Infrastructure Bank risks slowing down projects, report warns”, Bill Curry, Globe and Mail, May 11/17 A1,13

Projects could be delayed and government could be exposed to PR disasters and embarrassment, KPMG study says

An internal federal report warns of a wide range of potential problems with the proposed Canada Infrastructure Bank, including that it could duplicate the work of provinces, slow down projects with new layers of bureaucracy and expose Ottawa to "public relations disasters and embarrassment."

While the report, commissioned by Infrastructure Canada, calls for careful study before moving ahead with the bank concept, the Liberal government is rushing to approve legislation to create the bank with limited parliamentary debate. As The Globe and Mail reported Wednesday, the government is planning to limit hearings on the bank legislation to just one committee meeting of up to two hours.

The 76-page report by accounting firm KPMG provides an in-depth look at the potential benefits and challenges of a federal infrastructure bank and the issues the government may face depending on how the bank is designed.

It cautions that Canadians are unlikely to support some of the priorities of private infrastructure investors, such as new tolls on roads and bridges.

Parts of the report have been redacted by the government, but the overall theme is that the bank could be a good option for supporting some infrastructure projects. However, the report says there are many important details that need to be studied carefully to ensure projects do not end badly for taxpayers.

For instance, the report notes that projects that involve user fees are more likely to be of interest to private investors, but Canadians do not have a history of supporting tolls.

"The government needs to be extremely careful of policy and financial considerations when trying to incorporate user fees into Canadian infrastructure projects," the report states.

The NDP announced it will use its opposition day Thursday to trigger a day-long debate on the bank. The party will also force a vote calling on the government to remove legislation creating the bank from the Liberal budget bill so that it can be studied as standalone legislation.

The Canada Infrastructure Bank Act is included as part of Bill C-44, the Liberal government's omnibus budget bill. The act would create a $35-billion infrastructure bank that would be managed at arm's length from government as a Crown corporation. The goal of the bank is to attract private capital, including pension funds, to take a leadership role and ownership stake in building Canadian infrastructure.

When looking at the types of assets that the bank might support, KPMGfound some of them could be a hard sell with the public.

A section on water said that private investors internationally have only invested in municipal water assets after the community adopted full costing and metering of water use. The report notes that many Canadians are not used to this and pay for tap water based on property values, not actual water use.

"Catalyzing private capital to invest in Canada's water utility industry is challenging and would require a transformation of the industry as a whole," it states.

Similarly, the report notes that while institutional infrastructure investors prefer projects that include a revenue stream, toll bridges and roads are not common in Canada.

"The public acceptance of user fees is low in Canada relative to other countries," it sates.
The KPMG report questions whether Ottawa would be veering too far into provincial jurisdiction with the bank, noting that six of the 10 provinces already have agencies responsible for delivering infrastructure through public-privatepartnerships. Also, most infrastructure in Canada is municipal or provincial and there is a "relatively small number" of federally owned infrastructure projects.

"Some stakeholders questioned whether or not it is an appropriate role for the federal government to act as advisers to project sponsors at other levels of government," the report states.

The jurisdictional issue could be complicated if the federal bank sells or owns equity shares in a municipal or provincial project.

"Given the inherent risk in providing equity capital as opposed to debt, equity financing provided from one level of government to an infrastructure project owned by another level of government is particularly rare," it states. "The agency should be aware of the potential governance responsibilities it may assume through ownership, as well as the complications that may arise in harmonizing these responsibilities with other private sector equity investors."

The government initially refused to release the report. After a request for reconsideration, a redacted version was obtained by Ottawa researcher Ken Rubin.

The government has said the bank would identify a "pipeline" of priority projects across the country. However, KPMG said it heard concerns that this could actually produce delays. "It is unclear whether there is a need for such a pipeline at the federal level," it states. "The agency will need to ensure that it does not become a bureaucratic impediment to project development, which could drive private investment away."

Another section says the bank will need to thoroughly investigate project applications to ensure they are viable.

"The agency may be able to avoid potential public relations disasters and embarrassment by ensuring that they are not the only investor in a project, and that those projects they support are likely to operate successfully," it states.

Federal Infrastructure Minister Amarjeet Sohi said Wednesday that the KPMG report was part of a wide range of consultations the government conducted as it prepared to launch the bank. Mr. Sohi said he feels the government has struck the right balance after listening to KPMG and others.

"From my point of view, we have done extensive consultation," he said. "We are not hearing concerns from [those on] whose behalf we are doing this."