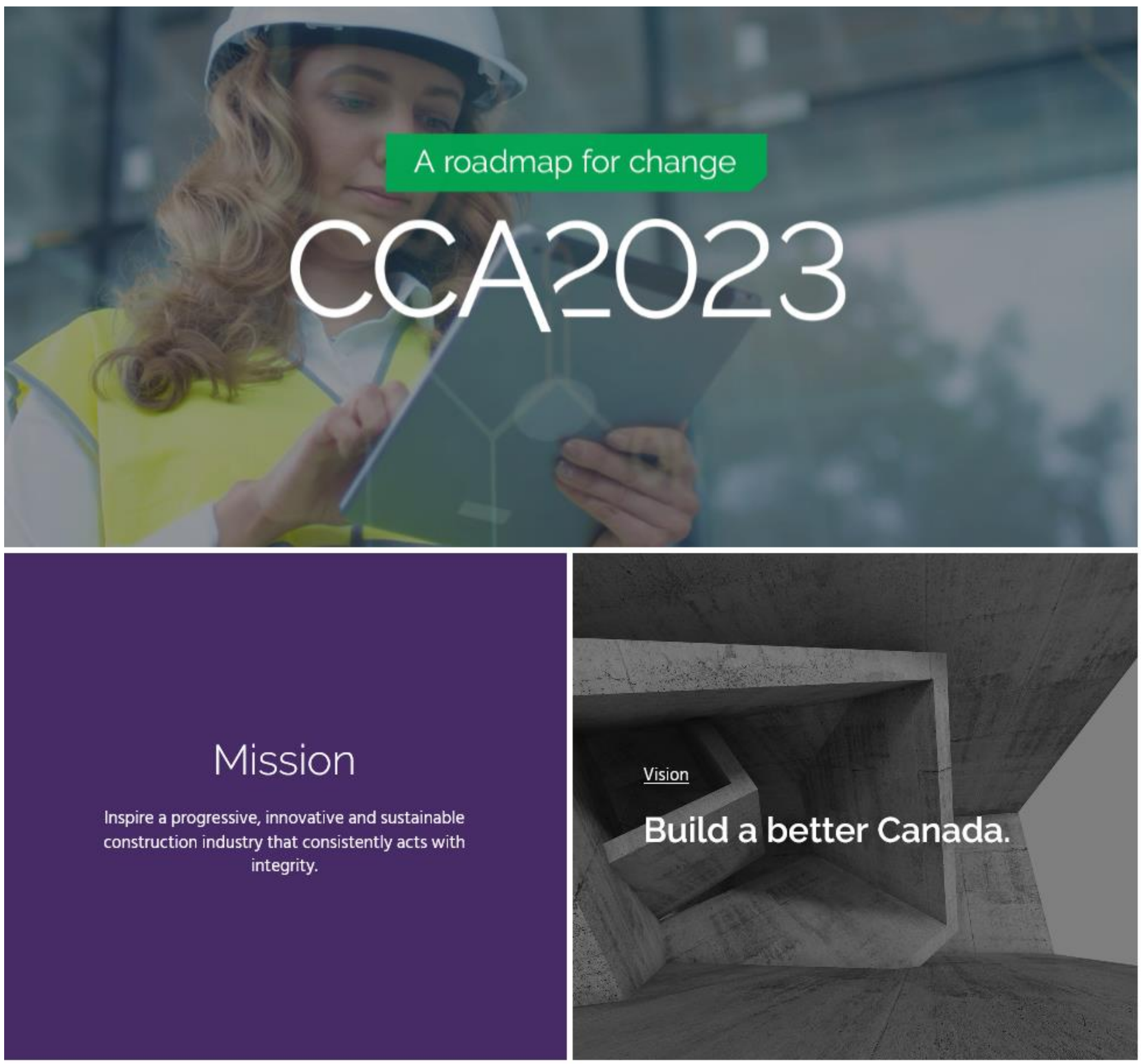
Canadian Construction Association

Written submission for the pre-budget consultations in advance of Budget 2019



August 3, 2018

Recommendations:

Accelerate Community Benefits by Removing Barriers

1. Provide funding administered by CCA for STEM WIL (Work Integrated Learning) programs and recruitment and retention campaigns targeted at under-represented segments to encourage their participation in the workforce.
2. Ensure that the procurement process is fair, transparent and productive.
3. Increase the annual value of the Apprenticeship Job Creation Tax Credit (AJCTC) and broaden its application to all years of study in all recognized provincial apprenticeship programs.

Encourage Productivity through Innovation Funding and Tax Reform

4. Industry, Science and Economic Development Canada should dedicate specific funding for construction innovation and technology research and development.
5. Increase the permissible depreciation rate for Class 38 assets from 30 to 50%, which will better align depreciation policy with the productive life of these assets, improve overall construction sector productivity, and potentially lower infrastructure development costs for governments across Canada.
6. Allow for pricing flexibility in government procurements due to extraordinary increases in project cost, such as from retaliatory tariffs.

Executive Summary

The Canadian Construction Association (CCA) represents more than 20,000-member companies engaged in civil and non-residential construction across Canada. With access to a network of 63 local and regional partner construction associations, CCA is an expert on the impact of national public policy on the industry and works collaboratively to develop and share standard industry practices and documents that benefit owners and members alike.

A healthy construction industry is predicated on investor confidence in Canada. Canada's relative attractiveness and competiveness, particulary compared to the US, has come under pressure this year.

The political risk around the development of the Kinder Morgan pipeline, solved by the Federal Government agreeing to purchase the pipeline, reinforces a perception that securing building approvals for major projects in Canada is substantially more complicated than elsewhere in the world.

A lower American corporate tax rate, combined with reduced project risk, makes the US more attractive for business investment. Also, the ongoing tariff disputes with the United States have added increased project costs that could not reasonably have been anticipated by the industry.

A strong construction industry requires a sufficient labour force and cutting-edge technology, as well as access to consistent infrastructure investment spending and a business-friendly environment. This ultimately leads to a better quality of life for all Canadians. The Government's 180 billion dollar commitment to infrastructure is essential to maintain Canada as a world-class country.

CCA is proposing the following six straightforward recommendations that will support our vision to "Build a Better Canada" by accelerating community benefits and encouraging productivity.

1. Accelerate community benefits by removing barriers

Canada's construction workforce, like that of many other industrial sectors, is facing a significant future labour challenge brought on by increased retirements and continued high demand for construction services across the country. According to the latest 2017 - 2026 BuildForce Canada labour market information national survey, an estimated 247,900 workers will be lost to retirement over the survey period. Only 215,700 new entrants will join the industry, drawn mostly from traditional domestic training sources. This leaves a shortfall of 32,200 workers.

Our members also take diversity seriously and through our 63 local associations, initiatives to sponsor *Women in Construction* events, run Indigenous and youth outreach programs and many other activities have all been implemented to make the construction industry more welcoming. The Canadian construction industry is committed to being an employer of choice by attracting a diverse and tech-savvy workforce.

This is an ideal opportunity for the Government to fund the acceleration of the construction industry's already significant support for workforce diversity which aligns with the Government's **community employment benefits** strategy objectives to increase participation among women, new Canadians, Indigenous people, veterans, persons with disabilities and youth in our industry.

Recommendation 1. Provide funding for construction industry STEM WIL programs and for recruitment and retention campaigns targeted at under-represented segments to encourage their participation in the workforce.

CCA is requesting that the Government expand funding for WIL programs and for funding to place 1,000 students in the next four years.

CCA would also like to conduct baseline research on current perceptions of desirability of working in construction compared to other industries, as well as satisfaction surveys of those working in the industry. This research would drive a campaign to encourage targeted segments to choose construction as a career, or to remain in the industry.

Recommendation 2: Ensure that the procurement process is fair, transparent and productive

The Canadian construction industry firmly believes in giving back to the communities in which we live, work and invest. The industry is already a strong supporter of community benefits in our communities; these are the communities that we build, where we raise our children, create jobs and contribute to the quality of life.

CCA's primary concern with the government's framework linking infrastructure spending to incremental "community benefits" is that this will lead to an unpredictable, unfair and opaque procurement process. If the government wants community benefits in its projects, then the industry requests that these be clearly laid out in the tender documents, and each contractor have equal opportunity to price the work required. Should these additional benefits fall outside the scope of the document, contractors would be in blind competition with each other without knowing how their proposed benefit(s) would impact the overall evaluation. Finally, the Canadian construction industry is concerned about any legislation that may add further regulatory requirements to access federal infrastructure funding, reducing productivity and increasing uncertainty.

Recommendation 3: Increase the annual value of the Annual Apprenticeship Job Creation Tax Credit (AJCTC) and broaden its application to all years of study in all recognized provincial apprenticeship programs. Specifically:

- **Increase the value of the current credit from 10% of eligible wages (up to a maximum of $2,000) to 25% of eligible wages (up to a maximum of $5,000) annually.**
- **Broaden the application of the current credit to include all years of a provincially-recognized apprenticeship program and not just the first and second years of study.**

To help increase the supply of skilled trade workers in Canada, a variety of federal initiatives either currently exist or have been proposed to help promote apprenticeship training across Canada. While these measures are well intentioned, there is little evidence from provinces that have similar policies currently in place to show that these measures substantially increase apprenticeship training or completion rates.

While the industry employs nearly 1.4 million Canadians, 60 per cent of all construction firms are micro-businesses with fewer than four employees. Simply put, these firms do not typically have the financial or administrative resources to take on an apprentice. Federal government apprenticeship training measures must address the lack of financial and administrative resources of SMEs to ensure maximum employer participation.

Rather than mandating the use of apprentices on federal construction projects, a more viable alternative would be to use existing federal programs, such as those funded by Employment Insurance, to better cost-share with employers' apprenticeship training. In so doing, employer costs would be lowered, thereby providing smaller employers with limited financial resources an incentive to engage in apprenticeship development. Furthermore, if these programs remained available throughout the life of an apprenticeship program, it would incentivize employers to participate through to apprenticeship completion, rather than take on an apprentice as a condition of the contract, only to release them once the federal project is completed.

One measure the federal government currently has in place that is widely used by employers to fund apprenticeship training is the Apprenticeship Job Creation Tax Credit (AJCTC). Unfortunately, as the program is limited to the first and second years of Red Seal training, it has done little to promote apprenticeship completion across Canada. These shortcomings could be easily addressed by increasing the annual value of the credit and expanding eligibility criteria.

2. Encourage productivity through innovation funding and tax reform

Recommendation 4: Industry, Science and Economic Development Canada should dedicate specific funding for construction innovation and technology research and development.

The Government of Canada has a number of programs in place that encourage research, development and investment in innovation and technology for industry. These funds are critical for increasing productivity and making sure that Canada has access to the best tools and technology available.

The construction labour force are more than hammer swingers. The construction industry is adopting sophisticated technology like 3d modeling, autonomous vehicles and drones to meet the demands for higher quality, lower costs and improved productivity.

In this regard, construction is no different from manufacturing or other sectors. Investment in advances in our industry will make direct, tangible improvements to Canada's economy. These should be encouraged by dedicating specific program funding for construction innovation.

Recommendation 5: Increase the permissible depreciation rate for Class 38 assets from 30 to 50%, which will better align depreciation policy with the productive life of these assets, improve overall construction sector productivity, and potentially lower infrastructure development costs for governments across Canada.

Despite numerous federal policy initiatives, Canada's productivity rate continues to lag behind that of the United States. Leading Canadian economists, such as Don Drummond, attribute this to underinvestment by Canadian industry in machinery and equipment.

One reason for lower investment rates in Canada is the way governments permit businesses to depreciate their capital investments. In Canada, equipment and machinery purchases are depreciated using the capital cost allowance rates established to reflect the residual value of an asset as it depreciates over the period of ownership, whereas in the U.S., the depreciation period is more in line with the productive service life of the asset. Consequently, in Canada, it takes 13 years to reach 99% depreciation, whereas in the U.S. it takes only 6 years to achieve full depreciation.

According to research carried out by PricewaterhouseCoopers for CCA, the estimated impact of accelerating the depreciation of mobile construction assets would be less than $60 million over five years and could be offset by revenue gains elsewhere resulting from increased industry productivity and profitability.

The Canadian government, as a significant purchaser of construction services, would be a primary beneficiary of enhanced industry productivity. Given the considerable resources committed to infrastructure redevelopment over the next ten years and the potential for skilled labour shortages in the sector resulting from ageing demographics, any change in policy encouraging greater industry investment in labour force productivity will have widespread and positive benefits for governments and the broader economy alike.

Recommendation 6: Allow for pricing flexibility in government procurements due to unexpected increases in project cost, such as those from retaliatory tariffs.

Government procurement, including at provincial and municipal levels, has tended to adopt a model that asks for a fixed price from proponents during the bidding process. The logic of this model is generally sound: it ensures that the government receives a predictable price while encouraging the builder to manage project risk effectively.

Successful bidders expect that there are some costs beyond their control that they should anticipate when establishing a price. However, some matters are obviously beyond what can be reasonably expected. The recent increase in steel and aluminum tariffs is a recent example.

Expecting businesses to absorb such cost increases is not beneficial. These costs can lead to losses which in turn can result in bankruptcy, leaving the project, the owner and the employees stranded. Alternatively, it can lead to cost increases as the industry factors in such future risks to the project. The government should structure contracts to allow for a price escalation for increases in costs that are caused by government action, such as retaliatory tariffs. Doing so should be revenue neutral as the government collects the tariffs.

Canada's current retaliatory tariffs were a necessary response to an extraordinary issue. The government should be similarly flexible in addressing the increased costs on infrastructure projects.

Contact

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