

P3 infrastructure Projects – a win-win for Toronto **and its Financial Sector**

Remarks by Janet Ecker
President and CEO, Toronto Financial Services Alliance

Empire Club of Canada
Toronto
December 1st, 2014

(Check against delivery)

- Thank you Andrea, and good afternoon. It's always a pleasure to speak to the Empire Club, part of Toronto's civil-society-public-engagement infrastructure, if I may put it that way, given the topic of my speech.
- You know, there is an interesting fact about Canada's participation in last year's Olympic Games in Sochi – did you know that during the games, Canadians took to social media to congratulate and support their athletes more frequently than almost all other countries?
- This doesn't exactly fit the old Canadian stereotype: that we don't readily celebrate our strengths or successes. As I have often joked, Canadians don't think we are good at something until someone outside the country says we are.
- But the Sochi success tapped into some sense of our Canadian identity which we were all prepared to openly, and unabashedly celebrate.

- What is also unique about Sochi, is how we did it. Our success can be attributed to Canada's relatively new "Own the Podium" strategy, where public and private investors collaborated to fund our best athletes in our strongest sports to ensure we had medal contenders.
- Once a country of mediocre podium results, this public-private collaboration propelled our athletes near the top of the medal count.
- And the successful outcome gave Canadians something to shout about from the roof tops; or more accurately these days, to share through our social media channels.
- Well we have another success story we can shout about in this country, and it too has benefitted from a similar coming together of the public and private sectors – our financial services industry, headquartered here in Toronto region.
- The partnership that exists between our financial industry, policy makers and regulators has helped build the strong, stable and successful system we have today. And it was one of the things that kept us out of trouble through the global financial crisis.
- Now, through the Toronto Financial Services Alliance, TFSA for short – just think tax free savings accounts! – we are leveraging the strengths of both the public and private sectors in the financial sector, in academia and in government to build, as I like to say, a bigger, better international financial services centre.
- We don't take it for granted, but I like to talk about the financial sector's success. One, it's my job. Two, there is a lot to talk about and that success benefits us all; and three, it just feels so good to talk about a success story, here in Toronto, Ontario, Canada. We don't do it enough!

- But once in a while, we need to climb up on that roof top and give a shout about something that is working, and Canada’s financial sector certainly is.
- Rated safest and soundest system in the world; Toronto is now the second largest financial sector in North America; rated 6th in the world as a financial centre; with an industry growth rate over the last decade that beats other global cities; one of Canada’s growing export success stories – there are a lot of strengths to talk about.
- But today I want to look at this industry from a slightly different perspective; and to use that platform as a jumping-off spot to discuss the need for more infrastructure, particularly more public-private infrastructure partnerships, or P3s for short.
- If this sounds like a stretch, let me quickly dispel the thought.
- First of all...
- Building and sustaining a “top ten” global financial services centre requires many things –
 - **A strong, stable financial system.** Check mark beside that one.
 - **A competitive business environment.** While we all have things to fix in this regard, you can put a pretty large check mark there. Just last week Bloomberg ranked Canada number two in the world, up from 6th place, as one of the world’s most attractive countries for business.
 - **A highly-skilled and diverse talent base and an enviable quality of life.** Two more check marks.

- But there is one area that still needs more work – building and upgrading our **infrastructure**, from roads and transit lines to airline links and water pipes.
- Check mark? Not so much.
- This matters for a city region like ours. Because we now have to compete fiercely with global financial centres around the world.
- Jobs like financial services jobs, high-skilled, high-paying jobs, jobs that support other jobs, 350,000 direct and indirect jobs to be exact, supporting 20% of Toronto's GDP – they don't all have to be here anymore. In today's technical age, a lot of the financial business can be done just about anywhere.
- Fortunately, our governments are trying to respond to the challenge in various ways. Both Ottawa and Ontario have announced major infrastructure money. The City is driving us all crazy with all the major construction projects they have underway.
- So with our Prime Minister, our Premier and now, our new Mayor, all on the same page about the need and the solution, the stars may be aligned for some major progress.
- We don't need stats to highlight the problem. We see it with our own eyes every day – overcrowded subways, deteriorating roads, gridlock, busted water pipes, electricity blackouts; new communities needing new schools, new water and sewer plants, new hospitals; while old schools, hospitals and pipes need replacement or refurbishment.

- For those who do need some numbers, the Federation of Canadian Municipalities has estimated the municipal infrastructure deficit is \$123 billion, just to maintain existing municipal infrastructure.
- The Canadian Infrastructure Report Card estimates the replacement cost for roads and water systems in trouble needs \$171 billion over the next ten years.
- The consulting firm PWC has estimated that if you add in provincial and federal needs, you could be as high as \$400 billion.
- With numbers like that, it is clear that no government can handle all of this, on their own.
- Fortunately, there is an answer. And it's a solution with a track record of success not only in this country, but around the world.
- So that is my second message.
- We need to fix our infrastructure if we are to compete as a global financial centre, and we need to do it with more P3 projects. They are a significant part of the solution.
- Whether it's designing, building, financing, maintaining, operating or even owning, there are many ways to do it. But at its heart, it is simply leveraging the strengths of the private sector, to meet the needs of the public sector, on behalf of all of us.
- There are currently 214 P3 projects across Canada, with those under construction or in operation worth more than \$67 billion.

- In a recent study by Nanos Research, commissioned by the Canadian Council for Public-Private Partnerships, it reported that such projects created almost 300,000 direct jobs between 2003 and 2012.
- Those projects contributed \$25.1 billion in direct GDP and \$7.5 billion in government tax revenues.
- Perhaps more importantly, these projects produced almost \$10 billion in savings to the taxpayer, versus traditional procurement.
- Not to mention the existence of the projects themselves, now there for the benefit of communities, and delivered in a way that supports innovation, offers value for money and delivers projects on-time and on-budget.
- Canadians recognize this value. Public opinion research shows that 62 per cent of Canadians broadly support the use of P3s to build infrastructure and deliver public services.
- And that support can increase when citizens are aware of a P3 project in their own community – such as 73 per cent of residents who benefit from the Moncton Water Treatment Facility, for example.
- In fact, research has also found that a majority of Canadians surveyed in communities with active P3 projects, believe that the project would never have gotten off the ground without this critical partnership – such as 70 per cent of survey respondents living in the community surrounding the Sault Ste. Marie hospital.

- We don't have far to look to see the benefits of P3 infrastructure initiatives – the “Canada Line” in British Columbia, the Regina Water/Wastewater Treatment Plant project, Toronto's pedestrian tunnel at the Billy Bishop Island Airport, the Union-Pearson airport express, Hwy. 407 extensions or the Eglinton Crosstown Light Rapid Transit line – to name just a few that are underway.
- That means projects designed to help reduce commuting times for families, enhance economic competitiveness, encourage job creation, and strengthen trade corridors. These new and renewed state-of-the-art facilities are critical to the economic future and quality of life in these communities and will be for decades to come.
- So the evidence is pretty clear that P3 projects can be a major part of the solution to our infrastructure challenge.
- But here is the other important fact about the P3 world, one that makes it an even bigger win-win for all of us. It turns out, we are rather good at this P3 thing, especially when it comes to our financial services sector.
- And that is my third message.
- Whether it's the internationally recognized expertise of Infrastructure Ontario, the provincial agency running P3 projects in health care and transportation; the global thought leadership of the Canadian Council for Public-Private Partnerships; the federal government's 3P agency; or the growing international reputation of our major pension plans and insurance companies as savvy investors in infrastructure projects – we have an asset that we can leverage more for the benefit of Toronto and the rest of the country; not to mention building a global niche for ourselves.

- Canada is increasingly recognized as a world leader in establishing successful P3s to address infrastructure deficits.
- With two decades of experience, a critical ecosystem of P3 expertise has been established. With a steady pipeline of projects and a well-respected procurement process, we are a popular market for national and international P3 players.
- As Canada's financial and business capital, Toronto provides a gateway for global public and private sector participants to reach members of the country's P3 infrastructure community. At the same time, Toronto's P3 community is actively seeking opportunities abroad to apply its expertise.
- So we are a centre of excellence – home to leading national and international developers and construction companies as well as financiers, architects, engineers, lawyers, asset managers and consultants.
- Three of the world's leading infrastructure developers operate from offices in Toronto, along with two of the world's major infrastructure advisory firms, three of the world's 50 biggest pension funds and three of the world's 20 biggest insurance companies.
- Recognition of our country's leadership has brought governments from around the world to our doorstep, seeking support to undertake their own P3 infrastructure projects.
- Whether its representatives of developing countries, trying to cope with the demands of over a million people a week moving into urban centres; or leaders from developed nations, whose sustainable economic growth depends on the repair and replacement of aging water, power, transportation and other public facilities – both are finding needed expertise and investment from Canadian companies.

- A significant source of this financing comes from the country's large public pension funds and insurance firms. Because these companies have long-term investment horizons – in order to fund our long-term retirement income and insurance needs – they need long-term investments.
- P3 infrastructure projects fit the bill. As the head of one firm once joked, for us, a business quarter is 25 years.
- Let's take a closer look at what is known as our "top ten" pension funds, the ten largest public pension plans.
- A recent study from the Boston Consulting Group's examination of the economic impact of these pension funds concluded that they were a Canadian success story on the world stage, supporting a talent base of excellent managers of quality, large-scale investments.
- They have invested roughly \$400 billion in Canadian enterprises, including \$100 billion in real estate, infrastructure and private equity. They also comprise four of the top 20 global investors in infrastructure assets.
- That investment, as well as supporting pensions for literally millions of Canadians, also supports the direct employment of 5,000 professionals in the Canadian financial sector and an additional 5,000 employees in their real estate subsidiaries.
- While pension firms like Teachers, OMERS and CPPIB are becoming internationally recognized, they are not alone in capturing international interest.
- P3 infrastructure projects require stable, adequate, long-term financial resources. Other organizations such as RBC Capital Markets, BMO Capital Markets, CIBC Capital Markets, TD Securities, Scotiabank and Stonebridge

Financial Corporation have developed specialized financial solutions for P3 infrastructure ventures.

- Insurers like Manulife Financial and Sun Life Financial are also very involved in P3 infrastructure financing. The insurance industry has approximately \$6 billion in direct infrastructure investments and is one of the largest investors in a number of critical asset classes in the economy.
- I would be remiss if I didn't highlight how our public sector drives P3 infrastructure projects.
- An important feature of the Canadian market's excellence is in the caliber of their central infrastructure agencies, such as the Canadian Council for Public Private Partnerships, P3 Canada or Infrastructure Ontario, which I referenced previously.
- Let's take Infrastructure Ontario for example – I have a bit of a soft spot for IO, as it evolved, so to speak from “Superbuild” the Harris' government's infrastructure agency, which I had the privilege to chair while I was Finance Minister.
- IO works to deliver public benefits through partnerships with the private sector using the principles of transparency, accountability, demonstration of value for money, maintenance of public ownership and control, and protection of the public interest.
- Their expertise has led them to the global stage as well. For example, the agency is assessing opportunities for companies to compete for projects in the United States through its work with the National Governors Association Advisory Council on Public-Private-Partnerships.

- They are also building relationships with the InterAmerican Development Bank and collaborating with Ontario's international trade officers to create opportunities for Ontario companies.
- Clearly this is something Canada is good at and the success of our financial services sector and our infrastructure agencies are a critical economic strength.
- Which brings me to my fourth message of the day.
- It is ironic, that with all this global recognition and success as P3 infrastructure investors and builders, we still have challenges getting more such projects underway here at home.
- Our financial industry is prepared to do more to support infrastructure investments here at home, and as I said earlier, we know the need is huge.
- But despite the success of such projects, despite their clear benefits to taxpayers and communities, despite our growing global reputation as infrastructure investors and builders, such projects can still generate political controversy here at home.
- Sometimes, it can be attributed to a lack of understanding within some in the public sector about what is, or is not an appropriate infrastructure project for a P3 approach. For example, a pension fund is usually only interested in existing assets with proven cash flows, not green field projects.
- Sometimes it is driven by the uncertainty that the political process can create as one government second guesses its predecessor's decisions. Remember, infrastructure investors think in decades, not electoral cycles.

- Sometimes it is being driven by unions, who see the move to P3's as a threat to their jobs and compensation packages. OPSEU's publication entitled "Epic Fail: A Short History of Privatization in Ontario" tends to lump a lot of things together from privatization to outsourcing to P3s, but in their view, it is a "failed policy that just won't go away."
- Some get hung up on public versus private ownership, or see it all as privatization, when it is clearly not.
- And sometimes, it is just a basic lack of understanding about what a P3 is, and what benefits it can bring to the table, for the benefit of taxpayers and communities.
- For example, critics argue that governments can borrow money for infrastructure projects at a cheaper rate than the private sector. They ignore the fact that both the provincial and federal governments have quite enough debt thank you, very much. Adding to it, particularly in Ontario where promises of a balanced budget are still several years away, is not helping taxpayers.
- And such a view also ignores the more important benefits of private sector involvement; the critical value-add inherent in the private sector's ability to assume risk for the government, or its superior discipline in project management, cost efficiencies and innovation in design, delivery and execution.
- Let's try a little test. Close your eyes. Now think of characteristics like effective project management, on-time-on-budget delivery, innovation, clarity of purpose, measurable results. Now imagine an organization that personifies all those characteristics. Okay, hands up how many people thought government?

- The difficulty is that such controversy can discourage governments from accessing the expertise and funds they have at hand through the private sector, for the betterment of their communities.
- We need to stay focused on the advantages that can come from leveraging private sector expertise in delivering projects on-time and on-budget while still retaining public ownership, in their ability to assume and manage risk better than government, or the simple fact that no government has the financial resources to meet all of our infrastructure needs without such public-private partnerships.
- There is no question that government and private sector partners need the right skills, expertise and knowledge before jumping into such projects. Inexperienced staff in either sector has a proven track record of dragging projects into trouble sooner or later.
- And it is also clear that not every infrastructure project makes sense as a P3, or that every project will be successful. Last time I checked, government lead projects weren't always standing on the gold medal podium either.
- So let's find the successes and emulate them. Let's examine the failures and learn from them.
- Set aside the controversy and look at the facts. Hold the rhetoric and look at the record. Stop using infrastructure projects as fodder for collecting political brownie points and see how they can be innovatively financed and delivered to solve our problems.
- This isn't an argument about private sector good; public sector bad. Quite the contrary. As a public-private partnership itself, TFSA proves every day that the magic trick is leveraging the strengths of both.

- We have major infrastructure needs in this region. And if we don't meet them, it will undermine the global success this region has enjoyed to date; it will damage the quality of life that attracts and retains the top talent we have now and we need in the future; it will chip away at our value proposition as a growing international financial centre.
- There is a solution at hand. One that not only generates much needed benefits at home, but also helps forge our global reputation as financial and infrastructure experts. It is something we can truly shout about, we can "own the podium". So together – government and industry – let's get on with it.