, or second-guessing about whether an evaluation was done correctly. That's our view. You can do that with other kinds of infrastructure programs, but this bank should be sacrosanct that way.

The Chair: Thanks to both of you.

Mr. Deltell.

[*Translation*]

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Mr. Chair.

Gentlemen, welcome to your House of Commons.

[*English*]

I would like to emphasize what I would call the risk-taker situation that we have to address when we talk about this new bank.

Mr. Bartlett, we all know and we all recognize that when you invest in the private sector, you take a risk in the hope of getting a reward.

[*Translation*]

In short, we have results.

[*English*]

This is key in the capitalist situation: the risk-taker. In this case, we're talking about infrastructure, which you cannot sell somewhere else. It is built there and it is for a public purpose. Can you explain to us your vision of the risk-taker situation in the infrastructure bank? Who should be taking the risk, the people or the private investor?

Mr. Randall Bartlett (Chief Economist, Institute of Fiscal Studies and Democracy): Ultimately, if you are bringing the private sector into these contracts and arrangements, the risk should be transferred to the owner of that asset. The private sector should be pricing into the contract and the risk-adjusted returns what the risks are of those investments. That applies to both the risk on the return and the capital appreciation of the asset. That is where you'd expect the risk, ultimately, to be transferred as a share of the ownership.

One of the concerns that we have, in looking at the P3 model, is that some of that risk is often not transferred to the private sector. Some of that return risk, some of that demand risk, is still borne by the public sector, even with the intent of the transfer. The concern we brought up in our recent piece was whether assets were being correctly priced when you weren't actually getting the full transfer of the risk from the public to the private sector.

Mr. Gérard Deltell: Mr. Dachis, what are your thoughts about that?

Mr. Benjamin Dachis: I think that's correct. We have not in Canada moved our P3 model so far as to really take into account that demand risk. Most P3 projects in Canada, historical P3 projects, were starting to move a little bit more in this direction. Governments and taxpayers, by definition, are on the hook for demand not materializing. What consistently happens is that governments overestimate the potential demand. A transit line, a road—all these sorts of projects can leave taxpayers on the hook. When you start bringing in private sector investors, they have a lot more incentive to make sure that they're projecting demand more accurately. It's their company on the line, whereas in the public sector you don't really have risk borne by an individual.

Mr. Gérard Deltell: Mr. Sanger.

Mr. Toby Sanger: Mr. Bartlett also articulated this. What we've found about the transfer of risk is that basically all the P3s in Canada have been justified on the basis of transferring risk to the private sector. We haven't been able to get the details on that because they keep them secret. That's a real concern. When the Ontario auditor general reviewed 74 P3s in Ontario, she found that there was not one shred of evidence that the risk was being transferred, and she found that at least $3 billion of the risk was double-counted. There was not one shred of evidence on that. They're all justified on it. I could make up those numbers to show risk was being transferred, but the risk was not transferred. The private sector generally has only about 10% to 50% equity in it, and they assume that a lot more risk is being transferred.

Another thing is that if these are public infrastructure projects, if they're delivering a public service, the public sector will be responsible for keeping the projects going. Just about all of these projects, all P3s, are set up as what they call SPVs, special purpose vehicles. They're separate. There may be big companies behind them, but they're set up as limited liability corporations. The people backing these projects can walk away from them with little at risk. Who has to pick up the pieces to provide the service? It's the public sector, if they want it to keep on operating. That's how it has operated in a number of different places.

This whole idea about risk transfer, I don't think there's a lot of credibility behind it. It's a real problem. It might sound good in theory, but in reality it doesn't happen.

● (1630)

The Chair: Thank you, both.

Mr. Masse.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thank you, witnesses, for being here.

One of the things that's interesting from the area I represent is an area that actually had a $1.4 billion P3, the Herb Gray Parkway. We're in the process now of connecting it to a border crossing where we're going to do a P3 for an international border crossing, something that hasn't been done before for a bridge.

With the Herb Gray Parkway, I'd be interested to get your comments on this in terms of risk assessment. It was a P3 where basically we had what was called “girder-gate”. Five hundred girders had to be destroyed with 200 pulled from the ground and replaced because a private contractor in the P3 decided to make shortcuts and didn't do the proper welding. Interestingly enough, the reason this all became public was because of one of the workers I met at the gym I go to. That led to the entire issue.

There were also other issues with non-compliance of payment. The P3 main contractor would not pay local businesses and had to be issued into court to do so. Local businesses that were supposedly guaranteed contracts, or at least some partial competitive work around the project, weren't paid for some work. Lastly, there are some ongoing court costs that are still being litigated. With that, I'm describing a P3 process that does not seem to be unusual.

I'll ask Mr. Sanger, and I'll go across, about what he thinks with regard to this P3 element. The concern that I have is that we also add into it inefficiencies and extra costs that can take away from the fact that a design, build, and payback over a bonding system might actually provide an advantage versus that of the profit margin that's added in for a P3.

Mr. Toby Sanger: I'd agree with you. You raise important concerns.

One thing about the infrastructure bank proposal, and others have said this, is that it will be based on user fees as well, so there will be increased user fees. A lot of the P3s we have in Canada don't have the demand risk, and I think others have talked about that. The idea behind these projects is that they will be revenue generating, so there will be user fees. That's going to really increase the cost, as I mentioned, on middle-class Canadians.

I just have to respond to this as well. Ben Dachis talked about Infrastructure Australia. What's happened in Australia is, there's been so much privatization there that the former head of the competition bureau there said that it had been bad for the economy because costs have risen on individuals there, and it's taking money away from other things, so it's been a very regressive measure on that.

I agree with you on the P3 side that it's been difficult. There are real problems that I think people need to be concerned about regarding increasing user fees. That's one reason why the Premier of Ontario has such low popularity right now, because of higher costs for hydro.

Mr. Randall Bartlett: When it comes to P3 contracts specifically, or any contract between the public and private sector, what matters is how it's drafted and that the incentives are aligned properly between the two parties. In the case that you're describing, it sounds like that very much wasn't the case. I mean, P3s that have been the most successful need to have the private sector involved all through the process and in the operation and maintenance of it as well, in order to make sure those incentives are aligned. Certainly, I'm sure they wouldn't have put in low-quality girders if they had known they had to replace them every few years or something along those lines. That's often been the issue in the P3 contracts as well. That is, the operations and maintenance side of it has not been transferred to the private sector from the public sector.

● (1635)

Mr. Brian Masse: It's important to note that 40,000 vehicles traverse this route, 10,000 trucks. It's odd in the sense that, if that was the case in terms of the contract, it's 35% of Canada's daily trade with the United States, almost $1 billion a day. We've put all that at risk. It's interesting that, if it's the contract, I guess any contract could be at risk. If there's one you wouldn't want to screw up, it would be this one.

Mr. Randall Bartlett: Agreed.

This is one of our concerns around the CIB as well. That is, whether these deals will necessarily be structured properly in order to make sure that all of the parties' incentives are aligned to ensure that there's the best value for money for taxpayers in Canada.

I'll pass it to Ben.

The Chair: Thank you both.

We'll give you 10 seconds to answer.

Mr. Benjamin Dachis: A quick question on the Herb Gray Parkway is who ended up paying for that mistake.

Very quickly on user fees, the lack of user fees in Canada is why we can't have nice things. When it comes to the lack of transit in Canada, and congestion on our highways, we need to be able to have tolls and prices on these assets to make sure they're properly utilized. The lack of tolls is why we have congestion, and the bank's proposal to have revenue generation as part of it is an absolutely great innovation.

The Chair: Thank you, both.

Mr. Ouellette.

Mr. Andy Manahan: I was going to respond to that if there's a minute.

The Chair: Okay.

Mr. Andy Manahan: I'm familiar with that project. It was a foreign firm, a Spanish firm, and Minister Murray was the infrastructure and transportation minister then. When he heard about it, he was very strong in terms of getting those girders replaced. Obviously, these things go through the courts.

What I wanted to mention, which we're missing so far, and the auditor general also missed, is that if we're doing a true P3 project that is designed, built, financed, and maintained, they're going to be building it better from the beginning. It's going to be maintained better. That's a really big difference. With the auditor general, it was like apples and oranges. She completely missed that.

Our organization was part of a team that met with Infrastructure Ontario after that particular situation occurred. There were other examples of foreign consortia coming in, as with the Spadina subway extension. This may not be the silver bullet, but we ensured that any future IO contracts had a 10% local weighting, so if you're a local firm, you have a slightly better chance of winning a bid. It helps—

The Chair: Okay, we'll have to cut you there.

Mr. Ouellette.

Mr. Robert-Falcon Ouellette (Winnipeg Centre, Lib.): Thank you very much.

One of my questions is about the governance structure. Currently, what we've proposed is a board of directors with a chairperson appointed by order of the Governor in Council. I would just like your opinion on that structure. Is it adequate? Should there be more oversight, less oversight?

You can go down the line if you like.

Mr. Andy Manahan: I did provide some comments with respect to Metrolinx. I think that separation of church and state is really important for this organization. It really bothers me that there will be an opportunity, for example, for the entire board to be pulled, or something like that.

That happened in Metrolinx around the 2009-10 period. It was primarily a municipally based board. They were municipal politicians with one exception. I think the province thought that they were going to do a wholesale change, so then it became a private sector board.

In terms of Metrolinx, my view at the time was that a hybrid board would have been more effective. You would have some elected officials on the board as well as people with specific expertise, whether it be in accounting, engineering, or transportation; you name it. Those sorts of people need to be represented on a really effective board.

Mr. Benjamin Dachis: Right now, the legislation has the broad strokes right. The real issue now becomes governance issues that need to be addressed. Should these governance issues be enshrined in the legislation—and there, it's pretty hard-coded in, so that will be hard to change in the future—or do you try to add these other governance issues through regulations or other institutional design issues with the bank?

Just to give you one example from Infrastructure Australia, its founding legislation specifies that:

> the Minister must not give directions about the content of any audit, list, evaluation, plan or advice

That kind of very definitive independence, the bank's independence is not in place right now with this proposal.

The question for the committee becomes whether you recommend changes to the legislation, which is going to slow things down, or whether you want to be able to get this together quickly, but at the risk of a lack of independence or perceived independence.

● (1640)

Mr. Azfar Ali Khan: With respect to our thoughts, we actually haven't even looked at the governance, to be quite honest.

Our feeling is that we really need to do a strategic bottom-up needs assessment to get a good understanding of our current infrastructure stock and our infrastructure gaps. Really, we think the infrastructure bank right now is putting the cart before the horse, so we haven't looked at the governance yet because we think you need to get the evidence around how our infrastructure is currently performing and what our strategic needs are going forward.

Once we have that kind of a picture, and a national infrastructure plan and strategy, we can really take a look at the governance and what the design of the bank ought to be.

Mr. Toby Sanger: That's a very good question. There's a lot of public money in this, $35 billion to start, from the federal government. I think there should be some representative of the public interest on this, not necessarily a politician but a public official at a high level, if there's that money. I mean, that's just to start. We have to accept the fact that all of these projects will ultimately be paid for by the public, either through governments or through user fees. There should be some public representation.

Now, people get concerned about political interference and about various politicians. You're all elected, so there is a democratic angle on that. We shouldn't be critical of politicians in that way. But I think you need to also look at the way in which you can remove some of these projects from the inappropriate political...such as creating the gazebo in Muskoka for the G7, that type of thing. The U.S. has quite a good system in place that reduces that earmarking.

You need comprehensive planning in place that is based on evidence and that has criteria for prioritizing projects. It's connected to what Mr. Ali Khan was talking about with regard to having that governance.

The Chair: Mr. Ouellette, you have time for a very quick question.

Mr. Robert-Falcon Ouellette: Very quickly, everyone, without spending a long time explaining, what types of projects could you see this bank funding, and what would be appropriate?

Mr. Benjamin Dachis: Via Rail expansion to higher-speed rail between, for example, Toronto, Ottawa, and Montreal.

Mr. Andy Manahan: I agree. Yes, that's a good one.

It's actually a great example.

Mr. Azfar Ali Khan: I would agree with that as well.

Mr. Benjamin Dachis: I just spent $2 billion.

Voices: Oh, oh!

The Chair: Is that—

Mr. Robert-Falcon Ouellette: Toby didn't have a chance to answer.

Mr. Toby Sanger: It's the mode, it's not necessarily the type of project. My big concern is the higher cost of private finance that will pervert it.

The Chair: Jeepers, and I thought we were going to have unanimous agreement from witnesses at committee.

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): Mr. Khan and Mr. Dachis, by your comments, if I can interpret what you're saying, we have before us here a budget bill, and stuck in the middle is this infrastructure agency. What I'm hearing from you is that it seems as though this shouldn't be part of the budget bill. It should be separate, a stand-alone: get it right instead of sticking it in the budget bill.

Would either of you concur with that?

Mr. Azfar Ali Khan: Actually, I think our viewpoint is more that...not in terms of whether it's in the budget bill or it's not in the budget bill. We really feel that the most important initiative we should do, first and foremost, is to get the data and evidence around what the—

Mr. Ron Liepert: But we have to get this budget passed in two weeks. Are you not saying, in essence, get it right—so do it outside of the budget bill?

Mr. Azfar Ali Khan: I guess you could say that in the sense that if getting it right means that it is actually helping to deliver on selecting the right projects that will help meet or reduce our infrastructure gap, then absolutely.

Mr. Benjamin Dachis: I would say first that I'm an economist, not a legislative drafter. The question becomes this: how many of these institutional details have to be baked right into the legislation as opposed to what can come afterwards? That's a question that Parliament and this committee will have to be asking.

● (1645)

Mr. Ron Liepert: I wanted to follow up on another discussion that took place earlier.

First of all, I'll admit my bias: I'm a big supporter of P3s. I'm a big supporter of the Canada P3 projects, or the concept that was out there under the Conservative government. I'm not familiar with what Mr. Masse was talking about. I am familiar with Alberta.

In my view, the P3 only works if it's full design, build, operate, and maintain. I think I heard a couple of indications along that line. So if this infrastructure agency is going to move forward, would that be one of the things it should look at—to not necessarily just go with the design-build P3s but to ensure that it's the full package so that the taxpayer isn't on the hook? If the private sector can't justify the full package, then should the government be putting in loan guarantees or the other things that are being talked about?

Mr. Benjamin Dachis: A long-term equity stake, as proposed in the original framing back in the fall 2016 economic statement, is exactly along the lines we were talking about, a long-term operate-and-maintain role for institutional investors. I very much see the idea of this infrastructure bank to get to that core issue during construction, which Andy mentioned. P3 providers may not be thinking long term. With an equity stake, they absolutely can be.

Mr. Andy Manahan: I would add that the operating component isn't critical. The maintenance component is.

Going back to the U.K. in the 1980s when the train systems became privatized, there were agreements with the unions there that those folks would keep their jobs. I think up to a point, maintain is important. But operations.... And we're looking....

I'm from Toronto, so I apologize for this example. In the current Eglinton Crosstown LRT, my understanding is the Toronto Transit Commission will be doing the operational. It has to, to integrate to the existing system. But there may be other projects where an operating component is important.

The Chair: Do you have anything to add, Ron?

Mr. Ron Liepert: I would ask Mr. Bartlett.

Mr. Randall Bartlett: Again, it goes back to the design of the contracts involved.

One of the considerations around the ownership of these assets is that it's going to be a near-monopoly. Given that's the fact, and the fact that private sector investors have an incentive to have risk-adjusted net revenues as high as they can to increase their profitability, there is an incentive on their end not only to increase revenues through increasing user fees, but also to drive down costs. That may include deferred maintenance, and that kind of thing.

At the end of the day, it comes down to how that contract is drafted, and what obligations the other owners of the asset have with regard to maintaining the asset over the long term.

The Chair: Thank you, all.

Ms. O'Connell, you're next.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you all for being here.

I want to start with a couple of comments. I think someone mentioned the conversation around infrastructure and the infrastructure bank.

I think the trouble has been when we're talking about the infrastructure bank and the types of projects, we're talking about unique projects. We're not talking about the sidewalks, a park, these types of smaller community infrastructure needs that most Canadians think about. So this confusion, or sometimes fearmongering, around privatization of all infrastructure in our communities is not what this is about. That's why our government has also committed to infrastructure funding in traditional forums as well.

Then the conversation happened, and examples were given of projects associated with P3s that probably didn't go very well.

I come from a municipal background, and I can tell you about completely government-funded projects that also went horribly wrong, that also had tenders that were over budget, construction delays, employees not paid, a municipality charged twice, illegal Chinese steel used, and unqualified workers. These examples exist currently, and the taxpayers are on the hook one way or the other. Court cases also happen. In my municipality we had to go after people who didn't complete projects as they were supposed to.

The problem I tend to have is this. Where is the correlation that only bad projects can happen or bad contractors can only exist in a P3-type system? Unfortunately, we can get bad contractors with full government funding or in private partnerships.

That's my comment. I'm sure some may want to speak to that. Because I have limited time, I wanted to throw that out there and then get to a question with regard to the infrastructure gap that I'm somewhat interested in.

We're not talking about every sidewalk, every park, or every municipal need. How do you determine the gap when sometimes these projects...? We've heard a lot about transit, for example. Sometimes there are needs municipalities don't necessarily know they have, because they're too big to even contemplate when we would do 5-, 10-, or 15-year budgets. It's something you'd like to have, but you have to fix the local pool, repair a sidewalk, or resurface a road. How do we come up with that gap when these types of transformational projects...? Some municipalities may not even know what they need or where to begin to identify it.

● (1650)

The Chair: Who wants to start?

Mr. Dachis.

Mr. Benjamin Dachis: I would say first of all that you're about to hear from Matti Siemiatycki and Mark Romoff. Matti will give you all the answers you could possibly want on P3 performance. Sorry, Matti, I'm putting you on the spot.

The problem with the basis of an infrastructure gap is compared to a fantasy ideal world. I have a Porsche gap, I have a Ferrari gap, and I have a Learjet gap. I would love all those things.

Mr. Andy Manahan: An Armani gap.

Mr. Benjamin Dachis: That's the very fundamental basis of how most governments have defined infrastructure gaps.

Getting a bank that's receiving unsolicited proposals is a start, where you can start gaining private sector ingenuity to say, “There's a need here. We can provide this on a user-fee basis.” That's a great way to help address this with real dollars behind a proposal.

Mr. Toby Sanger: If I could interject here, you're absolutely right. There have been problems in all different types of projects, and there had been a problem with what they called optimism bias in the public sector, so it's not unique.

The concern with these large private sector deals is that you also don't have that transparency, and there are also more opportunities for self-dealing, as we saw with the McGill Hospital in Montreal. There was a lot of corruption and fraud. We don't have the transparency behind that.

In terms of the infrastructure gap, I've been involved with the FCM in terms of talking about that. Ben is right about that. I think that's why it's important to have some better national planning on this, and not just a value for money, but to try to figure out the cost benefit on these different projects in that way so it's not just driven by that, but also not driven by unsolicited bids. People will want a profit from those projects.

We have the example in Montreal of the REM, which was seen as a poster child for this, but there are real problems with it. It's not integrated because they figure they are going to make more money out of it with the existing system. People are going to have to pay more.

I am really concerned about increased user fees related to this. Some people think it's a positive thing, but I think you really need to look at what's happened in Ontario and elsewhere and see how those user fees have really hurt members of the middle class, increased their costs, and they are rebelling against it. It's a real warning down the road, and you should be concerned about it.

● (1655)

The Chair: I'm going to cut you off there, Mr. Sanger.

Mr. Aboultaif and Mr. Grewal, we'll go with three minutes apiece.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thank you.

I just want to get to the bottom line. What matters to me at the end of the day is the cost. This is an area where investors are coming to put their money. There are projects. We're in Canada. We have a great guarantee that you can give to investors, so the risk taken on that isn't as high as it can be in other countries. We're talking about our country and how healthy our base is, so it should be a phenomenal deal for whoever is going to invest in Canada's infrastructure.

The question to all of you is, if we are to compare this type of investment cost to other types like P3s, what will we be looking at percentage-wise? Do you have any idea? Is there any clarity over how much that is going to be on the taxpayers at the end of the day?

I don't know who is going to start to answer.

Mr. Randall Bartlett: We don't know how much it's going to be on the taxpayer, but there's a lot of information out there on what returns are required for the private sector to be attracted to making these sorts of investments by various infrastructure asset types.

You're looking at average annual returns in the range of 10% to 15% before being adjusted for risk. About half of that is a cash yield from the revenues generated and half of it's the capital appreciation, but it's quite significant because these are highly liquid assets, generally. It's very difficult to get out of these contracts. There is credit risk associated with it, political and regulatory risk, and those kinds of things, so the private sector requires a great deal of compensation to get involved.

Not only that, this is with regard to brownfield investment. This bank has looked to be dedicated toward a greenfield investment, so these unique assets that have no history of an asset stream associated with them are going to require even higher levels of compensation in order to attract private sector investment, because the risks are that much higher.

Mr. Toby Sanger: Randall has worked on a number of different sides of this, and he is an expert on that.

Those are the rates of return that would be expected by the private sector. Michael Sabia and others have confirmed that this is the rate of return they expect on this. If you are expecting that type of risk over a 30-year project.... I did the calculation in this report, and it shows that over a 30-year project, it could cost close to twice as much as it would if it was funded at the Government of Canada long bond rate.

The Chair: Mr. Manahan, go ahead.

Mr. Andy Manahan: I want to provide one example, because it's really important.

I've been in touch with various people in the U.S. The investors down there, if they're doing a transit project.... Because of the sharing economy—car-sharing, where people take passengers to stations, let's say—nobody is investing in parking structures right now. The risk is too great, because in the next 15 to 20 years, we are entering a world of autonomous vehicles. Those self-driving cars will take someone there. They won't need to park.

This is the kind of stuff that the private sector will probably be more attuned to. You guys are hearing it first. This is pretty new information. None of the big investors in the U.S. are going to touch this stuff nowadays. That's the kind of stuff you have to look at.

The Chair: Mr. Grewal, go ahead.

Mr. Raj Grewal: Thank you, Mr. Chair.

Thank you to the witnesses for being here today.

I come from a riding in which the growth is at a pace that the infrastructure can't keep up with. Houses are being built, people are moving in, but the infrastructure trails this quite a bit in terms of schools, roads, and public transit, which is most important. The infrastructure bank would give an opportunity for the City of Brampton to apply for funding through the bank. Because of our council's decisions, we gave up $400 million in funding to fund our brand new LRT. People in my area are applauding the Canada infrastructure bank because, at the end of the day, the government would be able to build better infrastructure.

I used to be a corporate lawyer, and we did a lot of work on P3 projects. They have their benefits and their disadvantages, which we've all heard a lot about. Can all of you, with your experience in the area, let me know of P3 projects that went bankrupt?

Mr. Toby Sanger: I'll start.

There was a large Metronet one in the U.K., and the U.K. government had to bail it out.

Mr. Raj Grewal: Sorry, I meant in Canada.

Mr. Toby Sanger: In Canada, the proponents of some of the first P3s here in Ottawa just walked away from it, and the government had to pick it up. They didn't go bankrupt. One was backed by a U. K. firm, the other by Sensplex. Three years into the 30-year project, they said they wanted more money because the revenue wasn't there. The City of Ottawa caved in and gave them more money.

There haven't been many bankruptcies, partly because they say they're going to need more money. I think there is a lot of money in it anyhow, partly because there isn't a demand risk. The problem here is that there will be that demand risk, the revenue risk with these infrastructure bank projects, so there is a higher possibility for them to go bankrupt.

Most of the P3s in Canada are backstopped. They have guaranteed availability payments from the government. There are a few exceptions, but most of them have guaranteed revenues, so there is less possibility that they would go bankrupt.

Hamilton water.... I don't know if that went bankrupt but it was started by Enron. There are a number of different examples there.

● (1700)

The Chair: Mr. Dachis, go ahead.

Mr. Benjamin Dachis: You can think of bankruptcy as a project failure, but the other way to think of it is as a successful risk transfer to the private sector. If all our P3 projects made an attractive return, that would mean that we are overpaying for the transfer of risk, so a bankruptcy may actually be seen as a policy success.

The Chair: Thank you.

I have one question, maybe two.

Mr. Dachis, in your presentation, on page 5, in effect you are talking about this bill and governance. In order to get the proper governance that you're talking about, does the bill need to be amended, or is it more of a process in terms of how that infrastructure bank would operate, either by regulations or by the policy of the bank?

Mr. Benjamin Dachis: That's the million-dollar question. Does it need to be done in the legislation? Do you need to reform the legislation, or are these the kinds of institutional safeguards that you can create in the actual practice of the bank?

A good example of where this isn't necessarily baked into legislation is with the Bank of Canada. If the Department of Finance decided to send a letter to the Governor of the Bank of Canada saying, "You must set interest rates in a certain way", that would be like hitting the nuclear button. That would be a pretty serious breach of public trust.

The question then becomes whether you can design the arrangement of the Department of Finance, the Department of Infrastructure, and this bank outside of legislation, in a way that effectively creates that same sort of structure of making sure you have political independence. That's going to be the big question for this committee to think about going forward.

The Chair: Thank you.

There is another thing that I had on infrastructure. You pretty near all agreed on the high-speed rail. However, a concern I have—and probably the folks here from Alberta, or anybody outside of central Canada has—is that a $5-billion project may be what you need in central Canada, but a $1.5-million project in my riding is as important to my economy as that big project.

We know an area in Alberta where the municipality is charging—I forget what the fee is—so much a head for cattle in order to take care of the bridges in that municipality, and it just can't be handled by the producers. Without some political involvement....

Everybody always wants to take the politicians out of it, but we have a responsibility to the country as a whole. How do you handle that?

Mr. Andy Manahan: That's a really important question.

We do have, for example, current gas tax programs, building Canada programs, that are done on a criterion such as population, or other criterion, such as ridership for transit.

I don't think that the infrastructure agency we're talking about should have a mandate to spread projects across the country based on population or making sure that every province gets a project. That should not be the mandate. It should be the highest return on investment and where the evaluation makes sense.

The high-speed rail may not even make sense in central Canada. That would still have to be looked at.

● (1705)

The Chair: Okay.

With that, Mr. Khan, did you want to comment?

Mr. Azfar Ali Khan: I just want to add that I think that is one of the reasons we're advocating for that future needs analysis.

As I said in my presentation, it needs to be mindful of the regional needs and variations. If you want to have a really good understanding of the overall needs, you have to have a local, bottom-up driven, strategic needs analysis, so it does reflect those regional needs and variations. You want to look at the overall outcomes for Canadians as a whole, not just where the population centre resides.

The Chair: Okay.

Mr. Sanger, do you have a point?

Mr. Toby Sanger: I would agree on that.

A point I'd like to make is that if you did have a bank publicly financed with a lower cost of financing, some of the smaller areas of the country that are facing a higher cost for borrowing could benefit the most.

In response to your previous question, I was a bit struck by what the Minister of Finance said yesterday, that the projects would receive approval. That's not in the legislation, as far as I read it. If there is that confusion over it, then definitely this legislation should be separately worked out instead of being rushed through in an omnibus bill.

Thanks.

The Chair: Okay, with that, thank you all for appearing as witnesses.

We will suspend and bring the next panel forward.

● (1705)

(Pause)

● (1710)

The Chair: Order. Could we get the members to the table?

We are going to be under a fairly tight time frame because when the bells ring we have no choice but to go, and there are seven minutes left.

As people know, we're meeting on Bill C-44 and we appreciate your coming to make your presentations.

We'll start with you, Mr. Macdonald, senior economist, national office, Canadian Centre for Policy Alternatives.

Mr. David Macdonald (Senior Economist, National Office, Canadian Centre for Policy Alternatives): Thank you very much, Mr. Easter, and thanks so much to the committee for their invitation to speak on Bill C-44.

With any budget implementation bill there is always something interesting to say and plenty to say about it. Briefly, I would like to commend this committee on Bill C-44 for closing several of the boutique tax cuts that have been opened over previous years. I hope this committee will continue forward and tackle several of the larger and more regressive tax loopholes later on, like the stock option deduction, or the capital gains inclusion rate.

Today I would like to focus my remarks on the proposed infrastructure bank. First, it's important to note that whatever the structure of the infrastructure bank, loans are a poor substitute for federal funding, and there has been a substantial shift in infrastructure investment and responsibility over the past century. In 1955 the federal government spent 35% of every infrastructure dollar. Today it spends 15%, and it is municipalities that have picked up this slack. They used to spend one-quarter of every infrastructure dollar in 1955. Now they spend close to half. Provincial contributions have remained roughly the same over this period.

The federal government continues to pay the lowest interest rate of any level of government, and enjoys the broadest tax base. Municipalities, on the other hand, face the highest interest rates and the smallest tax base. This cost shift leads to fewer dollars spent on infrastructure, and the costs that are shifted to this lower level of government are shifted to the level of government that is least able to pay them.

As I see it, the main functions of a properly constructed infrastructure bank are, first, to lower interest rates for municipalities, and second, to facilitate the borrowing process. Smaller municipalities, or municipalities unfamiliar with larger projects, would particularly benefit from these functions. However, neither of these straightforward functions is part of the proposed functions listed in the infrastructure bank in Bill C-44.

Municipalities do face higher interest costs than the federal government. I looked up the bond rates this morning for the City of Ottawa, which pays 2.25% on five-year bonds. Halton Region, just outside Toronto, pays 2.54% on five-year bonds. This would be compared with the federal interest rate for federal government bonds of 0.82% on five-year bonds, roughly 1.5% lower than the cities. As with a mortgage, higher interest rates mean higher costs for cities and/or higher user fees for Canadians.

An infrastructure bank could effectively lower borrowing costs close to the federal rate. For its part, the federal borrowing rate is close to a record low, given the incredible demand for federal government bonds. Put another way, investors are desperate for more federal bonds, thus driving up their price and driving down their yield. An infrastructure bank could take advantage of this and pass the savings on to cities.

However, I'm concerned that as structured, the infrastructure bank would not achieve the goal of reducing borrowing costs for cities, but in fact would do the exact opposite. The proposed infrastructure bank appears to serve the needs of investors, not those of cities. In fact, the input of any government is explicitly and oddly not necessary for accessing funds through the infrastructure bank. It appears that public-private partnerships, or P3s, and not low-cost financing will be the focus of the bank. The likely impact will be interest rates to cities of 7% to 9% on infrastructure bank projects instead of 0.08%, the current federal borrowing rate. In other words, the proposed structure will increase interest costs by a factor of 10.

As with a mortgage, substantially higher interest rates mean higher interest rate payments over the life of the project, and those higher costs will be borne by governments or by higher user fees, or both.

Municipalities are not blind to this issue, often preferring public financing due to lower costs as opposed to P3s. This is not a hypothetical problem. In 2014 the Ontario auditor general examined the 26 billion dollars' worth of P3 projects undertaken by the Government of Ontario, an amount, incidentally, similar to what the federal infrastructure bank is considering. She concluded that the P3 structure would add an additional $8 billion in costs over and above the $26 billion of the projects themselves, almost entirely due to higher interest-rate costs, and these much higher costs would be borne by the Ontario government, and ultimately, by Ontarians so that P3 consortiums could see higher profits.

I encourage the committee to refocus the infrastructure bank on driving down interest rates for municipalities while accelerating their access to infrastructure loans.

● (1715)

This refocusing of the bank's priorities on what cities need instead of on investors' needs will best serve Canadians by keeping costs and user fees down, while encouraging cities to use the bank due to its competitive rates.

Thank you very much for your attention, and I look forward to your questions.

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

With the Canadian Council for Public-Private Partnerships, we have Mr. Romoff, president and CEO.

Mr. Mark Romoff (President and Chief Executive Officer, Canadian Council for Public-Private Partnerships): Good afternoon.

Thank you, Mr. Chair, co-chairs, and committee members, for inviting me to appear here today.

I'm pleased to speak before the committee on behalf of the council, which is a not-for-profit, non-partisan, member-based organization, with broad representation from across all levels of government in Canada and the private sector. Its mission is to promote smart, innovative, and modern approaches to infrastructure development and service delivery, through public-private partnerships. The council is a proponent of evidence-based public policy, educates stakeholders and the community on the economic and social benefits of public-private partnerships, and facilitates the adoption of international best practices to make sure we continue to be the very best at what we do.

I should emphasize that the council is not a lobby group. Rather it works as a partner with governments, to enable them to achieve the best outcomes and the best value for taxpayers from their respective infrastructure investments.

The council is pleased to speak today in support of Bill C-44, in particular the act to establish the Canada infrastructure bank.

I know committee members are well aware that, irrespective of the size of Canada's infrastructure deficit, which some estimates peg at about $1 trillion, and the fiscal challenges all governments across the country face, continued investment in infrastructure is absolutely critical, because it drives job creation, productivity, economic growth and prosperity, and global competitiveness. That's why the council has supported long-term infrastructure programs by successive governments to tackle the infrastructure deficit in this country. Notable in this regard, of course, is the unprecedented and ambitious federal investment of $186 billion over the next 12 years.

We will be the first to say government cannot do this alone. Governments at every level do not have enough money or expertise to build the world-class infrastructure needed to grow Canada's economy and improve the social well-being of our citizens. That's why the establishment of the Canada infrastructure bank is such an attractive, innovative, and timely initiative.

The bank's mission, as you know, is to deliver revenue-generating infrastructure by attracting private capital investors. The injection of private financing means government is in a position to make better use of public funding for a broader range of infrastructure projects, such as new water systems, social housing, recreational and cultural facilities, and on-reserve infrastructure.

Canada has a strong record of success when partnering with the private sector. Engaging the private sector in the design, construction, financing, maintenance, and even the operation of critical public infrastructure is not a new idea in Canada. We have a long and successful history of public-private partnerships in this country. The Canadian model has delivered high-quality infrastructure, built on time and on budget, and demonstrating exceptional value for taxpayers. This is primarily because of the rigour and discipline the private sector brings to the procurement process.

There are currently 258 P3s across Canada. Those facilities that are already in operation or under construction have a value of more than $122 billion, and include a broad range of projects, like hospitals and long-term health care facilities, roads, bridges, public transit, and water and waste-water treatment facilities. It's important to stress that these projects in every instance remain publicly owned and publicly controlled. This is in no way privatization of government assets.

The Canadian Centre for Economic Analysis has independently estimated that P3s have saved Canadians as much as $27 billion over the 25 years that they have been in play. These projects have been demonstrated to be built 13% faster than those brought to market in the traditional way, which has added a further $11 billion in value to the Canadian economy.

Most importantly, P3s are creating 115,000 jobs and generating $5 billion of additional wages on average every year. This strong track record of success has resulted in the Canadian P3 approach being recognized around the world as best in class.

● (1720)

Over the years, Nanos Research has shown that seven out of 10 Canadians consistently support P3s and recognize that the private sector is better equipped than government to deliver high-quality projects on time and on budget.

The Canadian P3 experience is evidence that there is no shortage of private capital waiting to be invested in Canadian infrastructure and that the private sector is willing and prepared to take on significant risk to support these projects. We have a funding problem in Canada, not a financing problem. We believe, if structured appropriately, the Canada infrastructure bank can leverage public dollars further by transferring revenue risk and reducing overall public expenditures, while ensuring projects are delivered on time and on budget and that they are well maintained over the life cycle of the asset.

When I say “structured properly”, I mean that each project that comes to the infrastructure bank must first and foremost have a strong business case, and the procurement process that follows must be competitive, efficient, transparent, and fair. It must also be recognized that not all governments have the capacity or expertise to successfully procure the large, complex, revenue-generating projects that will be the purview of the bank.

In these instances, we would urge government to establish a project preparation fund that would be available to less-experienced provinces, territories, municipalities, and indigenous communities in order to enable them to acquire the consulting services and advisers necessary to successfully take their projects to market.

The council sees the Canada infrastructure bank as another tool in the tool kit for governments to deliver more high-quality infrastructure for Canadians and greater economic stability for communities across the country. We believe the bank can draw in more private capital and build on the successful Canadian P3 model. We are the first to say that P3s are not a panacea, but when done for the right reasons and on the right projects, they deliver real results for Canadians.

Now that the location of the bank has been decided, the important next steps are to recruit a high-quality and experienced chair, a board of directors, and a CEO, who together will put the flesh on the bones of this new institution. My council is confident that under strong, capable leadership, the Canada infrastructure bank will be well positioned to continue the country down this path of success, and the council is pleased to support the act that is being considered by this committee.

Thank you very much. I'm happy to take any questions.

The Chair: Thank you very much.

Next we have, as an individual, Mr. Siemiatycki.

Professor Matti Siemiatycki (Associate Professor, University of Toronto, As an Individual): My name is Matti Siemiatycki, and I am an associate professor of geography and planning at the University of Toronto. I've spent the last 15 years studying infrastructure, with a focus on public-private partnerships. Over the last year, I've been delving into this idea of an infrastructure bank.

I've written two reports on the infrastructure bank, which go into some detail about the role and structure of this institution. Since I've been studying the infrastructure bank, the role of the bank has shifted. From low-cost financing to municipalities, this role has moved to attracting private capital and investing in revenue-generating infrastructure.

In my studies one of the questions I keep returning to is this: what is the value of this bank? When you read the public commentary and debate around the bank, there is this question of establishing the public value, assessing the benefit of proceeding with this type of institution. In particular, we want to find out what types of projects are going to be invested in. From my vantage point, let me spend a few minutes talking about these ideas, both the public value and the types of projects.

I think the place to start is by understanding a few fundamentals of the infrastructure sector in Canada. The first point is that most infrastructure assets in key sectors that Canadians are concerned about, sectors that the government has prioritized, do not support their operating costs, let alone their capital costs, through user fees. This includes public transit, most roads that have no tolls on them, many of our water systems, and our affordable housing stock. Most of those assets do not cover their revenues through user fees, and that also includes VIA Rail.

What this means is that the bank is not going to be providing new money in those sectors. This is not additional money. Any money invested through the bank is going to have to be paid back somehow, and that money is going to come either from user fees that don't exist on those asset classes, or from some other government source. With the exception of projects that generate user fees, this is not new money to expand the pie. This is a financing technique, not new funding. We have to be clear about that.

If the bank is going to be focused on revenue-generating projects, that narrows the scope of the types of projects that are really going to be viable and of interest. Keep in mind, we've been talking a lot about institutional investors. The reason institutional investors have not so far invested in Canada to a significant extent is that there's not the project deal flow. These are not the types of assets they are interested in. They are interested in very large projects, typically with a minimum value of $500 million, and often up to a billion dollars in value. They want very large projects that they can take an equity stake in. To this point, those types of projects have not often existed in Canada.

The third point to raise is that the provinces and municipalities provide most of the infrastructure in Canada. The federal infrastructure bank is going to have to be a collaborative organization. It is not going to be bringing forward projects on its own. It's going to have to work with both private investors and governments at the provincial and municipal levels, which are ultimately responsible, in many cases, for approvals and for operating and maintaining these assets.

The fourth point is that there are existing institutions across the country that provide many of these services. Provincial and first nations financing authorities already provide low-cost financing to municipalities. There are also public-private partnership agencies across the country that provide expertise and support, keeping in mind that most of the public-private partnership projects in Canada are provincial, not federal. We have to understand these organizational overlaps and make sure we're getting the collaboration right with this institution.

Finally, as Mark mentioned, we have been using P3 models widely across the country, so we already have private capital in play in infrastructure.

With that survey of the landscape, the question is this: what role can the infrastructure bank play? From my vantage point, the real opportunity is to go for unconventional projects that are innovative and of national significance. I'm talking about real big projects, the game-changers, the moon shots, the projects that are going to launch Canada in a different direction, the projects that are unconventional in the way they are financed and paid for by user fees.

● (1725)

This is not going to be for your typical road or transit project, from my vantage point. This is going to be for projects that are very large and long term; for projects that often involve multiple partners, and so there's a risk and requirement to bring these partners together. They will have revenues from multiple sources, not only from user fees, but, perhaps, also from a combination of sources that then together pay for both the capital and operating of the infrastructure. Finally, these are going to be high-risk projects that are high-risk for all the partners, both the private sector and, potentially, for the government, but then also have a potential for major rewards for all the parties involved.

I can give you a few examples of the types of projects I'm thinking about in order to really zero in here. One project is waterfront regeneration. We can think about a project like the Port Lands redevelopment in Toronto. By investing in the flood protection of that area in the eastern part of the downtown of Toronto, we unlock billions of dollars in land redevelopment potential. No investor will be able to come to the fore and invest in the flood protection, but they might and will become involved in the real estate, transportation, and the business opportunities once that land is in place. The bank could provide a role in catalyzing that type of development.

Transit projects are another area where we could see the bundling of transportation and land use into the same type of deal. Typically, we've seen transportation and land use done separately. There's an opportunity to bring those together to generate revenues, not only from the transit fares but also from the redevelopment potential around the stations, and potential rents that can be accrued from those developments. These are creative types of transit projects.

Community hubs are another opportunity where we're bringing together multiple uses of land into areas where we can bring together public schools or recreation centres, and try to fund and finance some of that through development. In our fast-growing communities, there are real opportunities to leverage development to pay for some of the infrastructure and build stronger and smarter communities.

In green energy, there's opportunity for waste and water. There's an opportunity for district energy type of systems in some of these fast-growing areas. There was a project in Toronto where they were going to bring forward a district energy plant, and they just couldn't get the capital to put the project in place. It would have been paid for by the redevelopment of the land and the condo units over time, but they couldn't get the money together to pay the upfront costs.

Finally, there is social infrastructure. There are some incredible examples of projects that are bringing together uses that are very creative and that you wouldn't think of. There's a project bringing together a condominium with a homeless shelter in the same building, using the condo revenue in part to pay for some of the land costs of that development.

These are the types of opportunities I think the bank can play a part in. I want to echo what everyone on this panel has said, which is that evidence-based planning has to be at the core of this. How do we prioritize and select between the different options and different projects? I ask because there will be a lot of calls on this revenue and the money in the bank. How do we pay for it?

The other point is that the bank is the centre of excellence role that's in the legislation. This could be a real opportunity.

Thank you.

● (1730)

The Chair: Thank you.

We'll go to the first three questioners for five minutes, then we will see where we are.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Thank you, all, for your testimony.

I want to follow up on the last speaker on the question of value. I have two municipalities in my riding; next to Toronto it is suburban, and then it goes further north and becomes rural. Things like broadband, for example, are another major issue in infrastructure. We've talked a lot about transit. When it comes to value, Mr. Macdonald, you spoke about something interesting in regard to the potential increased costs.

If you're just looking at interest rates or borrowing rates, for example, my regional municipality had a AAA credit rating, so we could borrow relatively well. I think about that, and because I have a municipal background, it's interesting. That's not how municipal governments think. They tend to think this is a project and an initiative that they need.

I'll use broadband as the perfect example, because we know that if we can implement this the growth possibilities are endless. Also, if any of our municipalities had to pay for it—and the term my councillor always used to say was that it was with “hundred-cent dollars”—it would be out of the question. But even at a higher interest rate paid for with partners, if it were paid for with partners, and we had 25¢ dollars or 50¢ dollars, that made it much more doable. In the end the project might have had a higher interest rate, but we weren't paying for it alone.

Also, because there is only one taxpayer, if I went to the taxpayers in my community, and they might say, “If you you want this project, and we don't have an infrastructure bank, you'll have a lower interest rate, but we're paying 100% of the cost...”. Or, if there were private investments, the overall project might have a higher interest rate, but the taxpayers would be paying less and wouldn't bear all the risk.

That is part of the value in the price tag I can see in the grand scheme of things, but it's about adding partners and sharing that risk and sharing the costs to make something transformational happen. This isn't a sidewalk project, a park, etc.

I have limited time, so I'll leave it at that and then see if you have thoughts and any differences of opinion on that.

● (1735)

The Chair: Mark, go ahead.

Mr. Mark Romoff: You raise broadband, which I think is an excellent example. You may be aware that in the case of the Northwest Territories, fibre is being laid right up the Mackenzie Valley through a P3 project. That's a project that went to market as a public-private partnership, and the intent there, of course, is to connect all the remote communities.

There is another project under way right now in Manitoba, bringing 57 first nations communities together. Again, it's a broadband project aimed at connecting those communities.

These are individual projects that are moving ahead as P3s. There's lots of interest by the private sector in financing thee initiatives and bringing them to fruition.

What would be interesting in the case of the Canada infrastructure bank is that if they went ahead with a national broadband strategy and took the potential of these smaller projects global, because Canada, as you may know, used to be a leader in broadband and has tumbled quite a way down now.... I think if we are serious about playing at a world standard with 5G or bigger, we need to put the infrastructure in place to make it happen.

You've raised what I think is a really interesting initiative.

I'll make just one other point. We at the council have been promoting what we're calling a “dig once policy”, by which we mean that every time the government puts a shovel in the ground, particularly for major projects, they should capitalize on that opportunity and lay fibre right then and there to ensure that we can get our gigabyte capacity up. It's a rounding error in terms of cost, relative to the main act that's taking place.

The Chair: Mr. Macdonald, you're next.

Mr. David Macdonald: I think nothing is stopping municipalities from getting additional partners to come together on projects. The real question is what role the infrastructure bank will or won't play in that.

If the infrastructure bank forces you into a project with a 10% interest rate instead of providing you with an interest rate of 1%, that will make a huge difference for whoever is finally paying the cost, whether the taxpayer, a ratepayer, a user-fee payer, or a municipal government. There's a huge interest rate differential, particularly on longer-term projects. The longer the project, the more interest rate costs you're incurring.

I would see the role of the federal infrastructure bank as getting the best interest rate deal for municipalities such that they pay the lowest possible rate, as opposed to forcing them into structures where they pay, in essence, the highest possible rate because of the P3 structure.

The Chair: Matti, go ahead.

Prof. Matti Siemiatycki: My question in this is what the ultimate funding source for it will be, not the financing of where the upfront money is going to come from, but the ultimate long-term funding, keeping in mind that these projects will have ongoing operating and maintenance costs that have to be covered.

If the broadband is not being provided today, it's probably because it's viewed by some to be uneconomical. There will have to be a subsidy from someone. Is the infrastructure bank going to be an agency that provides long-term subsidies, or are those going to come from a provincial or municipal government, or are there other ways of structuring the deal? That's will be the type of question that determine whether that type of project is viable.

The Chair: Thank you all.

Mr. Liepert.

Mr. Ron Liepert: Mr. Romoff, in the 25 years of the existence of P3s in Canada, has it been very rare for the government to be a financial partner in the P3 consortium?

Mr. Mark Romoff: If you're talking about financing, the intent is not for the government to be a financing partner. We're talking about projects where the private sector is taking on responsibility for some of that financing through private sources. That's critical to the project because they have skin in the game. You can be sure they're going to make sure that all the obligations under the contract are met and that timelines and outcome specifications are also met, because there are penalties at play.

● (1740)

Mr. Ron Liepert: The real benefit here to the public part of the P3 partnership is that you don't necessarily bear all the upfront costs. They are spread out over 25 or 30 years, whatever it is, whereas the infrastructure bank.... I'm not going to call it a bank, because I don't think it's a bank. It's the infrastructure entity. By putting $35 billion into that entity, there is a strong likelihood that the taxpayer will become a public partner in some of these projects going forward. As Matti—and I'm going to call you Matti—rightly pointed out, these are the big gambles, and you're going to be deciding whether you take a political gamble or not. So you are gambling with public money in the infrastructure agency concept versus the P3, where there frankly isn't a gamble. It's a set contract, and you pay for it over 25 years.

Matti, would that be a fair way of assessing the differential?

Prof. Matti Siemiatycki: I would actually see them as different models on a continuum. You can think of project delivery being on a continuum from greater public sector responsibility to greater private sector responsibility. Traditional build sits at the public end, and full privatization sits at the private end. P3 and the varying degrees of P3 are somewhere in the middle. This is moving closer to the private sector end of the spectrum. What we're going to see, then, is the ways in which the deals are structured, and where the funding is coming from. It's not just about the financing; it's about the funding sources that underpin these types of projects and what role the government is going to play in them.

Mr. Ron Liepert: The ongoing funding is something that happens through many current P3 models, but what I'm hearing you say is that there's a likelihood the new entity will be aiming at projects that probably wouldn't get off the ground under the traditional model because they're a bigger risk.

Prof. Matti Siemiatycki: I think that's right, and I think these are going to be the projects that really push the boundaries but have the potential for very high rewards. In the P3 models that we've seen in Canada, the goal in the P3 is to optimize private finance, not to maximize it, because private finance is expensive. The reason you use private finance is to lock in the risk transfer mechanism. In the infrastructure bank model, we're moving to a different approach. We're actually trying to raise new capital through projects that can bring in new revenue sources to increase the size of the pie. That is a different approach that's being conceived here.

The Chair: Thank you, Mr. Liepert.

Mr. Masse.

Mr. Brian Masse: Thank you, Mr. Chair.

To all the witnesses, the infrastructure bank itself is going to require staffing, advertising, and maintenance. Should that be shared with the private sector? Should we also include our lower borrowing costs, what we bring to the table, with these? Our lower borrowing cost is certainly a very, very important part of the entire picture of a good value asset.

I'll start with Mr. Macdonald. Should the cost of the infrastructure bank itself be borne entirely by the taxpayers as an expense? Should it be something like 50-50, or some type of a structure? What do we count, then, as we're going into the arrangement with the important asset of a lower borrowing cost that nobody else can get? Is that something to consider in the overall costs to taxpayers to pay for the infrastructure bank itself?

Mr. David Macdonald: Maybe we'll see. There is probably broad agreement that the costs of the infrastructure bank should be borne by the infrastructure borrowers at the end of the day. It's a real question for this committee as to this bank's goal. Is it to reduce interest rate costs, to use the position of the federal government's low interest rate in order to reduce costs for the cities that are going to use this money? Is it a vehicle for investors to get the 7% or 9% they need to pay back the needed returns on the pension plans? It could go either way. It's the decision of this committee.

At present none of the functions as listed in Bill C-44 state that the goal of the bank is to produce rock-bottom interest rates for municipalities. Interest rates are not discussed in the functions of the bank. The investors and the needs of the investors are discussed in the functions of the bank.

Mr. Brian Masse: Mr. Romoff.

● (1745)

Mr. Mark Romoff: Thank you.

I see this arrangement as similar to the establishment of any crown corporation. If your question is who pays the day-to-day operating costs of the entity, I think that belongs with the government because it is a crown corporation.

The key, with respect to the mandate, the types of projects, and the work that it would do, is clearly a function, as I mentioned earlier, of choosing the right chair of the board and the right CEO. They are going to be the ones who are going to take a concept that is still in a state of evolution and bring it to fruition.

Mr. Brian Masse: Just before your answer, I'm going to ask a couple of quick questions so you can return back again. In terms of the profit returns now on the P3s, are they going to Canadians, our Canadian companies? Are the profit returns from P3s exiting the country to other foreign investors? Both questions are for you, and then back to provide the proper time.

Thank you, Mr. Chair.

Prof. Matti Siemiatycki: On your first point, we already have institutions whose role at the provincial level is to lower borrowing costs. Six or seven provinces already have municipal borrowing corporations. They recover at least some of their costs by charging a small premium on their borrowing to the municipal government that takes on the borrowing. So we already have those types of institutions.

The key thing to keep in mind at the municipal level is that their problem is not finding access to capital. The world is awash in capital, and there are people who even want to take municipal bonds. The problem with our municipalities is that they don't have the money to pay it back. When they take on extra borrowing that raises their annual costs, they don't have the capacity within their tax load to pay it back. The infrastructure bank then, as another low-cost lender, might bring down the costs marginally, but that's not going to change the game for these municipalities, especially those already facing very tight budgets.

On your question about where the money from P3s is going, P3s in Canada have attracted financing from global investors. They've attracted Canadian financiers but also debt and equity investors from around the world. So the money is spreading widely.

Mr. Brian Masse: Mr. Romoff, and then Mr. Macdonald.

Mr. Mark Romoff: Matti is absolutely correct. The competitive process that is a hallmark of P3s in Canada has, in fact, resulted in all the global players converging on Canada, because this is where the market and the pipeline of projects has been. Increasingly, with any major project in Canada, the consortia that bid on these projects are international by definition; there are good Canadian components, but there are lots of international players. In the end, there will be that sharing of revenue.

One thing I would also say with respect to—

The Vice-Chair (Mr. Ron Liepert): Mark, could I get Mr. Macdonald to answer that question? Then we have to move on because the bells are sounding.

Mr. David Macdonald: There's no necessary relationship between P3s being located in Canada and the investors being in Canada. Certainly the CPPIB, the Canada Pension Plan Investment Board, is one of the big investors in P3s in Canada, but P3s are just as likely to be located in tax havens, for instance. One of the interesting new trends that the infrastructure bank may well accelerate is the tranching of P3s, such that it's not one company or one consortium that's responsible for the financing of P3s after about five years. Instead, the P3 is sliced up into 10 or 20 pieces that are sold off individually, such that a single P3 could have 10, 20, 30 owners, with investment funds from around the world, and such that those profits are not returning to Canada by any stretch of the imagination.

The Vice-Chair (Mr. Ron Liepert): Thank you very much.

Colleagues, you can hear the bells, so we'll have to be done in about eight minutes.

Mr. Fergus, if you could do some questioning in about three minutes—

Ms. Jennifer O'Connell: Is it only a 15-minute bell?

The Vice-Chair (Mr. Ron Liepert): Yes.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you, Mr. Chair.

I want to say hello to our guests.

First, Mr. Siemiatycki, you mentioned that the advantage of the Infrastructure Bank is that it will help investors pursue profitable projects. The projects wouldn't be profitable under the current framework, because they don't generate revenue. However, they may be profitable if we were to add the development of land around a project. Let's take the example of public transit. The revenue from the sale of tickets to public transit users won't be profitable, but the development of land around the stations will be profitable.

Is that what you meant?

● (1750)

[*English*]

Prof. Matti Siemiatycki: That would be one opportunity for transit to link transportation and land use much more closely. Internationally, when we look at cities such as Hong Kong or Singapore, or cities in Japan, we see that they've really benefited by linking the development of new public transit in particular with the developments around those stations. What that allows you to do is drive traffic on the system so you get fares, and then it also raises the revenue from the development.

What we're really seeing, I think, is that this provides an opportunity to drive better city building. I think that if we're really optimistic about this, we can see the bank bringing together multiple partners to build complementary uses and build and actually drive both revenue and better city building. I think that's the opportunity we're looking at here.

Mr. Mark Romoff: I would simply add that what we're talking about here is a concept known as “land value capture”. Increasingly around the world, we see projects, particularly transit projects that tend to be subway projects, that lend themselves to capturing that land value at stations along the way. That is all about community building, for sure, but equally important, it's a revenue generator for governments at all levels.

There is an opportunity here to be far more creative and innovative in the way in which we deliver on infrastructure. It's another way aside from user fees, simply, to generate revenues that will benefit levels of government.

The Chair: Go ahead with one more quick one.

Mr. Greg Fergus: I assume this also attracts new investment. These are new dollars that would come into the system, into public infrastructure investment, not displaced dollars.

Prof. Matti Siemiatycki: That's the key. If you have new revenue sources, whether they're development revenue sources, user fees on the asset itself, or other types of revenues that come from sources other than government, it is additional money, and it is potentially increasing the size of the pie. It's those types of projects that I think the bank is going to look at.

In cases where that is not the revenue source, where it's not a user fee, then that's a financing strategy. That's like paying your Visa bill. You still need to have the money to pay your Visa bill. It has to come from somewhere.

Mr. Greg Fergus: Mr. Romoff or Mr. Macdonald?

Mr. Mark Romoff: I agree with Matti's comments. I don't think I can add anything further.

The Chair: Okay. If we are in agreement, we'll take four quick questions. Mr. Aboultaif will be first, and then Mr. Ouellette, Mr. Deltell, and Mr. Sorbara.

Mr. Aboultaif.

Mr. Ziad Aboultaif: Thank you.

I have a short question for all of you. Why do we need an infrastructure bank?

Mr. Romoff.

Mr. Mark Romoff: I'm happy to go first.

The rationale that we would offer for the bank, and why we think we need it, is that it can be a vehicle that will bring projects to market that would not normally come to market.

By that, I mean that they may be projects—Matti referred earlier to a couple of them—that have a risk attached to them that wouldn't normally attract the private sector. The bank, through the various vehicles it will have available to it, could in fact de-risk that project to the degree where it becomes attractive to the international investment community. That will result, first and foremost, in more projects coming out because of the bank, but it will also free up the government's funds for them to invest in other projects.

From our perspective, it's a win-win.

The Chair: Mr. Macdonald.

Mr. David Macdonald: I think one of its primary goals could be to lower borrowing costs, although Matti is certainly right that there are provincial authorities that do that to some degree already. I think one of the real downsides is that if its goal is not to reduce borrowing costs, it could in fact substantially increase borrowing costs and other long-term costs in terms of user fees or for the municipalities that are the end-users of these infrastructure assets.

The Chair: Mr. Siemiatycki.

Prof. Matti Siemiatycki: In the bill I think there's a notion of a centre of excellence around infrastructure and data collection, and I think we shouldn't downplay how important that is. We need to get smarter in how we pick projects and then how we learn from our experiences and take them forward. I think those have the real potential to drive long-term benefit in a context where we're going to be spending tens, if not hundreds, of billions of dollars on infrastructure over the next decade.

The Chair: Mr. Ouellette.

● (1755)

Mr. Robert-Falcon Ouellette: Now you've intrigued me. I wanted to ask a question about potential projects in indigenous communities.

I want to talk about data collection. How are we not actually collecting data appropriately? Have we been successful over the last decade or two with PPPs?

Prof. Matti Siemiatycki: As an academic, I ask myself that all the time. My students and I are desperate for information to provide the real evidence of how these projects are performing, both in the PPP space and the traditional space. How do they compare? What are the comparable experiences in terms of cost over-runs, in terms of asset maintenance?

We hear a lot of numbers and a lot of contentions about how these projects are performing. We have very little data, real hard data, in this country to be able to undertake those assessments. I think the bank could help us understand the impact of the procurement models and the the type of projects we're selecting, and also the impact of the different contractors. Can we learn about which contractors are performing well and under what circumstances, so that we can deliver infrastructure better into the future?

I think that's the potential of the data collection portion of the bank, and it shouldn't be downplayed. I think it's really significant.

The Chair: Mr. Macdonald.

Mr. David Macdonald: One of the interesting things about gathering more data would be to compare traditional versus P3 models on similar projects, to see which ones perform better over the long term in terms of costs and completion rates and so on.

An infrastructure bank like this could do that. It's very much skewed toward the P3 side, but it could also offer traditional financing at very low rates. It would be interesting to see in the real world—not retrospectively—how those projects perform against each another.

Mr. Robert-Falcon Ouellette: Or you could even compare completely public projects versus PPPs versus infrastructure....

Mr. Mark Romoff: Yes, that's exactly the situation we have with respect to the four ring-road projects in Alberta, because three of those went ahead as P3s and one went ahead as traditional procurement. If we had the full data on those projects... We have an in situ opportunity there to really come up with the kind of analysis that all of us are so keenly interested in.

It's remarkable how limited the data collection is by governments right across the country with respect to traditional procurement. We're a bit better on the P3 front, because it gets so much scrutiny, and so much of the information around value-for-money and other things is put on the websites of the procurement agencies, but there is no equivalent information for traditional projects.

The Chair: The last comment goes to Mr. Macdonald. Keep it short because we're down to the last—

Mr. David Macdonald: I would actually disagree with regard to the private contracts that the P3s are putting together. Those private contracts are private. Therefore transparency becomes a huge issue when we are trying to evaluate them after the fact.

The Chair: I am sorry to have rushed you, gentlemen, but I think some great information came out of the session.

With that, we have to run to a vote. We thank you for your presentations and your interest.

We will adjourn.