

Brief to the House of Commons Standing Committee on Finance



2010

Pre-Budget Consultation

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ASSOCIATION OF CONSULTING
ENGINEERING COMPANIES | CANADA

ASSOCIATION DES FIRMES
D'INGÉNIEURS-CONSEILS | CANADA

Introduction

The Association of Consulting Engineering Companies (ACEC) is pleased to make this submission to the House of Commons Standing Committee on Finance as it begins its annual consultation on the policies and content in preparation for the 2011 federal Budget. ACEC represents companies in Canada that provide professional engineering services to both public and private sector clients. These services include the planning, design and execution of all types of engineering projects as well as providing independent advice and expertise in a wide range of engineering and engineering-related fields. Through offering these services, ACEC member companies have a direct influence on virtually every aspect of our economic, social and environmental quality of life in Canada.

Our recommendations to the committee are as follows:

Recommendation 1:

Develop a long-term infrastructure investment strategy that sets priorities; clarifies roles of all partners; identifies achievable objectives; and measures success.

Recommendation 2:

Maintain existing “pre-stimulus” infrastructure programs until a long-term strategy is in place.

Recommendation 3:

Provide flexibility on the stimulus funding deadline on projects for which funding has already been approved but have experienced legitimate delays during implementation.

Background

Public infrastructure is a core business of government and ACEC applauds the significant infrastructure commitments from successive governments in recent years – including the current stimulus programs. In the current economic climate, ACEC recognizes the importance of spending stimulus money as quickly as possible. However, we also encourage a long-term, infrastructure investment strategy in order that Canada can properly address its infrastructure deficit – and do so in an effective and fiscally responsible way.

Infrastructure must be considered an investment – not an expense. A long-term, strategic infrastructure investment plan for Canada to properly address its infrastructure deficit will:

- Make Canada more competitive and resistant to economic downturns.
- Enhance social, economic and environmental quality of life.
- Reduce capital, upkeep and operational cost of infrastructure over its design life.
- Create long-term jobs in multiple sectors.
- Build Canada’s design, technology and construction industries.

However, commitment to long-term funding strategies by all three levels of government has significantly waned since the 1960's. Consequently infrastructure investment in Canada has decreased by half according multiple studies.

In 2004, TD Bank Financial Group released its landmark study *Mind the Gap: Finding Money to Upgrade Canada's Aging Infrastructure*. That study identified a 50% decline in annual per capita capital investment by Government from 1962 to 2003 with a resultant infrastructure investment shortfall as high \$125 billion in 2004.

The recent 2010 study *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth* commissioned by the Residential and Civil Construction Alliance of Ontario (RCCAO) declined from nearly 6% of GDP in 1960 to approximately 3% of GDP in 2004. It suggests that increasing investment by 62% is required to close and stabilized the infrastructure investment gap. *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth* is noteworthy because it directly addresses the consequences of infrastructure under investment. This is important because the impact of infrastructure on our lives is largely unrecognized and taken for granted. Similarly the consequences of underinvestment are often gradual and not immediately recognized. In essence it predicts that if investment remains at the average of the past decade, the ongoing infrastructure investment gap will cost the Canadian GDP 1.5% each year.

It should be noted that infrastructure investment made possible the Government's Stimulus Action Plan over the past two was clearly helpful. However, the current Stimulus Action Plan is no substitute for the required infrastructure investment strategy (nor was it intend as such). While intended to be a limited time program focused on job creation, it nevertheless allowed some infrastructure investment they may have otherwise not occurred. And it did create jobs. In fact, the Conference Board of Canada in its recent series of reports *Lessons from the Recession and Financial Crisis* (March 2010) concluded that of all fiscal stimulus measures, infrastructure investment has had the largest impact on economic growth. This conclusion not only validates the government's stimulus spending on infrastructure, but also demonstrates the value of infrastructure investment to Canada's economic health under any circumstances.

Discussion of Recommendations

Develop a long-term infrastructure investment strategy that sets priorities, clarifies roles of all partners, identifies achievable objectives and measures success.

While such investment, as identified by TD Bank Financial Group and the RCCAO, are desirable, ACEC is cognizant of the spending and tax constraints in which the federal government currently finds itself. With last year's \$50 billion deficit and with further deficits forecast until 2015, the federal government will be limited in terms of its spending ability. It is for this reason that ACEC believes a long term investment strategy is essential. However this strategy must set a clear path towards closing the infrastructure investment gap and stabilizing infrastructure investment in the future.

ACEC recommends that the following would key features of a long-term infrastructure investment strategy:

- A commitment to close and stabilize the infrastructure deficit over the long-term;
- Realistic timetables that balances the long-term urgency of infrastructure investment with current fiscal pressures;
- Adoption of sound asset management practices to quantify state and remaining service life of existing infrastructure;
- Ongoing assessment of transportation, environmental, health and education infrastructure investment needs to accommodate state of current infrastructure, changing needs and population growth;
- A robust prioritisation, sequencing and assessment of projects and programs;
- Clearly defined roles and expectations for each of the three levels of government (needs assessment, planning, investment, operations and maintenance);
- A predictable plan for infrastructure investment to allow governments, organizations and firms that plan, finance, design, construct and operate infrastructure to appropriately develop and allocate resources;
- An annual evaluation of progress.

Maintain existing “pre-stimulus” infrastructure programs until a long-term strategy is in place.

Successive federal governments have put in place a host of programs designed to address Canada’s massive infrastructure deficit. The Gas Tax Fund, the Building Canada Fund, the various Gateways funds, the Public-Private Partnerships Fund, and most recently the programs contained under the Stimulus Fund have all contributed to making progress on the infrastructure deficit.

Until such time that a strategic strategy is in place, it is important that Canada does not lose ground on the infrastructure deficit. In addition to the impact on economic factors discussed in the introduction to this document, curtailing infrastructure investment too severely may negate much of the benefit of current and previous programs, including the Stimulus Action Plan, and by extension the taxpayers’ investments in infrastructure.

Continuation, and perhaps a modest expansion, of pre-stimulus programs will allow both government and the private sector to retain important resources and expertise developed through the implementation of infrastructure projects and to protect taxpayer investment.

Provide flexibility on the stimulus funding deadline on projects for which funding has already been approved but have experienced legitimate delays during implementation.

Although the engineering industry in Canada has been generally supportive of the measures contained in the stimulus package (and certainly the intent), there have been strong concerns expressed over one policy element contained in the package, namely the requirement that construction of almost all stimulus-funded projects needs to be completed by March 31, 2011 – a deadline that is less than 9 months away. Although ACEC appreciates the government’s intent to ensure that stimulus-related funds are spent quickly in order to counterbalance the impacts of the recession, the March 2011 deadline poses a number of practical and logistical problems, which include the following:

- Due to Canadian climate, weather and geography, construction schedules on certain kinds of projects are uncertain under the best of circumstances.
- The complexities inherent in funding agreements between multiple levels of government have on occasion either delayed or have prevented projects going forward in a timely manner.
- The complexities and variations of the regulatory and approval regimes across the country have also resulted in unforeseeable and unavoidable delays.

Notwithstanding recent encouraging signals from the Government, some uncertainty still remains as to what will happen to municipalities that fail to meet the March 2011 deadline. There is an added uncertainty that municipalities may shift risk for failure to meet project deadlines on to the design or construction teams, regardless of whether the failure to meet the deadline was of their doing or not. In response, ACEC is recommending that the federal government exercise discretion in enforcing the deadline where recipients of stimulus funds have made reasonable and good faith efforts to meet the March 31, 2011 deadline.

About ACEC-Canada

Founded in 1925, ACEC represents nearly 500 independent consulting engineering companies, and 12 provincial and territorial member organizations. Consulting engineering in Canada is a \$17.8 billion a year industry that employs 100,000 Canadians. Canada is globally recognized for its engineering services and is the fourth largest exporter of engineering services in the world with 30% of its work performed at the international level.

ACEC advocates for a business and regulatory climate that allows its members to provide the highest level of services and best possible value to its clients. Moreover, as part of a regulated profession, the engineers employed by ACEC companies are obligated by law to act with fidelity to the public interest.

Association of Consulting Engineering Companies - Canada

130 Albert Street, Suite 616
Ottawa, ON K1P 5G4
(613) 236-0569

John Gamble, CET, P.Eng., President
jgamble@acec.ca

Susie Grynol, CAE, Vice-President, Policy and Public Affairs
sgrynol@acec.ca