From the Ground Up:

The Role of Local Governments in Building Canada's Economic Infrastructure Network

By Sara Ditta

Mowat Centre
ONTARIO'S VOICE ON PUBLIC POLICY

MOWAT RESEARCH #113
NOVEMBER 2015 | MOWATCENTRE.CA

School of Public Policy & Governance
UNIVERSITY OF TORONTO

Acknowledgements

The Mowat Centre gratefully acknowledges the financial support of the Canadian Construction Association and its role in commissioning this report.

The author wishes to thank the experts who generously gave their time and expertise in research interviews, as well as external reviewers who provided helpful comments. The author would also like to thank Noah Zon, Sunil Johal, Andrew Galley, Bill Forward, Emma Tarswell and Jamie Van Ymeren at the Mowat Centre for their feedback, support and design work. Any remaining errors rest solely with the author.

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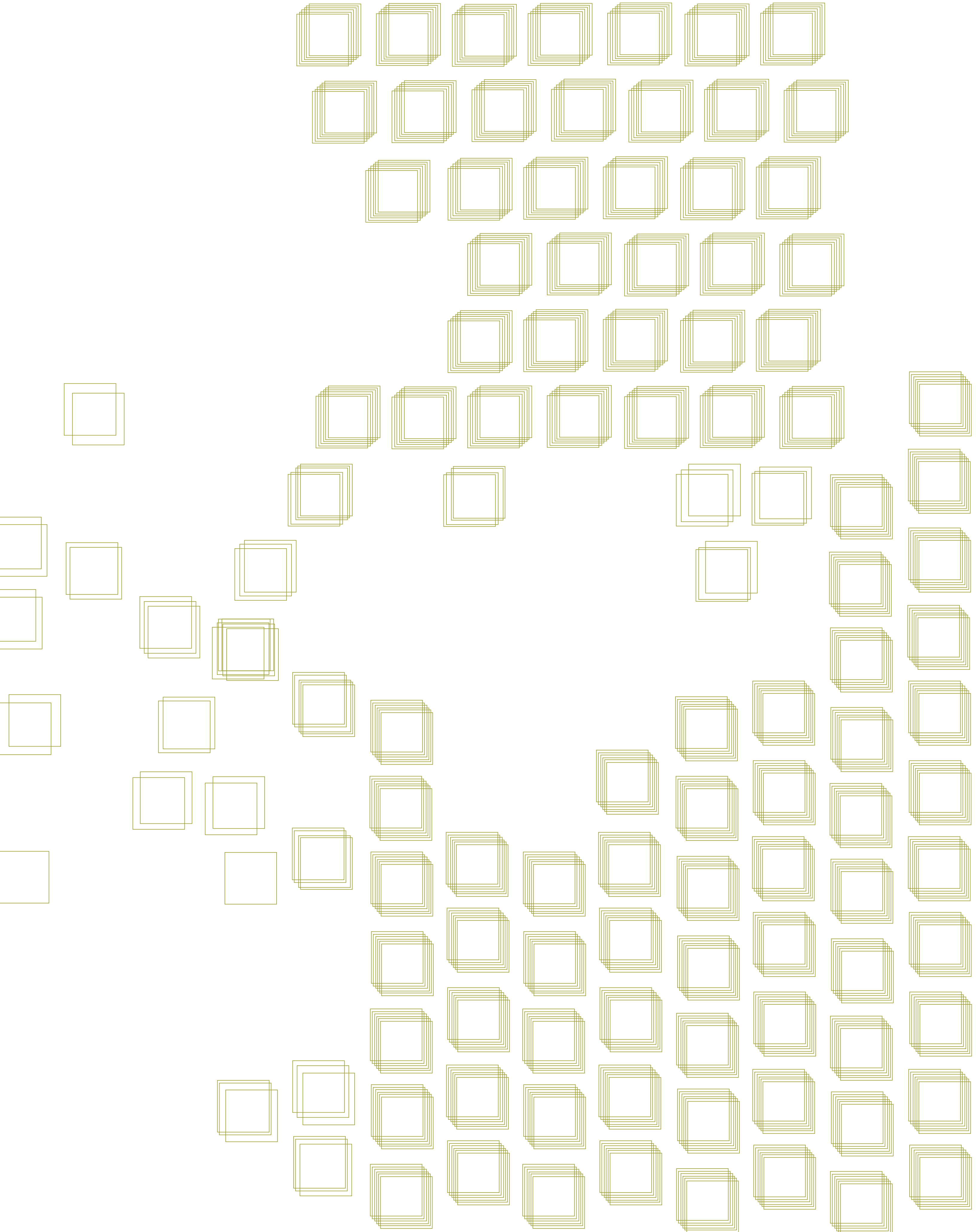


Executive Summary

Canada's long-term economic prosperity is closely tied to the state of the nation's public infrastructure. Infrastructure underpins trade, competitiveness and productivity. Yet Canada's public infrastructure network has historically been overlooked and underfunded.

The World Economic Forum's Global Competitiveness Index illustrates the perception that Canada lacks quality infrastructure, as it has recently fallen from ranking 13th in that category in 2010 to 19th in 2014.[1] The findings underline the unaddressed needs of Canada's large-scale, economic infrastructure — including roads and ports, which scored particularly low. The need is clear for a strong and strategic network of infrastructure across the country to fulfill the national vision of more robust trade relationships, increased productivity and enhanced quality of life.

Despite recent modest increases in infrastructure investments, need has continued to outpace available funding. Commitments by the new federal government to make major investments and double infrastructure spending are promising. But even with higher levels of investment, it is necessary to be strategic and get the most out of each dollar spent.

To ensure investments have the greatest impact, it is essential to first look inward at how Canadian governments operate and collaborate to create an integrated infrastructure network. Currently, there is no consistent strategy or alignment across governments in Canada to support infrastructure planning and investments. In particular, inadequate engagement with local governments — which own and manage the majority of Canada's infrastructure — is a notable gap.

While there are many instances of multi-government infrastructure projects where municipalities play a key role, and some examples where they were the driving force behind major projects, our analysis finds that local governments can face challenges in having a meaningful impact on major infrastructure investment decisions. Some of these challenges are related to the following:

- Local governments now own the majority of Canada's infrastructure but lack sufficient fiscal tools to finance their share.
- There are limited opportunities to coordinate infrastructure investment strategies focusing on economic growth among all orders of government.
- Major urban centres make significant economic contributions that, in particular, require greater levels of infrastructure investment to support.
- Local governments face constraints and are not well incentivized to incorporate infrastructure networks of national significance in local planning.

These challenges ultimately impede alignment and, therefore, the strategic value of Canadian infrastructure investments.

1 "The Global Competitiveness Report 2014-2015," World Economic Forum. 2014. http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/, p. 147; "The Global Competiveness Report 2009-2010 – Canada Country Profile," World Economic Forum. 2009. http://www.weforum.org/pdf/GCR09/Report/Countries/Canada.pdf.

Federal government leadership has also lacked strategy in targeting infrastructure investments. At the heart of a strategic approach should be the inclusion of economic growth and productivity as a top consideration in prioritizing investments. Recent federal efforts have been opaque and have not gone far enough in strategically targeting funds with notable impacts on trade and productivity.

This paper examines successes and challenges in federal, provincial and municipal government approaches to large-scale, productivity-enhancing infrastructure planning and investment decisions, with a particular focus on local involvement. Building on previous research and interviews with 17 experts, we analyze approaches to coordination, leadership and investment, and how each can be strengthened to meet the demands for infrastructure that flow from increased economic growth and global trade opportunities.

We identify three key success factors to strengthen and enhance infrastructure planning and decision-making:

» Coordination and consultation with all government partners

» Strong leadership providing direction and setting priorities

» Reliable and strategic investments from diverse sources

Our recommendations centre on providing evidence, ensuring alignment, targeting support and developing a strategy.

Evidence

» Conduct a detailed economic analysis that would provide evidence on the benefits, particularly to local governments, of major productivity-enhancing infrastructure.

Alignment

» Develop regional coordination forums involving federal, provincial/territorial and municipal governments, including those with expertise on infrastructure and economic development.

Support

» Develop new mechanisms that will incentivize local governments to give greater attention to the national economic infrastructure network by providing them with a greater proportion of the financial benefits.

» Target specific project types for focused investment — particularly with notable impacts on trade and productivity — informed by priorities set by intergovernmental forums.

Strategy

» Revisit the federal Gateways and Corridors Strategy.

» Incorporate economic development in subnational capital planning processes.

Involving all orders of government — and strong coordination among them — is critical to strategic decision-making, particularly for infrastructure projects that will likely have the greatest impact on economic growth and productivity. Effective coordination will also take advantage of the value of the private sector, as it can and will play a key role in many trade-enabling and economic infrastructure projects. This will ultimately help ensure that infrastructure is built to meet an over-arching purpose — rather than the prevailing fragmented and piecemeal approach — maximizing the impact of every dollar spent toward infrastructure and harnessing economic growth opportunities to ensure future prosperity.

Introduction

Canada's economic competitiveness and growth is reinforced by a network of public infrastructure that enables trade, enhances productivity and bolsters economic growth. This network provides connections within and between cities and towns, links regions, and provides access to the rest of the world.

An increasingly integrated global economy means that Canada must ensure its infrastructure network can meet future growth ambitions. Periods of neglect in the late-20th century have left a legacy of outdated, inefficient and sometimes crumbling infrastructure, as well as a significant investment gap that needs to be closed.

As Canada pursued an ambitious trade agenda with Asian, Latin American and European markets, municipal governments became increasingly responsible in recent decades for a greater share of the public infrastructure that has a significant impact on the nation's ability to trade. Municipal infrastructure also broadly influences economic growth by creating jobs, reducing congestion and increasing GDP.

Locally-owned infrastructure includes roads, bridges and other infrastructure which connect to broader trade networks. These are crucial parts of the system for delivering goods and services to and from Canada. A port, airport or international hub is likely to be as efficient and effective as the infrastructure to which it is connected — much of which is owned, operated and maintained by local governments.

Despite this important role, local insights are often overlooked and municipalities have limited opportunities to contribute to discussions on strategic infrastructure investments of national importance. Local governments can provide significant knowledge and expertise toward the successful advancement of major infrastructure projects. In some cases, local governments have been integral in spearheading economically-transformative projects by demonstrating a groundswell of local support and matching their efforts with provincial and federal priorities.

However, in other cases, it can be difficult for municipalities to incorporate the potential benefits of greater regional and global economic opportunities in local infrastructure planning as they face a long list of infrastructure needs and demands, some of which are strictly local issues. This challenge is compounded by an environment where local governments have limited fiscal tools and few opportunities to engage on regional or national infrastructure priorities.

To create a modern and efficient multi-modal transportation network that enhances productivity and makes Canada more competitive in a global marketplace, Canada will need effective coordination and strategic decision-making that involves all orders of government, augmented by engagement with key stakeholders, including those in the private sector. Coordination is needed to ensure that government departments across the country share priorities, align efforts and maximize the impact of investments.

The research in this report is based on a review of Canadian and international literature on infrastructure planning and development, as well as 17 detailed interviews with subject matter experts including stakeholders, academics, and former and current government officials across all orders of government.

Context

Current state of infrastructure and economic growth in Canada

Over the past several years, Canada has signed new international trade agreements, including the Comprehensive Economic and Trade Agreement (CETA) with the European Union. To take advantage of the opportunity for increased trade in both goods and services, Canada will need to strengthen the infrastructure that makes this trade possible, including its gateways and corridors. For instance, a study conducted by Transport Canada and the Association of Canadian Port Authorities estimated that there is a $5.3 billion shortfall in investment to meet the current and future needs of port infrastructure in Canada.[2] The federal government estimates that CETA alone will bolster Canada's bilateral trade by 20 per cent and add $12 billion annually to Canada's economy.[3]

Broadly, public infrastructure is considered a key factor in a nation's competitiveness, with the World Economic Forum determining the state of a country's infrastructure as a key pillar in rating its global competitiveness.

As a result of decades of limited investments, Canada's infrastructure deficit — the shortfall of funding needed to properly maintain existing infrastructure — is significant.

Infrastructure is closely tied to productivity and quality of life in several ways. For instance, congestion has been identified as having a negative impact in cities across the country, costing approximately $15 billion per year or nearly 1 per cent of Canada's GDP.[4] Infrastructure is also a key consideration by businesses looking to invest in Canada, as poor infrastructure can result in increased costs and decreased returns on investment — all of which is ultimately detrimental to Canada's future economic prosperity. Recent research indicates that Canada's decades-long gap in productivity growth is related to its lack of investment in public infrastructure.[5]

As observed in Figure 1, Canadian public infrastructure investment was low for decades before recent increases in spending, including the economic stimulus package in the aftermath of the global financial crisis.[6]

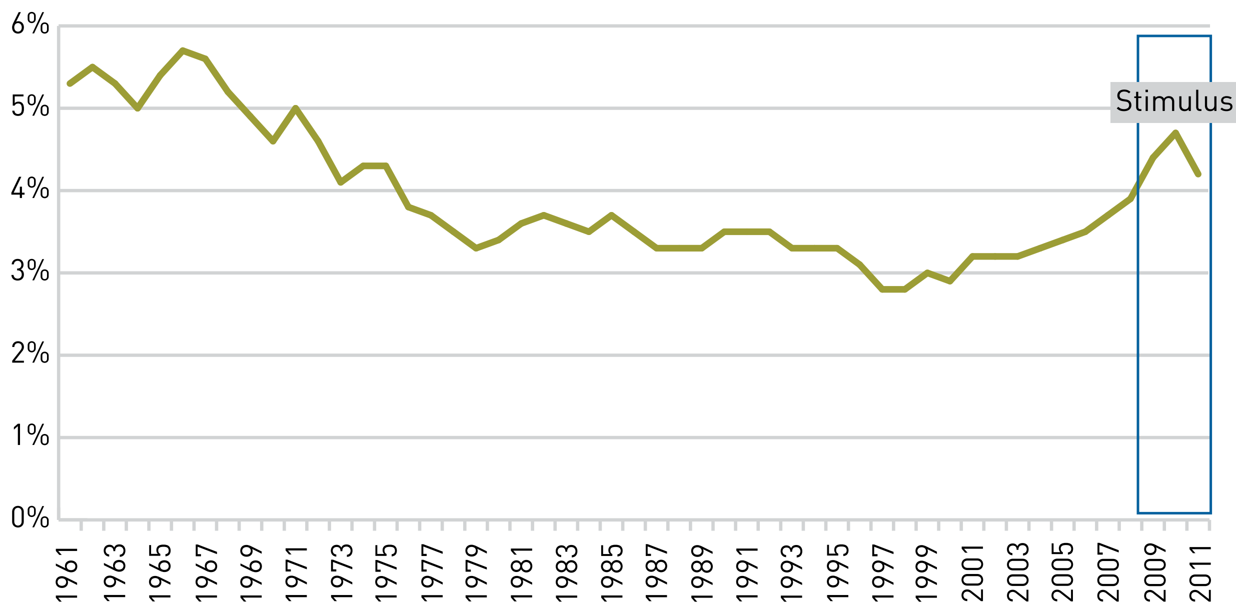
2 Alex Brinkley, "Trade deals shine spotlight on Ports." *Canadian Sailings.* Feb. 16, 2015. http://www.canadiansailings.ca/?p=9576; Wendy Zatylny. Remarks to the Standing Committee on Finance, House of Commons. Nov. 18, 2014. https://openparliament.ca/committees/finance/41-2/58/wendy-zatylny-1/only/.
3 *Canada-European Union: Comprehensive Economic Trade Agreement (CETA).* Government of Canada, Department of Foreign Affairs, Trade and Development. Nov. 4, 2014. http://international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/understanding-comprendre/overview-apercu.aspx?lang=eng
4 "The Foundations of a Competitive Canada: The Need for Strategic Infrastructure Investment," The Canadian Chamber of Commerce. December 2013. http://www.chamber.ca/media/blog/131218-The-Foundations-of-a-Competitive-Canada/131218_The_Foundations_of_a_Competitive_Canada.pdf, p. 1.
5 Casey G. Vander Ploeg and Mike Holden, "At The Intersection: The Case for Sustained and Strategic Public Infrastructure Investment," Canada West Foundation. February 2013. http://cca-acc.com/pdfs/en/cca/AtTheIntersection2013.pdf, p. 4, 7.
6 Chiara Cautillo, Noah Zon and Matthew Mendelsohn, "Rebuilding Canada: A New Framework for Renewing Canada's Infrastructure," Mowat Centre. August 2014. http://mowatcentre.ca/wp-content/uploads/publications/92_rebuilding_canada.pdf, p. 2.

As a result of decades of limited investments, Canada's infrastructure deficit — the shortfall of funding needed to properly maintain existing infrastructure — is significant. The municipal infrastructure deficit has been pegged at $171.8 billion, while that figure could increase to $400 billion by including infrastructure owned by other orders of government.[7]

Several key developments over the past few decades have exacerbated the current infrastructure deficit in Canada:

- Most of Canada's infrastructure was built in the mid-20th century.
- Canada had a sustained period of low investment in public infrastructure during the late-20th century compared to similar countries and during other periods in its history.
- The growth in Canada's economy and population has strained existing infrastructure.
- Local governments have taken on additional infrastructure responsibilities without sufficient resources to adequately manage them.

FIGURE 1: TOTAL PUBLIC INVESTMENT AS A SHARE OF GDP



Overall, Canada faces dual needs in public infrastructure: to repair existing aging infrastructure that had been ignored for decades and to develop new infrastructure to respond to economic development opportunities. Significant support is needed to increase capacity in line with federal economic growth ambitions.

Current federal infrastructure programs

Governments across Canada have acknowledged the need to invest in infrastructure in light of the current environment. Most recently, the Government of Canada unveiled in 2013 the New Building Canada Plan (NBCP), running from 2014 to 2024. The NBCP builds upon the original Building Canada Plan, which ran from 2007 to 2014. The plan provides more than $47 billion in new investments for infrastructure projects over 10 years — much of which is aimed to support municipalities.[8]

7 "2012 Municipal Roads and Water Systems," The Canadian Infrastructure Report Card. September 2012. http://www.canadainfrastructure.ca/downloads/Canadian_Infrastructure_Report_Card_EN.pdf; "Financing the Future," PwC. http://www.pwc.com/ca/en/infrastructure-project-finance/financing-the-future.jhtml.
8 "Budget Plan 2013 – Chapter 3.3: The New Building Canada Plan," The Government of Canada. 2013. http://www.budget.gc.ca/2013/doc/plan/chap3-3-eng.html.

The following are the most significant components of the NBCP relevant to major infrastructure projects:

- The Federal Gas Tax Fund, providing $21.8 billion over 10 years (more than $2 billion annually) primarily for local infrastructure projects.
- The New Building Canada Fund, providing $14 billion to infrastructure projects over 10 years.
- The P3 Fund, providing $1.25 billion over five years to support projects delivered through public-private partnerships.

In addition to these three components, the NBCP includes $10.4 billion over 10 years in the form of an incremental GST rebate for municipalities. This tax break on municipal costs is counted as part of the NBCP's Community Improvement Fund, alongside the Gas Tax Fund, though the rebate is not directly linked to infrastructure investments.

The federal Gas Tax Fund — which recently became a permanent infrastructure funding source — provides support to municipalities, flowed through provincial governments. It is generally allocated on a per-capita basis to provinces. Unlike other infrastructure funds, the Gas Tax Fund provides an opportunity for municipalities to choose and prioritize projects.

The New Building Canada Fund is a key component of the broader New Building Canada Plan. As noted in a Canada West Foundation report, the $4-billion National Infrastructure Component (NIC) within the Fund offers the greatest opportunity for the federal government to fund trade-enabling infrastructure.[9] The NIC supports projects of "national significance," chosen by the federal government based on merit — particularly contributions to economic growth and productivity. In comparison, the $10-billion Provincial-Territorial Infrastructure Component funds national and regional-centric projects with broad economic objectives based on a combination of base funding and per-capita allocation.

The federal government announced in early- and mid-2015 a number of infrastructure projects that will be funded under the new plan. A handful of NIC projects have been revealed so far, including $583 million for construction of a ring road in Calgary and $165 million to construct an outlet channel to prevent flooding in Manitoba.[10]

Federal funding is also generally contingent on matching financial contributions by other government partners. The maximum federal contribution on cost-shared projects involving municipalities is generally limited to 33 per cent and the Gas Tax Fund cannot be used as part of a municipality's contribution to a Building Canada project submission.

Current approaches to infrastructure by level of government

All orders of government have an interest in productivity-enhancing infrastructure and each can play a role in identifying strategic priorities. Definitions vary on the roles that municipal, provincial and federal governments should play, as well as what they currently achieve. However, each approaches infrastructure from a specific point of view, with varying goals and constraints within the current framework.

9 John Law and Carlo Dade, "Building on advantage: Improving Canada's trade infrastructure," Canada West Foundation. November 2014. http://cwf.ca/publications/Bulding%20on%20Advantagev11.pdf, p. 9.
10 "Canada Commits Funding to Construction of the Southwest Calgary Ring Road," Government of Canada, news release. July 30, 2015. http://news.gc.ca/web/article-en.do?nid=1011079; "The Government of Canada Commits Funding to Lake Manitoba and Lake St. Martin Outlet Channels Project in Manitoba," Government of Canada, news release. July 31, 2015. http://news.gc.ca/web/article-en.do?nid=1014879.

	Municipal governments	Provincial governments	Federal governments
Public infrastructure ownership	Major — including roads, bridges, sewers, water supply systems, local ports	Moderate — including roads, bridges and highways	Minor — including some airports, ports and border infrastructure
Greatest competencies by government*	Strong view of local economy Insights on specific conditions and needs within a community	High-level view of economic strengths and opportunities within a region Defines provincial and regional strategic priorities	Broad view of national objectives and international trade agreements

* Based on interviews conducted in November and December 2014.

There are currently disparities among roles and priorities across orders of government, while there are also few opportunities to collaborate and effectively leverage the strengths that municipal, provincial and federal governments have to offer. In general, each level operates fairly independently of one another — though there have been some recent efforts that encouraged greater coordination.

Coordination between infrastructure and economic development

Strong intergovernmental coordination goes beyond alignment across orders of government. It also includes coordination across departments, particularly those with shared interests. The impact of actions conducted by different departments or ministries at the federal level are hampered when not coordinated on issues of mutual interest, particularly when other levels of government are involved.[11]

Infrastructure and economic development issues are very closely related on a local, regional and national scale. Infrastructure that enables trade and connections across the globe is more likely to have a lasting impact on economic development. For instance, a recent report found that the direct economic impact in Ontario of air travel via Toronto's Pearson International Airport is significant — $22.7 billion or 3.6 per cent of the province's GDP — and likely to continue to grow rapidly in coming years.[12] Even where trade is not highlighted specifically in infrastructure priorities, economic development is regularly a central justification for investments.

There are currently some mechanisms across governments in Canada designed to promote economic development. At the federal government, regional development agencies serve to enhance competitiveness in certain regions across Canada, while economic development offices at provincial and municipal levels also aim to promote growth initiatives within a respective jurisdiction. Nevertheless, there is typically limited coordination between economic development and infrastructure departments within governments at municipal, provincial and federal levels.[13] Some of the hurdles identified that prevent meaningful cooperation and connections between work on economic development and infrastructure include limited time or resources in government departments and a lack of strategy to encourage close cooperation.

11 Catherine Gamper and Claire Charbit, "Coordination of Infrastructure Investment Across Levels of Government," International Center for Public Policy. January 2014. http://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1015&context=icepp, p. 8.
12 "Global Hub Economic Impact Study: A report prepared for the Greater Toronto Airports Authority," *Frontier Economics.* February 2014.
13 Interviews conducted in December 2014.

Case Study: Past and present federal approaches to infrastructure of national significance

The National Infrastructure Component (NIC) in the New Building Canada Plan is a key effort by the federal government to support Canada's economic infrastructure network. It includes categories such as ports and airports, which were missing from previous strategic infrastructure programs focused on projects of national significance and phases out infrastructure such as sports and cultural facilities covered under previous similar initiatives. It also provides an opportunity for municipalities to apply directly to the federal government for funding.

CATEGORIES FOR STRATEGIC INFRASTRUCTURE PROGRAMS WITH NATIONAL SCOPE

New Building Canada Plan: National Infrastructure Component $4 billion announced, planned over 10 years (started in 2014)	Building Canada Plan: Major Infrastructure Component* $6.7 billion, estimated total** (2007 to 2014)***	Canadian Strategic Infrastructure Fund $4.3 billion, estimated total**** (2004 to 2013)
Highways and major roads	Drinking water	Highways and railways
Public transit	Wastewater	Local transportation
Rail infrastructure	Public transit	Tourism and urban development
Disaster mitigation	Core national highway system	Water and sewage
Local and regional airports	Green energy	Broadband
Port infrastructure		
Intelligent transportation systems		

However, NIC's funding is limited compared to other programs that cover a broader range of infrastructure, including its predecessors — the Major Infrastructure Component and the Canadian Strategic Infrastructure Fund. Funding over the next 10 years is projected to be less than previous programs which covered more diverse, but fewer, categories. Additionally, the original Building Canada Plan had specific categories devoted to trade-related infrastructure — including the $2.1-billion Gateway and Border Crossings Fund and the $1-billion Asia-Pacific Gateway and Corridor initiative — which were both removed in the latest Building Canada Plan. Overall, the NIC aims to cover a lot of territory with a limited set of funds aimed at major, nationally-significant infrastructure projects.

As NIC projects are being rolled out, they also appear to continue a trend of limited transparency and strategy in the federal government's initiatives for major infrastructure. Methods for choosing projects remain opaque while objectives continue to be broad. Indeed, small-town community centres and a regional broadband network all received funding from the regional- and national-centric Major Infrastructure Component. The National Infrastructure Component so far has similarly lacked clarity in project selection, as more than one-eighth of its funds ($583 million) have already been announced to support construction of a ring road in Calgary, which a Government of Canada press release touts as boosting the local and regional economy but offers limited information on its national significance.[14]

Furthermore, the proportion of investments for specific project types are not defined within specific funding categories. Previously, highways and public transit made up the majority of funds distributed under the Major Infrastructure Component and the Canadian Strategic Infrastructure Fund, despite categories such as green energy and broadband being listed alongside them.[15] Therefore, even if the federal government points to specific types of infrastructure as nationally-significant within the New Building Canada Plan, it has not guaranteed a certain level of investment within each category highlighted.

* At least 2/3 of projects are in these categories.
** Source: "Report on Plans and Priorities, 2014-2015 – Section 2," Infrastructure Canada. March 6, 2014. http://www.infrastructure.gc.ca/pub/rpp/2014-15/2014-02-eng.html.
*** Some projects were extended beyond the initial 2014 end date.
**** Source: "Reports on Plans and Priorities, 2014-2015 – Horizontal Initiatives," Infrastructure Canada March 6, 2014. http://www.infrastructure.gc.ca/pub/rpp/2014-15/2014-supp-hi-ih-eng.html#ftnref2

14 "Canada Commits Funding to Construction of the Southwest Calgary Ring Road," Government of Canada, press release. July 30, 2015.
15 Data based on: "Canada Strategic Infrastructure Fund Projects," Infrastructure Canada. Jan. 20, 2014. http://www.infrastructure.gc.ca/prog/csif-fcis-eng.html; "Canada's Economic Action Plan," Government of Canada. March 2012. http://hdl.handle.net/11272/I9AKG.

Challenges

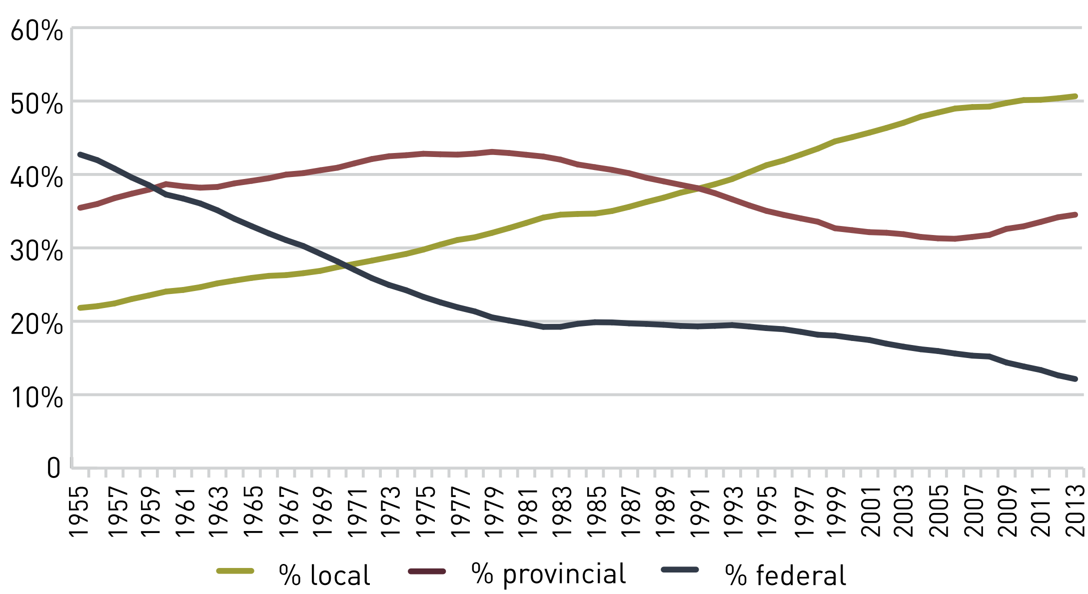
Some of the most significant challenges with alignment and coordination involve municipal governments and the lack of opportunity for them to engage in strategic priority-setting and influence decision-making in large-scale, productivity-enhancing infrastructure projects due to existing constraints, as well as funding and cultural factors.

The local perspective is important to consider because it has an impact both directly and indirectly. Municipal governments play a key role in directly supporting productivity and competitiveness through transportation and land-use planning, as well as by developing and maintaining the hard infrastructure that services activities such as trade. It also has indirect impacts through its community-building efforts.[16]

Local governments now own the majority of Canada's infrastructure

Ownership of and responsibility over public infrastructure capital stocks have radically changed over the past several decades. In the 1950s, the federal government owned the most significant portion of public capital stock, while the municipal government owned the least. The structure of ownership has reversed in recent years, as Figure 2 demonstrates, with the federal government share down to 12 per cent of capital stocks and local government share up to 51 per cent.[17]

FIGURE 2: SHARE OF CANADIAN PUBLIC INFRASTRUCTURE STOCKS (1955-2013)



16 Interview conducted in December 2014.
17 Calculations based on data from Statistics Canada, CANSIM Table 031-0002.

While much of Canada's infrastructure was built during the mid-20th century,[18] a great deal of the responsibility to provide, manage and maintain infrastructure was transferred from the federal government to local governments and, in some cases, to private entities in the 1990s. For instance, control over many major airports was transferred from the federal government to non-profit authorities.

Factors such as declining growth of the population and economy, as well as increasing budget deficits, also resulted in infrastructure spending constraints in the 1980s and 1990s.[19] While funding has increased since then, it is still significantly less than would be needed to make up for major cuts over past decades.

Local governments do not have a significant voice in strategic decision-making amid limited opportunities for multilateral coordination

There are a number of bilateral formal forums — between the federal government and provincial governments or between provincial governments and municipalities — but few multilateral opportunities to engage on infrastructure issues or a pan-Canadian vision. Some of the limited existing venues for coordination include the Council of the Federation, Ministers Responsible for Local Government in Canada and informal roundtables, as well as through stakeholder groups such as the Federation of Canadian Municipalities. There is currently no formal forum to discuss infrastructure policy among federal, provincial/territorial and municipal governments. Due to the existing Constitutional framework, few multilateral opportunities mean limited interactions between municipal and federal governments.

Provinces have some formal coordination mechanisms with municipal governments. For instance, in Ontario, the province has worked with the Association of Municipalities of Ontario and the City of Toronto to review funding and delivery of services, including infrastructure.[20] Ontario also released a 10-year infrastructure plan which incorporated a municipal infrastructure strategy, primarily focused on asset management.

While the federal government has worked with stakeholder groups representing municipalities, there is no formal opportunity for federal and local governments to discuss infrastructure. There were brief attempts to strengthen that relationship, most recently in the early 2000s, which saw an increase in federal interest to work more closely with local governments through a "New Deal for Canada's Cities."[21] Urban Development Agreements, which were first introduced in the 1980s, offered another opportunity through multilateral governance, with all three levels of government considering policy issues such as economic development. However, all of the agreements expired by 2010. There are occasional instances when the federal government has worked directly with municipal governments, such as to quickly find shovel-ready projects as part of efforts to stimulate the Canadian economy following the global economic downturn in 2008, but this is not a common practice.[22]

Currently, in cases where there is collaboration, the most meaningful interactions on infrastructure supporting national growth objectives are between provinces and the federal government, while municipal governments typically do not have a major voice in those conversations.

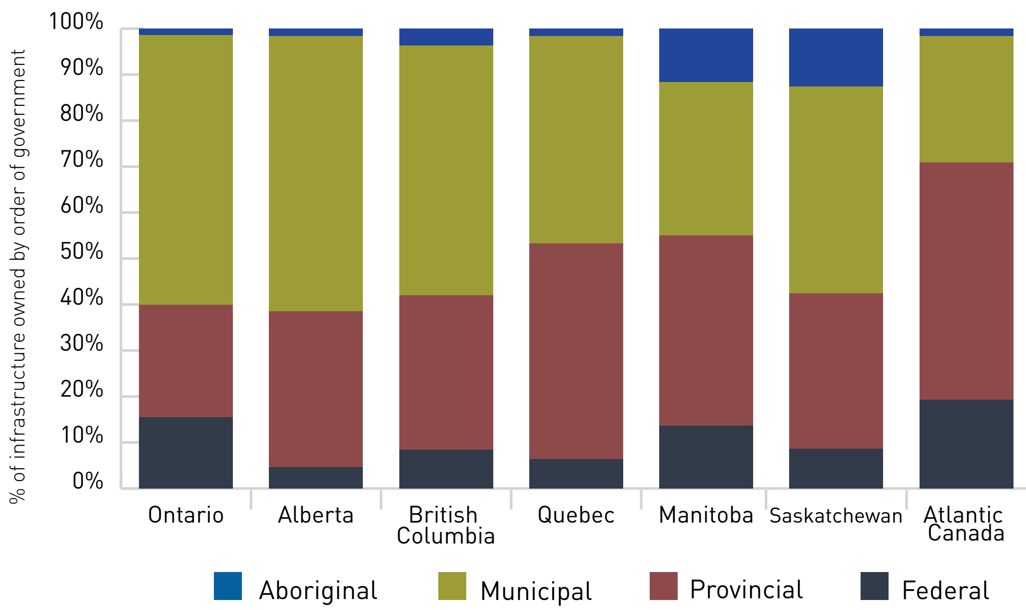
18 Mychèle Gagnon, Valérie Gaudreault and Donald Overton, "Age of Public Infrastructure: A Provincial Perspective," Statistics Canada. February 2008. http://www.statcan.gc.ca/pub/11-621-m/11-621-m2008067-eng.pdf, p. 5.
19 Francine Roy, "From Roads to Rinks: Government Spending on Infrastructure in Canada, 1961 to 2005." Statistics Canada. February 2008. http://publications.gc.ca/collections/collection_2008/statcan/11-624-M/11-624-MIE2008019.pdf, p. 7.
20 "Provincial-Municipal Fiscal and Service Delivery Review: Facing the Future Together," Government of Ontario. 2008. http://www.mah.gov.on.ca/AssetFactory.aspx?did=6050.
21 André Côté and Michael Fenn, "Provincial-Municipal Relations in Ontario: Approaching an Inflection Point." IMFG Papers on Municipal Finance and Governance. No. 17, 2014.
22 Interviews conducted in November and December 2014.

Major urban centres make significant economic contributions that in particular require greater levels of infrastructure investment to support

Major cities have the greatest impact on Canada's economy, as about half of the country's GDP is produced in the six largest cities (Toronto, Montreal, Vancouver, Calgary, Edmonton and Ottawa).[23] The Organisation for Economic Co-operation and Development (OECD) has stated that the infrastructure deficit in a major urban centre such as Toronto could limit its ability to compete with other large cities in the OECD.[24] As engines for growth and innovation, it can be short-sighted to leave cities in particular out of the equation on major infrastructure planning of regional and national significance.

Figure 3 illustrates that provinces with Canada's largest cities have taken on a more significant load of public infrastructure at the municipal level, compared to those that do not.[25] Indeed, Ontario, Alberta and British Columbia have the most infrastructure responsibilities at the municipal level, but that is not comparable to other provinces, pointing to the disproportionate nature of infrastructure responsibilities in major cities.

FIGURE 3: CANADIAN PUBLIC INFRASTRUCTURE STOCKS BY PROVINCE (2013)



While infrastructure in small- and medium-sized municipalities also play an important role in generating economic returns, particularly through infrastructure that connects gateway hubs, major urban centres still have the most significant impact on Canada's productivity. The limited influence of local leaders in infrastructure decision-making across Canada is a gap, but particularly for large urban centres.

Local governments lack fiscal tools to fund infrastructure

Municipalities rely significantly on a limited revenue source to fund investments in infrastructure. Indeed, municipal governments are forced to primarily raise funds through property taxes, which are an inflexible and inefficient way to raise revenue. Currently, municipalities are estimated to receive only eight cents of every tax dollar collected across the country.[26]

23 Mark Brown and Luke Rispoli, "Metropolitan Gross Domestic Product: Experimental Estimates, 2001 to 2009," Statistics Canada. November 2014. http://www.statcan.gc.ca/pub/11-626-x/11-626-x2014042-eng.pdf, p. 1.
24 "OECD Territorial Reviews: Toronto, Canada," OECD. 2010, p. 12.
25 Calculations based on data from Statistics Canada, CANSIM Table 031-0002.
26 "Municipal financing and fair taxes," Canadian Union of Public Employees. May 2015. http://cupe.ca/sites/cupe/files/municipal_revenues_e.pdf.

Municipal governments also borrow to finance infrastructure and capital assets, which has been a useful tool to some local governments looking to make long-term investments.[27] However, they are constrained in their ability to borrow, as provincial governments set rules and restrictions for borrowing.[28] Municipalities also cannot carry an operating deficit from year to year. In general, existing transfer arrangements provide local governments with "limited autonomy in prioritizing investment decisions, provide little transparency or predictability in funding formulas, and result in some highly politicized investment decisions."[29]

In contrast, federal and provincial governments have access to direct taxation, providing revenue sources that grow with the economy. For instance, income taxes are generally more responsive to economic growth than property taxes. Municipalities also lack other authorities that federal and provincial counterparts have at their disposal, relying instead on tools such as zoning and other land-use provisions.

Currently, municipalities are estimated to receive only eight cents of every tax dollar collected across the country.

Overall, it is considered unrealistic to expect to close local infrastructure funding gaps with such a strong reliance on property taxes.[30] Other sources of tax revenue used by local governments in other countries to fund infrastructure projects include income taxes, consumption taxes, business taxes, tourist taxes and vehicle registration taxes.

Local governments face constraints and are not incentivized to incorporate infrastructure of national significance in local planning

The deficit in investments to build and maintain municipal infrastructure means that there is tight competition for infrastructure dollars. There is infinite demand to fund infrastructure projects that must be matched with finite resources. Municipalities also must deliver core services and meet mandates set by the federal government. At the same time, constrained fiscal tools available to municipalities mean that they receive limited economic benefits for investments that would support major, productivity-enhancing infrastructure.

With few existing incentives for local governments to direct limited resources to the needs of the broader network for economic infrastructure that extends far beyond their borders, efforts in some municipalities are liable to be more focused on bolstering local economic development and services that provide direct benefits that local constituents can more easily observe.[31]

Strong political leadership by some local governments has helped to overcome these challenges. Indeed, there is an appetite for local governments in both small communities and large cities to transform their economy in ways that benefit both that jurisdiction and the wider economy, with many municipalities engaging in long-term planning beyond federal government timelines. But the current environment faced by municipalities makes it challenging to incorporate a national perspective in their infrastructure investment decisions.

27 Kyle Hanniman, "Why municipal borrowing is no crisis in waiting," The Mowat Centre. May 20, 2015. http://mowatcentre.ca/why-municipal-borrowing-is-no-crisis-in-waiting/.
28 Enid Slack, "Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability," Institute on Municipal Finance and Governance. September 2009. http://www.munkschool.utoronto.ca/imfg/uploads/89/slack_provinciallocal_fiscal_transfers_in_canada_copenhagen2009.pdf.
29 Côté and Fenn, 2014, p. 43.
30 "OECD Territorial Reviews: Toronto, Canada," OECD. 2010, p. 169.
31 Interviews conducted in November and December 2014.

Opportunities and Success Factors

Although several challenges abound, recent efforts to support large-scale infrastructure projects of national significance provide valuable lessons learned. As the Canada West Foundation noted, there is a strong foundation for trade-related infrastructure in Canada that can be built upon.[32] Canada's efforts to implement a gateway and corridor strategy provide a snapshot into some of the past successes and complications in developing a national network of infrastructure to enhance economic competitiveness.

The Government of Canada's National Policy Framework touches upon key approaches to guide strategic decision-making that promotes competitiveness, including an emphasis on a strong national policy direction and alignment among government partners and stakeholders. Experiences in infrastructure planning and development across the country and internationally provide further insights on opportunities to be more strategic in the future.

Overall, we identified three key success factors connected to infrastructure development that encourages alignment and strategic decision-making, all of which would also facilitate more significant and meaningful involvement by local governments.

- » Coordination and consultation with all government partners
  - Aligning infrastructure priorities
  - Increasing opportunities for local input
  - Prioritizing collaborative over competitive discourse
- » Strong leadership providing direction and setting priorities
  - Heightening federal government leadership
  - Encouraging municipalities to spearhead major infrastructure projects
- » Reliable and strategic investments from diverse sources
  - Increasing proportionality of government funds
  - Providing greater incentives to local governments
  - Delivering funding that targets specific priorities

32 Law and Dade, 2014, p. 6.

Case Study: Gateway and Corridor Strategy

The Asia-Pacific Gateway and Corridor Initiative (APGCI) was spearheaded by a coalition of local public and private transportation stakeholders through the Vancouver Gateway Council. The Council was created to provide a forum to discuss transportation infrastructure planning and investments needed to meet growing trade demands. The effort eventually grew into the APGCI after the federal government recognized the strong stakeholder-driven efforts.[33] It was also in the interest of the federal government because the APGCI was effectively tied to a broader desire to enhance Canada's international trade presence, particularly in China.

The Government of Canada invested more than $1.4 billion in strategic infrastructure projects supporting the Asia-Pacific Gateway and Corridor Initiative.[34] The initiative helped contribute to sizable increases in trade between western Canada and Asia, with Port Metro Vancouver on its own handling cargo that represents 19 per cent of Canada's overall trade.[35] The effort was even considered an inspiration for other countries, including the United States, looking to enhance their competitiveness by strengthening multi-modal transportation.[36]

Other parts of Canada similarly formed committees in an effort to replicate the successes of the APGCI, and the federal government was prompted to develop its National Policy Framework for Strategic Gateways and Trade Corridors. The document outlined a "new emphasis on the transportation system, rather than any particular mode or element."[37] It also announced a plan to develop two more gateways and corridors as part of a larger strategy: the Ontario-Quebec Continental Gateway and Trade Corridor and the Atlantic Gateway and Trade Corridor.

The degree of leadership, coordination and investment all had an impact on the eventual success, or lack thereof, of subsequent efforts. While the APGCI is considered a victory, the other gateway initiatives are not considered as successful in terms of impact or support.[38]

The APGCI had strong leadership based on the work of the Vancouver Gateway Council, as local stakeholders effectively pushed the project to federal government attention and subsequently prompted it to take an active role. Indeed, the federal government played a crucial role in bringing together key players for the Pacific Gateway Alliance and also heavily marketed the gateway abroad.[39] However, despite attempts to similarly create gateway councils in other jurisdictions, the same level of support did not follow.

A lack of coordination also poses a hurdle. For instance, limited communication and coordination in determining where to focus resources was a roadblock for the Atlantic Gateway. From the outset, observers noted the region's lack of coordination could impede any efforts to turn it into a global trade hub. "Increasingly, the Atlantic region needs to look at how local advantages can be used in the global competitiveness game, but that requires more cooperation and political coordination," stated one report.[40]

Ultimately, the Atlantic Gateway received a fraction of the funding that was provided to its counterpart on the other side of the country. In comparison to the $1.4 billion invested in APGCI projects, the Atlantic Gateway and Trade Corridor received $250 million in federal investments.[41]

33 Mike Ircha, "Trade Corridors and Gateways: An Evolving National Transportation Plan," in *Integrating Seaports and Trade Corridors*. Eds. P. Hall, R.J. McCalla, C. Comtois and B. Slack (Surrey: Ashgate). 2011, p. 226.

34 "Investing in Gateways," Canada's Economic Action Plan. http://actionplan.gc.ca/en/initiative/investing-gateways

35 "Increasing Demand for Canadian Trade Drives Record Year at Port Metro Vancouver," Port Metro Vancouver, press release. Feb. 12, 2015. http://www.portmetrovancouver.com/about/news/2015/02/12/increasing-demand-for-canadian-trade-drives-record-year-at-port-metro-vancouver.

36 Mortimer Downey to Federal Maritime Commission. In response to Docket No. 11-19 Notice of Inquiry, "U.S. Inland Containerized Cargo Moving Through Canadian and Mexican Seaports." Coalition for America's Gateways and Trade Corridors. Dec. 22, 2011. http://www.fmc.gov/assets/1/Documents/11-19-comments%20of%20Coalition%20for%20America%27s%20Gateways%20&%20Trade%20Corridors.pdf.

37 "National Policy Framework for Strategic Gateways and Trade Corridors," Transport Canada. 2009. http://www.canadasgateways.gc.ca/media/documents/en/NationalPolicyFramework.pdf, p. 3.

38 Interviews conducted in November and December 2014.

39 Interview conducted in November 2014; Ircha 2011.

40 Charles McMillan, "Embracing the Future: The Atlantic Gateway and Canada's Trade Corridor," Asia Pacific Foundation of Canada. Nov. 30, 2006. http://theasiafactor.ca/sites/default/files/filefield/AtlanticGateway.pdf, p. 11.

41 "Investing in Gateways," Canada's Economic Action Plan.

Coordination and consultation with all government partners

Intergovernmental coordination among all relevant parties is integral to informed and strategic infrastructure planning and investment decisions. In Canada, greater consultation is needed to ensure all government partners can provide input in their areas of expertise toward the development of shared objectives and strategic decisions.

Aligning infrastructure priorities

The federal government's most recent effort to invest in infrastructure, the New Building Canada Plan, has raised some concerns due to a lack of involvement by municipal governments in setting priorities and deciding on projects to fund within certain components of the initiative. With municipal governments required to submit priorities to provincial governments, who weigh them against their own objectives, it is not considered a collaborative process by some local leaders.[42] Ultimately, the provinces make the decision on which projects should be submitted to the federal government for consideration under key components of the New Building Canada Plan, representing a significant portion of investment opportunities.

However, the New Building Canada Plan is not the only example of minimal coordination with municipal government partners on major infrastructure initiatives. As there is currently no formal forum for municipal governments to directly interact with the federal government, most of these interactions occur in the case of highly politicized projects or problems.[43]

A lack of adequate discourse and collaboration can hurt the overall process of infrastructure planning and investment. Indeed, there are significant gaps and potential risks linked to limited coordination opportunities between national and subnational governments. As noted in one report: "If governments fail to coordinate this may result in a highly fragmented approach to infrastructure policy, potentially reinforcing inequalities and failing to make the most of available resources."[44] Other literature also highlighted the importance of coordination among all governmental partners, including communication on: clear expectations from national governments, potential challenges, and the implications of policies from local and regional governments.[45]

Experts interviewed for this report indicated that there can be a gap between provincial and federal priorities as a result of a lack of coordination, while municipalities and provinces may find themselves at odds on what should be funded within the region.[46] The main benefits of a coordinated approach are in providing clarity on priorities and in maximizing the effectiveness of resources. Therefore, the value of coordination could be significantly enhanced by giving all relevant partners an equal voice in providing input and, subsequently, working together to align efforts toward shared goals.

Increasing opportunities for local input

In general, a lack of coordination can hurt municipal infrastructure interests the most. For instance, an official with the Halifax Regional Municipality recently noted that its infrastructure-related efforts are constrained because municipalities are "creatures of the province," with provinces having significant influence on how money can be spent.[47] Funding arrangements, restrictive legislation and a lack of innovation to support infrastructure growth were other challenges highlighted. Similarly, one report noted that existing transfer arrangements provide municipalities with little freedom in decision-making, as provincial governments can use them to control the way municipalities provide services.[48]

42 "Naheed Nenshi worries infrastructure fund rules will stall cash," *CBC News*. Feb 14. 2014. http://www.cbc.ca/news/canada/calgary/naheed-nenshi-worries-infrastructure-fund-rules-will-stall-cash-1.2537122.
43 Interview conducted in December 2014.
44 Gamper and Charbit, 2014, p. 6.
45 "Intergovernmental Challenges in Surface Transportation," The Pew Charitable Trusts. September 2014. http://www.pewtrusts.org/~/media/Assets/2014/09/SurfaceTransportationIntergovernmentalChallengesFunding.pdf?la=en, p. 17.
46 Interviews conducted in November and December 2014.
47 "ACOA Atlantic Policy Research Initiative Final Report," Atlantic Conference on Public Administration. February 2013. http://new.acpa-caap.ca/wp-content/uploads/2012/05/2013-ACPA-Report_ENG1.pdf.
48 Slack, 2009, p. 23.

Case Study: How other countries engage with cities

Governments in Australia and the UK — despite some important differences in federal structure — may offer examples on improving coordination and engagement with all orders of government, particularly through partnerships with cities.

Infrastructure Australia previously had a Major Cities Unit, which offered advice on infrastructure policy and planning in urban areas. However, that effort was scuttled in 2013, to the dismay of a number of academics and other stakeholders who considered it a key part of the nation's coordination efforts.[49] In its wake, political leaders and stakeholders launched a Parliamentary Friendship Group for Better Cities, designed to bring together industry and all levels of government to develop long-term strategic infrastructure plans.[50]

The UK created the position of the Minister for Cities in 2011, as well as a Cities Policy Unit, designed to provide cities with more power through economic growth opportunities.[51]

In some cases, provincial agendas may favour infrastructure owned at the provincial level, such as highways under their control, rather than municipal interests.[52] This context can make it challenging for municipal governments to pursue their own infrastructure planning and priorities, especially on long-term and potentially transformational infrastructure projects, which is further compounded by a lack of alignment.

There are also few opportunities for municipalities to directly engage with the federal government to share insights on the impact of a given project on their jurisdiction during planning stages, as well as on local needs and potential capacity issues. Currently, such interactions are generally conducted ad hoc and in informal forums, such as through the Federation of Canadian Municipalities — which has made some headway in advancing municipal interests from the federal perspective.

The Gateway Transportation Collaboration Forum in Vancouver offers an example of regional coordination as a joint effort by federal and provincial ministries of transportation, as well as with private sector stakeholders. It was created in 2014 to "assess regional infrastructure needs and collaboratively develop a plan" as part of efforts to seek funding under the New Building Canada Plan.[53] However, municipal governments can only provide limited input in this forum, despite requests to play a more active role due to discussion of key infrastructure projects in their jurisdiction. For instance, the City of Surrey has raised concerns about certain projects the forum is examining within that city.[54] Despite efforts to become more involved, cities are not part of the steering committee or working groups, which limits the value of their input.

Meaningful municipal input would enhance opportunities to engage on shared interests and align objectives with partners that are closest to some major infrastructure of national significance under consideration.

Prioritizing collaborative over competitive discourse

There are many benefits to improved coordination but factors such as politicization, competing interests and a lack of clarity on roles can diminish its strategic value. Ineffective coordination among multiple levels of

49 Cameron Jewell, "Axing of Major Cities Unit widely condemned," *The Fifth Estate*. Sept. 28, 2013. http://www.thefifthestate.com.au/politics/government/axing-of-major-cities-unit-widely-condemned/55134.
50 Willow Aliento, "New tripartite, cross-sectoral cities think tank launched to fill Major Cities void," *The Fifth Estate*. Aug. 29, 2014. http://www.thefifthestate.com.au/innovation/planning/new-tripartite-cross-sectoral-cities-think-tank-launched-to-fill-major-cities-void/66889.
51 "Unlocking growth in cities," HM Government. December 2011. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7523/CO_Unlocking_20GrowthCities_acc.pdf.
52 Interview conducted in November 2014.
53 Cliff Stewart. "Letter to the Editor," *The Langley Times*. Aug. 13, 2014. http://www.langleytimes.com/opinion/letters/271154801.html.
54 "Transportation and Infrastructure Committee Minutes," City of Surrey. Sept. 15, 2014. http://www.surrey.ca/bylawsandcouncillibrary/MIN_TIC_2014_09_15.pdf; "Update on Proposed Robert Banks Terminal 2 Project and Gateway Transportation Collaboration Forum," City of Surrey. June 24, 2015. http://www.surrey.ca/bylawsandcouncillibrary/CR_2015-R130.pdf.)

government can lead to a lot of discussion but limited tangible results. While formal coordination mechanisms can help push decisions, there is a risk that discourse could be more competitive than collaborative.

Several interviewees observed that the existing venues to coordinate can be quite politicized, with concerns about winning political points or risk averse approaches that end up shoring up losing projects.[55] Regional collaboration among local governments with competing interests also poses a similar risk, particularly when it is conducted across borders.[56] As a result, there is a risk of losing the strategic connections that would be needed to effectively prioritize toward a common goal.

While it can be difficult to depoliticize the process and manage conflicting interests, certain conditions have helped to improve collaborative coordination. For instance, notable recent examples of effective coordination came out of a crisis situation or in preparation for a major event.[57] Municipalities were engaged by the federal government more significantly during efforts to stimulate the economy in 2009, in the aftermath of a significant economic downturn. The federal government directly contacted municipalities to provide a list of shovel-ready projects that could be started quickly and stimulate the economy.[58] As a result, political will to quickly allocate funding led to a coordinated response for projects that became part of the 2009 stimulus investments.

Another example of successful collaborative discourse occurred during preparation for the Vancouver Olympics. The impending international event spurred cooperation on the Canada Line — a major rapid rail project which was one of British Columbia's largest infrastructure undertakings — given that there was significant pressure to meet deadlines for an event that put Canada on the world stage.

However, collaborative discourse is needed as the norm, not the outlier, to ensure coordination is effective — particularly when involving multiple partners with diverse interests. The model of collaboration during the economic stimulus achieved short-term objectives, but can be used as a basis for future intergovernmental interactions on a longer-term basis to address broader infrastructure needs.

There have been some recent promising examples of increased collaboration involving local governments, which acknowledged that issues such as transportation and economic development are increasingly regional and therefore more beneficial to tackle collaboratively than competitively.

The Greater Toronto and Hamilton Area Mayors and Chairs Summit on Collaboration and Coordination demonstrate steps in Ontario to improve regional coordination with municipalities. The first meeting of this group brought together 24 mayors and four regional chairs in March 2015 with a plan to continue meeting every few months.[59] There is also talk between Toronto and Montreal to set aside rivalries and develop a "strategic alliance" that could include joint pitches to the federal government on infrastructure funding.[60]

Infrastructure is also a central topic in discussions by the Big City Mayors Caucus, which provides an opportunity for the mayors of Canada's 22 largest municipalities to discuss priorities.[61] Similar collaborative efforts have been observed in the United States where mayors, instead of governors, have recently taken the lead on pushing for transportation investments. They are now coordinating through the U.S. Conference of Mayors to launch a campaign on transportation funding for state and local infrastructure.[62]

55 Interviews conducted in November and December 2014.
56 Emmanuel Bruney-Jailly, "Globalization, Integration, and the Cross-Border Relations in the Metropolitan Area of Detroit and Windsor," *International Journal of Economic Development*. 2000. Vol. 2, No. 3. http://www.spaef.com/article/1045/Globalization-Integration-and-Cross-Border-Relations-in-the-Metropolitan-Area-of-Detroit-%28USA%29-and-Windsor-%28Canada%29.
57 Interviews conducted in November and December 2014.
58 Interview conducted in December 2014.
59 Martin Regg Cohn, "The secret Toronto summit that no one noticed," *The Toronto Star*. March 28, 2015. http://www.thestar.com/news/queenspark/2015/03/28/the-secret-toronto-summit-that-no-one-noticed-cohn.html.
60 Marcus Gee, "Sister cities: Can Toronto and Montreal set aside their sibling rivalry," *The Globe and Mail*. March 25, 2015. http://www.theglobeandmail.com/news/toronto/sister-cities-can-toronto-and-montreal-set-aside-their-sibling-rivalry/article23624838/.
61 Elizabeth Church, Jeff Lewis, Frances Bula, Joe Friesen and Les Perreaux. "Canada's big city mayors ready to push urban agenda," *The Globe and Mail*. February 1, 2015. http://www.theglobeandmail.com/news/toronto/big-city-mayors-ready-to-push-urban-agenda/article22740407/.
62 David A. Graham, "How Mayors Became America's Infrastructure Mavens," *The Atlantic*. March 24, 2015. http://www.theatlantic.com/politics/archive/2015/03/how-mayors-became-americas-infrastructure-kings/388619/.

Case Study: The costs of not effectively collaborating with all relevant partners

Strong planning and early interactions with both public and private partners, as well as relevant stakeholders such as First Nations, can help to overcome several barriers on major infrastructure projects including regulatory and legal hurdles. An example of the need for coordination among diverse partners is the Dorval Interchange — one of the Canadian Strategic Infrastructure Fund projects — which had significant delays in construction and rising costs.

The infrastructure project — which aimed to improve connections between the City of Montreal and the Pierre Elliot Trudeau airport — has been deemed the "bridges to nowhere" in the media. Costs were initially projected at $150 million in 2005, but rose to $507 million in 2012.[63] Construction was halted after Transports Quebec did not secure permission to build on land owned by CP Rail. One report suggested that though the province owned the infrastructure under construction, a role could have also been played by the city to help push the project forward in a timely fashion.[64]

Another instance of delay related to coordination and planning is the Plessis Road Underpass in Winnipeg. The project is partly funded by the federal government under the Major Infrastructure Component. Municipal, provincial and federal governments all provided investment toward the underpass, but there were subsequent disagreements between provincial and municipal officials on the effect of the closure on traffic and the lack of alternative routes.[65] There were also delays due to the complexity of the project, which involved working with partners to relocate pipelines and rail lines. The delays led to rising costs and prompted threats from the federal government to pull funding due to missed deadlines. Municipal staff subsequently indicated that a more significant study of potential challenges should have been conducted before embarking on the project.[66]

Overall, effective coordination across government can produce many beneficial outcomes. It helps to identify opportunities for and barriers to investment, manage potential conflicts, create dialogue in areas of joint interest and expertise, develop trust, and ensure sufficient capacity.[67] These are all critical components of major infrastructure projects and are thereby essential to bolster economic growth.

Strong leadership to provide direction and set priorities

While there is little consensus on the role each order of government can and should take on infrastructure investment and planning decisions, there is broader agreement on the notion that, currently, there is a lack of leadership across government. However, leadership is a critical component of coordination, as it helps to solve problems and disagreements that can emerge from cooperation among several parties.[68] Overall, leadership impacts coordination and priority-setting, and provides clarity on long-term infrastructure funding and objectives.

Heightening federal government leadership

Much of the federal government's efforts have been focused on investing in a broad array of infrastructure projects. However, the federal government has an opportunity — and some suggest a responsibility — to

63 Tim Sargeant, "Costs mount as Dorval Interchange sits idle," *Global News*. Feb. 5, 2014. http://globalnews.ca/news/1130684/costs-mount-as-dorval-interchange-sits-idle/.
64 "Brief of the Board of Trade of Metropolitan Montreal as part of public consultations on the draft Montreal Development Plan," Board of Trade of Metropolitan Montreal. August 2013. http://www.btmm.qc.ca/~/media/Files/News/2013/memoire_PDM_aout2013_en.pdf, p. 8.
65 "Delay Plessis Road underpass project, MLA urges city," *CBC News*. July 9, 2013. http://www.cbc.ca/news/canada/manitoba/delay-plessis-road-underpass-project-mla-urges-city-1.1300778.
66 David Larkins. "Plessis Road project needed more study: City engineer," *Winnipeg Sun*. March 12, 2015. http://www.winnipegsun.com/2015/03/12/plessis-road-project-needed-more-study-city-engineer.
67 "Recommendation of the Council on Effective Public Investment Across Levels of Government," OECD. March 12, 2014. http://www.oecd.org/gov/regional-policy/Principles-Public-Investment.pdf, p. 14.
68 "Effective Public Investment Across Levels of Government," OECD, p. 15.

chart the course for infrastructure that supports its broader ambitions. In particular, since the federal government oversees national priorities such as international trade, it should ensure that Canada has the capacity to meet its trade agenda. Such leadership would also provide the strategic direction against which municipal and provincial governments could align their efforts. Indeed, a lack of information or clarity on priorities by all levels of government has been identified as a major hurdle for coordination.[69]

In recent years, the Government of Canada has taken on active roles beyond funder of infrastructure, even though it has yet to take significant leadership. For instance, it played a coordinating role with the Asia-Pacific Gateway and Corridor Initiative, though it does not consistently engage in such a way on other infrastructure projects. Infrastructure Canada has also identified the value of its role beyond simply providing funds, as federal involvement can provide perceptions of stability to other potential partners on major infrastructure projects.[70]

As the need for infrastructure investments has gained more attention, policymakers and stakeholders — including some interviewed for this project — have called for the federal government to go beyond its previous roles and take leadership by setting an agenda through a national infrastructure or transportation strategy.[71] Though the federal government released a policy framework on gateways and corridors, it did not fully commit to the concept of interconnected gateways and trade corridors across the country — which could have turned into a larger strategy.

Given the importance of public infrastructure and its connection to global competitiveness, other countries have been more proactive in developing a national infrastructure strategy. For instance, weak infrastructure planning in Australia prompted the development of Infrastructure Australia to improve coordination and provide advice to governments on priorities of national significance.[72] The infrastructure projects that were determined to be of the highest priority addressed congestion, improved productivity and strengthened economic growth — including gateways, railways and public transportation.[73] The UK has also developed a national strategy to support infrastructure development, which one report suggests could be a model for Canada.[74]

In the absence of a federal plan, certain provinces have pursued their own infrastructure strategic plans which highlight varying priorities, including those that support national economic growth objectives. For instance, Manitoba has released a five-year plan which outlines its funding strategies and infrastructure priorities, including intentions to strengthen interprovincial and international trade corridors.[75] The New West Partnership — a regional partnership between British Columbia, Alberta and Saskatchewan — has specifically highlighted categories which include high-volume marine ports, integrated highways, and rail and pipeline systems as critical trade-related infrastructure that should be focused on to strengthen Canada's economic competitiveness.[76]

Despite these provincial and regional efforts, increased federal leadership is particularly valuable by identifying for provinces and municipalities across the country the infrastructure it is interested in strengthening. However, any federal leadership role should also provide opportunities for flexibility, since certain federal government efforts are also effectively conducted through consistent and informal work with partners.[77] The coordination role played by the federal government — by bringing key players to the

69 "Effective Public Investment Across Levels of Government," OECD, p. 14.

70 "Final Report – Joint Evaluation of Infrastructure Canada's Canada Strategic Infrastructure Fund and Border Infrastructure Fund," Infrastructure Canada – Evaluation Directorate. June 2014. http://www.infrastructure.gc.ca/pd-dp/eval/2014-csif-bif-fcis-fif-eng.html.

71 Interviews conducted in November and December 2014; John Brodhead, Jesse Darling and Sean Mullin, "Crisis and Opportunity: Time for a National Infrastructure Plan for Canada," Canada2020. Oct. 1, 2014. http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/; Ircha, 2011.

72 Vassiliki Koutsogeorgopoulou and Omar Barbiero, "Boosting Productivity in Australia." OECD Economics Department Working Papers, No 1025. 2013, p. 24-25.

73 "Getting the fundamentals right for Australia's Infrastructure priorities," *Infrastructure Australia*. June 2010, p. 7.

74 Brodhead, Darling and Mullin, 2014.

75 "The Five-Year Plan to Build a Stronger Manitoba: Manitoba's Core Infrastructure Priorities," Government of Manitoba. March 2014. http://www.gov.mb.ca/mit/pdf/five-yr-plan.pdf.

76 "New West Premiers and Industry Work Together To Support Growth," Canada's New West Partnership. November 2014. http://www.newwest-partnership.ca/20141106-NR-New%20West%20Premiers%20and%20industry%20work%20together%20to%20support%20growth.pdf.

77 Interview conducted in December 2014.

table, as it did in support of the Asia-Pacific Gateway and Corridor Initiative — is crucial in tandem with more wide-reaching efforts. Overall, setting priorities on a national scale would go a long way to support infrastructure that would have the greatest impact on productivity and competitiveness.

Encouraging municipalities to spearhead major infrastructure projects

Certain municipalities have taken the initiative to spearhead large-scale infrastructure projects they considered important to their jurisdiction, often with positive results. Many instances of successful multi-level major infrastructure projects were pursued by local leaders.

For instance, CentrePort Canada, Canada's first inland port located in Winnipeg, was conceived at the local level — appearing as a recommendation in a 2008 Mayor's Trade Council report.[78] The report included a vision of Winnipeg's role in connecting to national gateways and international markets. That vision was subsequently embraced by business, labour and provincial and federal governments, resulting in the establishment of CentrePort Canada in 2009. Local stakeholders played a critical role in ensuring the project aligned with provincial and federal government objectives to obtain needed support.[79]

> *Infrastructure projects led by the local level also have the benefit of demonstrating community buy-in which strengthens social licence to operate.*

Similarly, the Eastern Ontario Broadband Initiative was initiated by proactive leaders at the local level, through the Eastern Ontario Wardens' Caucus, which made a case that a local priority of improved connectivity aligned with provincial and federal objectives. The result was a significant increase in broadband access across the region due to joint work and contributions by all orders of government.[80]

The success of these projects initiated at the local level is based on the ability of local leaders to tie a major local infrastructure project to provincial and federal objectives to obtain their support. Once other orders of government not only observed that a local project fit its priorities, but also already had the support of local stakeholders, it generated more confidence among provincial and federal governments on major projects and, subsequently, improved chances that they would invest in and support the project.[81] Infrastructure projects led by the local level also have the benefit of demonstrating community buy-in which strengthens social licence to operate.

While there are certain instances of successful large-scale, productivity-enhancing infrastructure efforts driven by local governments, planning that incorporates considerations such as trade is not traditionally done by municipal governments as it can be "hard for municipalities to look at trade beyond their own industrial labour force and economic development activities."[82] For instance, there was a tendency among municipalities surrounding the Detroit-Windsor corridor to support the general notion of additional border crossing capacity, but less willingness to do so when construction was close to home.[83]

While municipalities have a range of infrastructure responsibilities, it is valuable for provincial and federal governments to engage local governments and provide direction early on to encourage more efforts to spearhead major productivity-enhancing infrastructure on a wider scale.

78 "Winnipeg – Canada's Centre for Global Trade," Mayor's Trade Council. 2008. http://winnipeginlandport.ca/mayor_%27s_trade_council_report.pdf.
79 Interview conducted in November 2014.
80 Interview conducted in November 2014; "Digital Strategy: A Road Map to Digital Leadership 2015-2024," Eastern Ontario Regional Network. 2015. https://www.eorn.ca/en/resources/Digital_Strategy/EORN_Digital_Strategy_2015-2024.pdf.
81 Interviews conducted in November and December 2014.
82 Interview conducted in December 2014.
83 Jen Nelles and John B Sutcliffe, "Borderland Community and the Reform of the Windsor-Detroit Border," report prepared for the Canadian Political Science Association. May 16-18 2011. http://www.cpsa-acsp.ca/papers-2011/Nelles-Sutcliffe.pdf, p. 15.

Case Study: Municipal infrastructure leadership in the City of Kitchener

The City of Kitchener was integral in the transformation of its economy over the past several years — from a primarily manufacturing centre to focusing significantly on developing a knowledge-based economy. It was initiated by the City Council, which sought to reinvent the economy in 2004 once it observed declines in the manufacturing industry. The transformation was primarily a locally-led process by a council looking beyond its usual mandate.[84]

Political leadership by the local government was a key factor in pushing this transformation. The City of Kitchener created a $110-million economic development fund for "major strategic infrastructure and economic development projects across the city," financed by a 1.25 per cent increase in property taxes over 10 years.[85] It used those funds to focus on knowledge-based urban capital projects, while also reorganizing its economic development initiatives. Citizens and stakeholders in the city united with a single purpose, according to the city's economic development executive director, "positioning our economy to compete internationally."[86]

The City of Kitchener subsequently made connections with provincial and federal governments to obtain support and help drive change. This example illustrates the value that can be provided by local councils — particularly in providing expertise on the unique needs of a community and the region, as well as its citizens and businesses — to identify key opportunities that capitalize on a jurisdiction's economic growth potential.

Reliable and strategic investments from diverse sources

Several studies have highlighted the strong link between infrastructure investment and economic growth, including a recent report which noted that public infrastructure deficiencies have a detrimental impact on economic growth.[87] However, while it could be argued that all infrastructure enables trade and enhances productivity, some projects are clearly more directly linked than others. Therefore, there should be a consideration of the connections to broader trade networks when selecting projects to receive funding. In Canada, disproportional funding burdens and a lack of targeted funding limits the strategic value of major infrastructure investments, including for projects that would boost productivity and competitiveness.

Increasing proportionality of government funds

Typically, the federal government's approach to infrastructure has been through short-term and ad hoc funding, with dollars raised through taxation mechanisms that are closely linked with economic growth. As a result, the federal and provincial/territorial governments reap a significant proportion of the financial rewards of a growing and more productive economy.

While the renewed Gas Tax Fund increases stability and flexibility to municipal infrastructure funding and the New Building Canada Plan provides more long-term support, observers contend that more revenue sources are still needed to support Canada's infrastructure.[88] A Senate report noted that there is "widespread agreement that municipalities do not have sufficient revenue sources to meet their growing expenditure responsibilities."[89] As a result, cities such as Toronto reported that they had to use operating and one-time revenue surpluses to repair and maintain infrastructure or otherwise cut services.

Provinces, in particular, have led calls for the federal government to cover a more equal portion of infrastructure funding. The Council of the Federation has raised concerns about the lack of federal

84 Interview conducted in December 2014.
85 "Economic Development Investment Fund: Shaping Tomorrow Together," City of Kitchener. https://www.kitchener.ca/en/insidecityhall/resources/EconomicDevelopmentInvestmentFundBrochure.Pdf, p. 2.
86 Rod Regier, "City Building for the Creative Economy: Lessons from a mid-sized manufacturing town," Presentation to CityAge Seattle. June 2014. http://cityage.org/news/the-new-american-city-presentation-rod-regier-economic-development-city-of-kitchener/.
87 Vander Ploeg and Holden, Canada West Foundation, 2013.
88 Côté and Fenn, 2014, p. 43-44.
89 "The Vertical and Municipal Fiscal Imbalances – Senate Interim Report on the Committee's Study of the Fiscal Balance between the Different Levels of Government in Canada," Parliament of Canada. June 2007. http://www.parl.gc.ca/Content/SEN/Committee/391/fina/rep/rep17jun07-e.htm.

government investment in infrastructure, pointing out recently that provinces and territories invest 2.4 times more in infrastructure than the federal government.[90] Overall, Canada's Premiers estimate that the federal government is spending $19 billion less than it should on infrastructure.

According to the OECD, local and provincial/territorial governments in Canada pay a greater proportion than any other member country on public investment.

According to the OECD, local and provincial/territorial governments in Canada pay a greater proportion than any other member country on public investment.[91] It also notes that Canada spends less on transportation than many European countries, despite recent increases in funding. The OECD adds that, in particular, investments by central governments in transportation infrastructure are warranted due to the widespread positive effects of urban infrastructure on productivity and national competitiveness.[92]

Providing greater incentives to local governments

Local governments do not receive benefits from a revenue source that automatically grows with the economy, as they rely heavily on property tax revenues to fund infrastructure projects in most cases. User fees are also used to varying degrees. This environment can impact how municipalities make their infrastructure decisions.[93] Indeed, local support for major trade-enabling infrastructure projects such as ports and gateways projects has declined over the years in some jurisdictions due to the limited amount of economic benefits received locally as a result of such construction compared to those provided nationally.[94]

Compared to Canada, cities in other countries can draw from much broader revenue sources to fund local infrastructure. For instance, Denmark has developed an Infrastructure Fund comprised of many different sources of revenue — including tax revenues, asset recycling and tolls — focused on fully funding specific types of projects over the long-term, including roads, rails, ports and airports.[95] Overall, property taxes comprise less than 30 per cent of local tax revenues in many OECD countries.[96] The revenue source is generally used for limited local projects and it is considered ineffective to finance services designed to support economic development.

There are calls for more flexible, dedicated and stable funding pools that can help local governments better conduct infrastructure planning activities.[97] Winnipeg mayor Brian Bowman stated in early 2015 that one of the most pressing issues among major cities was the development of new infrastructure funding models "to modernize the ways that cities fund themselves."[98]

Some provinces have sought alternative methods to raise revenues to fund infrastructure projects. For instance, Manitoba recently hiked its Provincial Sales Tax (PST) from seven to eight per cent, dedicating the new funds to infrastructure.[99] The PST increase was estimated to provide $1.5 billion in new provincial revenue over a five-year period, bringing significant economic benefits to the province.[100]

90 "Driving Public Infrastructure, Jobs and Economic Growth: A Discussion to support the work of the fiscal arrangement working group — infrastructure sub-group," Council of the Federation. August 2014. http://csce.ca/custom-content/uploads/2014/07/Discussion-document-from-Premiers-meeting-on-Infrastructure-Aug-6-14-.pdf.
91 "Effective Public Investment Across Levels of Government," OECD, p. 4.
92 OECD Territorial Review, p. 132-133.
93 Interview conducted in December 2014.
94 Peter Hall, "Global Logistics and Local Dilemmas," International Conference on Gateways and Corridors. May 2 to 4, 2007. http://www.gateway-corridor.com/roundconfpapers/documents/Hall_Peter_Vancouver.pdf, p. 8-10.
95 "Transcontinental Infrastructure Needs to 2030/2050," OECD – International Futures Programme. May 2010. http://www.oecd.org/futures/infrastructureto2030/49996793.pdf, p. 21.
96 OECD Territorial Review, p. 167.
97 "Towards a new Federal Long-Term Infrastructure Plan: AMO's Submission to Infrastructure Canada," Association of Municipalities of Ontario. August 2012. http://www.on-csi.ca/cmsAdmin/uploads/AMO_Submission_to_Infrastructure_Canada.pdf, p. 3.
98 Church, et al., "Canada's big city mayors", 2015.
99 Teghan Beaudette, "Manitoba to hike PST to 8%," *CBC News*. April 16, 2013. http://www.cbc.ca/news/canada/manitoba/manitoba-to-hike-pst-to-8-1.1310688.
100 "Manitoba's Infrastructure Investment," Conference Board of Canada. March 2014. http://www.steadygrowth.ca/english/wp-content/uploads/sites/2/2014/03/conference_board_of_canada_report.pdf, p. 2.

UK City Deals and the value of incentivizing urban centres

Urban centres play a key role in fueling national competitiveness and productivity. Infrastructure investment within major cities has been recognized as a key way to drive such economic growth, as demonstrated with the UK's City Deals.

City Deals were developed based on a model by national and local governments in the UK to fund and deliver infrastructure through shared priorities based on economic impacts. It aims to "cut through political discourse to focus on ensuring investment maximizes economic growth."[101] Major cities in the UK have already signed City Deals — which are contracts between an economic region and the national government over 10 years to identify priority infrastructure projects based on economic growth opportunities and to meet specific related benchmarks. It has been noted to encourage greater local leadership and lead to higher levels of local investment.

The arrangement also incentivizes cities to make strategic infrastructure decisions. Cities that meet their benchmarks for job and productivity growth are rewarded with opportunities to earn back a share of tax revenues generated through increased economic development.[102]

In comparison, the OECD has criticized Canada's approach to the role of urban centres in economic growth. However, there is an increased push to acknowledge and leverage the value that major urban centres can provide to strengthen economic growth.[103] Canada's major Chambers of Commerce and Boards of Trade have called for a National Urban Strategy to increase focus on the economic value of urban regions. The City Deals plan goes beyond efforts to leverage economic potential by creating specific incentives to do so.

Delivering funding that targets specific priorities

Past federal government efforts have not typically favoured targeted infrastructure investments, as Canada's infrastructure has generally been funded under omnibus programs in recent years. For instance, funding under the New Building Canada Plan (NBCP) involves the provision of grants based on jurisdiction, meaning that many small municipalities receive investments that they may not need in comparison to major urban centres. While certainly some small- and mid-sized cities could use such funding well, such a broad approach constrains the ability to be strategic and provide resources where they would have the greatest economic impact. In general, the NBCP currently favours general economic-generating activity, as opposed to any specific focus on infrastructure that would support Canada's economic infrastructure network.

There is support among stakeholders to focus funding on specific sectors or objectives — in line with efforts such as the gateway and corridor strategy.[104] Despite efforts to complete new trade deals, the federal government has moved away from past earmarks for gateway and corridor funding in the NBCP. While there are certainly components of the New Building Canada Plan that will support trade-related infrastructure, particularly the National Infrastructure Component, these are limited in nature while recent federal budgets have also downplayed trade as a key priority for infrastructure investments. Budget 2015 contains no direct mention of trade in its section on infrastructure, though it does reference individual projects under the New Building Canada Plan designed to promote economic growth and announces a new fund dedicated to public transit infrastructure which aims to reduce congestion.[105] In

101 "Introducing UK City Deals: A smart approach to supercharging economic growth and productivity," KPMG. 2014. https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Documents/uk-city-deal-economic-growth-productivity.pdf, p. 6.
102 "Introducing UK City Deals," 2014, p. 2-6; "Greater Manchester City Deal," Greater Manchester Combined Authority. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221014/Greater-Manchester-City-Deal-final_0.pdf.
103 "A Call for a National Urban Strategy Targeted Toward Canada's Largest Urban Centres," Joint Statement from Canada's major Chambers of Commerce and Boards of Trade. November 2010. http://www.boardoftrade.com/files/PDF/Policy/2010/NationalUrbanStrategy-joint-statement.pdf, p. 2.
104 Interviews conducted in November and December 2014.
105 "Budget 2015: Chapter 3.4 – Investing in Infrastructure," Government of Canada. April 2015. http://www.budget.gc.ca/2015/docs/plan/ch3-4-eng.html.

comparison, Budget 2013 highlighted several trade initiatives, including the Asia-Pacific Gateway and Corridor Initiative and the Windsor-Detroit International Crossing.[106]

The OECD emphasizes the value of a gateway transportation funding focus. It notes that typical sources of funding for such projects are expected to become scarce and, as a result, it is necessary to be strategic about infrastructure funding arrangements to effectively support future growth.[107] As a result, it has called for "a focus on strategic, multimodal 'core networks,'" which would include major international gateways and connecting corridors.[108] Dedicated resources for such projects are critical, the OECD adds, as funding limitations would damage the credibility and reliability of gateways, as well as stakeholder interest in supporting them, which would ultimately inhibit the potential of gateways to strengthen economic growth and productivity.

Projects with high impacts on economic growth have also been specifically prioritized in other countries, such as the UK and Australia. The Canadian Chamber of Commerce takes a similar position, arguing that infrastructure spending should not be viewed as an effort to stimulate the economy in the short-term but, instead, investments should be focused on projects that will provide "a long-term commitment to our economic growth."[109]

106 "Budget 2013: Chapter 3.3 – The New Building Canada Plan," Government of Canada. March 2013. http://www.budget.gc.ca/2013/doc/plan/chap3-3-eng.html.
107 "Strategic Transport Infrastructure Needs to 2030," OECD – International Futures Programme. 2011. http://www.oecd.org/futures/infrastructureto2030/49094448.pdf, p. 6.
108 "Strategic Transport Infrastructure Needs to 2030," p. 6, 12.
109 "The Foundations of a Competitive Canada," 2013, p. 27.

Recommendations

While it is clear that many infrastructure projects will spur economic returns, certain projects will have a more significant impact on growth and competitiveness than others. Coordination and engagement with all orders of government, particularly local governments, is needed to ensure infrastructure planning and investment is aligned and strategic to meet economic growth objectives.

Ultimately, Canadian governments should aim to build an environment that provides local leaders with more opportunities to engage on strategic priorities and pursue large-scale, productivity-enhancing projects in line with broader national infrastructure networks, allowing all orders of government to work toward building and maintaining infrastructure to support economic growth. There is evidence that municipalities have an appetite for more regionally- and nationally-significant infrastructure planning, though they may lack opportunities to carry it out.

Greater leadership at the federal level would help to guide decisions and facilitate alignment. But this leadership should recognize and make room for the substantial expertise that already exists at local and regional levels, which broader strategies should aim to capitalize on and further embolden. This is already being recognized and addressed internationally through efforts such as UK's City Deals, which prioritize projects in major urban centres that will have the most significant impact on economic growth.

Canadian policymakers should also work toward an infrastructure strategy that realigns governments around specific objectives. Research in Australia concludes that simply investing in more infrastructure is not the best approach when the ultimate goal is productivity growth, but instead efficient and consistent investment.[110] In particular, infrastructure projects that support trade — airports, border crossings, transportation corridors — are among those that will provide the greatest growth potential. Indeed, all infrastructure investments should serve a larger policy purpose, with economic growth as a vital guiding principle.

Governments across Canada are increasingly working with private partners to diversify and leverage alternative financing for infrastructure projects. Though engagement with the private sector is important, P3s are not a panacea to address the infrastructure funding gap. Therefore, smart and targeted investment is needed. The way that governments across Canada coordinate, lead and invest in public infrastructure is of critical importance to support its larger ambitions toward economic growth and competitiveness.

The following recommendations aim to provide a first step in that process.

EVIDENCE

Conduct a detailed economic analysis that would provide evidence on the benefits, particularly to local governments, of major productivity-enhancing infrastructure.

The federal government can play a key leadership role in building the evidence base for Canada's economic infrastructure, working with other orders of government. Data on the economic benefits of

110 "Infrastructure Imperatives for Australia," SMART Infrastructure Facility – University of Wollongong. 2014. http://smart.uow.edu.au/content/groups/public/@web/@smart/documents/doc/uow164909.pdf, p. 3.

large-scale projects that are part of a network of infrastructure across the country — including assets, pressure points and risks of inaction — would provide a shared evidence base to guide strategic decisions, with a particular emphasis on municipalities. The analysis could also examine trends in municipal finance data over the years to determine current sources of infrastructure funding at local levels and chart revenues over the years in relation to investments.

This analysis could expand upon work already conducted by Transport Canada as part of the federal government's gateway and corridor strategy. It undertook an analysis of infrastructure of national significance to map the transportation system and identify elements that are essential to competitiveness.[111] Overall, the aim should be to use local data to build evidence to inform strategic decision-making on investments.

ALIGNMENT

Develop regional coordination forums involving federal, provincial/territorial and municipal governments, including those with expertise on infrastructure and economic development.

Forums for federal, provincial/territorial and municipal governments to discuss major infrastructure would strengthen decision-making. It is also valuable to involve other relevant departments to such discussions to ensure effective coordination.

Such mechanisms would help to set priorities, share information, determine shared interests, and clarify roles and responsibilities. Ultimately, with a regional focus, they would provide greater recognition on the need to row together to steer the ship in a strategic direction. Recent efforts by some municipal governments to work collaboratively with each other and with provinces indicate there is already an interest in increased regional coordination.

Incorporating private sector input would also strengthen coordination, in line with findings that private sector stakeholders play a key role in planning, building, and funding trade-related infrastructure.[112] The Gateway Transportation Collaboration Forum in Vancouver could serve as a starting point for this type of regional collaboration forum, as it already includes public- and private-sector partners.

Urban centres must not only have a seat at the table at such forums, but play a key role in discussions since they have a sizable impact on economic growth. As part of this mechanism, federal consultation with provinces and major cities should be an explicit part of decision-making for large infrastructure projects of national significance.

Opportunities should also be available for small- and medium-sized cities to engage with provincial/territorial and federal governments on projects with economic or trade-enabling potential, as well as to share input when major infrastructure projects impact their communities. The example of efforts in Kitchener to transform its economy illustrates how local leaders can play an influential role.

SUPPORT

Develop new mechanisms that will incentivize local governments to give greater attention to the national economic infrastructure network by providing them with a greater proportion of the financial benefits.

111 "National Policy Framework," 2009, p. 7.
112 Law and Dade, 2014, p. 14-15.

Target specific project types for focused investment — with notable impacts on trade and productivity — informed by priorities set by intergovernmental forums.

New mechanisms are needed to raise revenue and fund infrastructure projects strategically to ensure public dollars go further. Funding mechanisms must ensure that infrastructure investments are effectively incentivized, providing benefits that are distributed more proportionally with investment levels.

Currently, provincial and federal governments each collect comparable levels of tax revenue, despite different levels of investment, while local governments receive limited return on investments.[113] As a result, new mechanisms should be implemented to provide such incentives.

A first step would be to look at new models already being used in provinces such as Manitoba, which dedicated a portion of its Provincial Sales Tax to infrastructure projects. Provinces can also play a role by revising legislation and providing municipalities with additional tools to raise revenues for infrastructure projects. New revenue tools would provide local governments with greater flexibility to respond to local infrastructure issues.

Focusing investments by all orders of government on specific objectives — particularly projects that will fuel economic growth and national competitiveness — would provide an opportunity to spend limited infrastructure dollars more wisely and to be more strategic in decision-making. Targeted funding also presents increased opportunities to coordinate with relevant partners and prioritize projects. A focus on trade and productivity for infrastructure investments can help to increase levels of revenue to use toward future infrastructure projects. UK's City Deals provides a model for funding infrastructure that specifically focuses on economic growth.

STRATEGY

Revisit the federal Gateways and Corridors Strategy.

Incorporate economic development in subnational capital planning processes.

A lack of strong government leadership suggests that an overarching strategy would clarify a direction on infrastructure, enhancing its strategic capacity and promoting alignment. This should start with revisiting and updating the federal government's strategy on gateways and corridors, which should emphasize the considerable impact of large cities, as well as the need for strong trade corridors across the country to effectively connect these cities with major gateway hubs. While the New Building Canada Plan's National Infrastructure Component aims to broadly fund projects of "national significance," it does not go far enough. It provides a limited amount of funds for major infrastructure, while project selections are opaque and not connected to any larger strategy. Indeed, it removes specific funding from the original initiative that was dedicated to gateways and corridors. Nation-building was a key theme behind those investments and the strategy built around gateways and corridors, and it should be recommitted to and expanded upon — with greater involvement by other levels of government — to ensure all parts of Canada's trade networks are strong and resilient.

Certain provinces have also engaged in their own strategic planning to varying degrees. This should be further encouraged, in tandem with other levels of government — with municipal planning in particular incorporated in long-term infrastructure plans. An economic development component built into provincial capital planning would help to encourage municipalities to work more closely with economic development partners and ensure growth considerations play a role in shaping decisions by local governments.

113 "Driving Public Infrastructure," 2014.

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MOWAT RESEARCH #113 | ©2015 ISBN 978-1-77259-004-3

NOVEMBER 2015 | MOWATCENTRE.CA

School of Public Policy & Governance
UNIVERSITY OF TORONTO