Infrastructure spending to rise at expense of Ottawa's bottom line

By Bill Curry
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The federal government plans to spend tens of billions more on infrastructure projects over the next 12 years and will create an infrastructure bank aimed at attracting private investment in major projects such as public transit and highways.

The heightened focus on infrastructure spending announced in Tuesday's fiscal update comes at the expense of Ottawa's bottom line, as Finance Minister Bill Morneau's latest plan makes no mention of when federal finances will return to balance. The Liberals are hoping that new projects will boost productivity and economic growth in the coming years, helping federal finances along the way through stronger tax revenue.

But Mr. Morneau acknowledged Tuesday that the plan he outlined just a few months ago in March has proven overly optimistic and the $6-billion a year set aside in case the economy underperforms has already been largely used up. That means this year's deficit is expected to be $25.1-billion, with it growing to $27.8-billion in 2017-18.

The new measures – which also include an Invest in Canada Hub to attract foreign investment, changes to speed up the processing of high-skilled temporary foreign workers and extending the current 10-year infrastructure spending plan by two years to 2028 with new money for projects related to trade, transportation and rural communities – are all in line with recent recommendations from Mr. Morneau's expert Advisory Council on Economic Growth, which also called for the creation of an infrastructure bank.

The new money announced Tuesday includes $22.6-billion in added infrastructure spending in the two years following the 2025-26 fiscal year, as well as a new program for trade and transportation infrastructure worth $10.1-billion over 11 years starting in 2017-18 and a new fund for rural and northern communities worth $2-billion over 10 years that starts in 2018-19. The government said further details on the accounting of these programs and how the infrastructure bank will be funded will come in the 2017 budget.

The proposed infrastructure bank could launch as early as the end of 2017. It would operate at arm's length from government and would compile a list of priority infrastructure projects from across the country. Bank staff would focus on large projects that could attract private investors and would then structure the funding plans, which could take many forms.

The council said the bank should be capitalized with at least $40-billion in federal funds over 10 years. Instead, Mr. Morneau announced that the bank will be capitalized with $15-billion from existing programs that were given extra funds Tuesday and a further $20-billion in equity or debt tied to specific projects built with public and private partners.

The Federation of Canadian Municipalities had said last week that the bank should be capitalized with new money, not with funds from already-promised programs for road, bridges, transit and other projects. However, FCM president Clark Somerville expressed support for the plan Tuesday, noting that Ottawa has increased its total funding for infrastructure and that some projects do lend themselves to the types of public/private partnerships that would be managed by the bank.

Mr. Morneau spent the past few days speaking privately with mayors and provincial finance ministers in an effort to persuade them of the merits of working through an infrastructure bank prior to Tuesday's announcement.

Edmonton Mayor Don Iveson, who chairs the FCM's big-city mayors caucus, says he was told that the $15-billion set aside for the new infrastructure bank won't overlap with funds previously promised by the federal government. He welcomed the infrastructure bank as a new option for cities looking to finance a long list of projects, but warned the bank should be a choice for municipalities and not considered a condition for federal funding.

"I'm excited with what we can do, particularly with green infrastructure and also potentially around social-housing renewal. If an infrastructure bank can help that's very exciting and very creative," Mr. Iveson said.

Speaking with reporters, Mr. Morneau said there is the potential to leverage private capital from investors such as global pension funds, which would allow Ottawa, the provinces and municipalities to build more infrastructure more quickly.

"Today is about the long term," he said. "It's about knowing that [in] one, two and three decades from now, we're going to have a more productive economy and we're going to get this going in the near term so it will create good jobs today but have a good long-term impact."

The update revealed that federal deficits – excluding the contingencies included in the March budget – are forecast to grow slightly larger over the coming years, with no return to balance through 2021-22. Conservative interim leader Rona Ambrose criticized the government's update over the fact that it boosts spending and lacks a clear plan to balance the books.

"The nightmare continues for taxpayers," she said, accusing Prime Minister Justin Trudeau of doubling down on a failed plan.Ms. Ambrose said cutting taxes would have been a better approach to boosting economic growth.

"Instead, we're seeing more spending, more deficits and that's a huge concern," she said. "We're not going to see a balanced budget any time in the next decade, the way it looks."

NDP Leader Thomas Mulcair also noted that the Liberals are now running deficits that are much larger than the $10-billion limit the party promised during the election campaign. He then criticized the proposed infrastructure bank, warning that it will lead to the privatization of public assets and will impose new costs such as road tolls and user fees.

"The money for infrastructure is going to go through a privatization bank and we're going to go through the same thing Ontarians saw in the case of Hydro One: privatization of things that belong to the public, including airports," he said. "I don't recall Mr. Trudeau saying anything about privatization of infrastructure in Canada. … So not only have all of their economic forecasts been wrong, what we're learning today is they're completely changing their economic strategy. Privatization was never part of the bargain."

Even though growth forecasts have been lowered and spending plans have increased, Mr. Morneau said he will still be able to lower the size of the federal debt as a percentage of economic growth. The update projects the federal debt-to-GDP ratio will decline from 31.8 per cent in 2016-17 to 30.4 per cent in 2021-22.

"We are showing that we can reduce our net debt to GDP over time," said Mr. Morneau Tuesday, declining on several occasions to provide a timeline for returning to balanced budgets.

The government has discontinued the practice of inserting $6-billion a year in the fiscal forecast as a contingency for unforeseen events and forecasting errors. Mr. Morneau suggested Tuesday that the government has not yet decided whether contingencies will return as part of the 2017 budget.