

Intelligence MEMOS



From: Bert Clark
To: The Hon. Amarjeet Sohi, Minister of Infrastructure and Communities
Date: February 3, 2017
Re: **GOOD WHAT SHOULD YOUR INFRASTRUCTURE BANK LOOK LIKE (PART 1)**

The Federal Government has recently indicated an interest in playing a major role in the renewal of Canada's infrastructure, including through a new Canadian Infrastructure Bank. The details of the bank are still emerging and there is no question an infrastructure bank could contribute in big ways to renewal of our public assets. Unfortunately, there is no silver bullet when it comes to infrastructure renewal. Different ways of paying for infrastructure are appropriate depending on the type of infrastructure. At its simplest, some infrastructure can or ought to pay for itself through user fees and other infrastructure will always be paid for by governments. In order to be successful, the bank ought to have tools at its disposal that allow it to address both types of infrastructure.

When it comes to large complex federal projects that will ultimately be paid for by the Government, P3s, or public-private partnerships, are very often the right delivery tool. Over the last 15 years, Canada has undertaken a large number of P3 projects and become recognized as a world leader in P3s. Many provinces are leveraging private capital to ensure on time and on budget project delivery and to ensure sound asset management over the life of newly built assets. Canadian banks, life insurance companies, pension funds, construction companies and engineering companies are all active participants in these projects.

The federal bank could use P3s to deliver the large complex federal projects that must ultimately be paid for by Ottawa. It isn't hard to imagine a federal program consisting of P3 projects that address such areas as First Nations schools, border crossings, military housing and energy efficiency upgrades and renewal of the Federal real estate portfolio. In this way the federal bank would leverage the existing Canadian project finance expertise which, over the last decade, has developed in response to provincial programs. The bank could also help smaller jurisdictions with large, complex projects who cannot build up top quality public procurement expertise.

When it comes to federal, provincial or municipal infrastructure that ought to pay for itself, the bank could also help shift the paradigm around user fees. Certain types of infrastructure are often paid for by governments when they could be paid for by users, freeing up government funds for assets that will always be paid for by governments. While, most public infrastructure cannot be paid for through user fees (e.g., hospitals, courts, flood protection berms, schools, and most public transit), there are many types of infrastructure that could be (e.g., water and wastewater, bridges, high occupancy lanes, and new large roads). Today user fees are rarely used to pay the full cost of water, wastewater, bridge and new road construction and there is no consistent policy around when user fees ought to cover the cost of these assets. The federal government could help bring a more rational and consistent approach to these projects and make grants to, or investments in, certain types of projects conditional on a move to cost recovery.

Bert Clark is former President and CEO of Infrastructure Ontario and now CEO of Investment Management Corporation of Ontario.