# Canadian Construction Association

# Pre-budget Submission for Budget 2018

## Executive Summary

The Canadian Construction Association (CCA) represents 20,000-member companies engaged in civil and non-residential construction across Canada. Through our network of more than 65 local and regional partner associations, CCA brings a pan-Canadian approach to the development of standard industry practices and documents, as well as national public policy issues of importance to the sectors.

As part of the House of Commons Standing Committee's 2018 pre-budget consultations with Canadians, CCA is pleased to provide the following submission for the committee's consideration. This year's submission focuses on three areas:

1. Supporting apprenticeship training and increasing labour mobility;
2. Increasing industry productivity through the use of tax incentives, and;
3. Creating a more efficient system of getting infrastructure funding to projects.

The decade ahead will present Canada with many new competitive challenges: labour shortages due to our aging population; increased competition from developing countries to supply natural resources; and, capacity constraints on our trade and transport-enabling infrastructure. The recommendations advanced by CCA will help address these challenges and create a healthier and more dynamic Canadian economy.

## 1. Labour Force Development

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, and only 215,700 new entrants will join the industry drawn mostly from traditional domestic training sources. When anticipated demand is factored into its analysis, BuildForce estimates the construction industry will need to recruit another 32,200 workers from other industries or from outside Canada to remain competitive. It is likely the sector will need to rely on immigration or the use of the Temporary Foreign Worker program to address skilled worker shortages for the foreseeable future.

### Federal Apprenticeship Promotion Measures

To help increase the supply of skilled trade workers in Canada, a number 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 that these measures substantially increase apprenticeship training or completion rates.

The challenge for the construction industry is size. While the industry employs nearly 1.4 million Canadians, 60 per cent of all construction firms are micro-businesses with fewer than 4 employees. Simply put, these firms do not typically have the financial or administrative resources to take on an apprentice. Therefore, federal government apprenticeship training promotion measures must take this reality into account 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 employer's apprenticeship training. In so doing, the employer costs would be lowered thereby providing smaller employers with limited financial resources the incentive they require to become more engaged in apprenticeship development. Furthermore, if available throughout the life of an apprenticeship program, this would incentivize employers to participate through to apprenticeship completion, rather than take on an apprentice as a condition of 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.

**Recommendation 1**

- **Redesign existing federal programs (i.e. EI funded training programs) to provide more robust financial support to employers engaged in apprenticeship training.**
- **Increase the annual value of the 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.**

**Encourage Labour Mobility**

Current tax policy permits deductibility of most reasonable expenses associated with permanent relocation. Larger employers will often provide tradespersons with some assistance to help offset costs associated with temporary relocation and recruitment, however, the vast majority of construction employers, due to their size, cannot provide such support and continue to rely on more traditional types of employee recruitment techniques to staff projects.

Canada's Building Trades Unions estimate tradespersons can incur $3,500 annually in non-compensable mobility expenses, presenting a significant obstacle to the pursuit of employment for many outside their local labour market. One solution could be to amend current Employment Insurance (EI) policy to permit unemployed construction workers to access an advance of up to $2,000 from their approved benefits to help offset mobility related costs. This could be done through the existing EI claim process without the federal government incurring any significant new additional administrative costs. Moreover, it would encourage unemployed construction workers to broaden their employment search outside their local market without incurring significant expenses at a time when they can least afford it.

**Recommendation 2**

- **Change EI policy to permit unemployed construction workers to obtain an advance from their approved benefits of up to $2,000 to support their employment searches outside their local area construction market.**

## 2. Tax Reform and Productivity

### Competitive Depreciation Rates

Despite numerous federal policy initiatives, Canada's productivity rate continues to lag 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 6 years to achieve full depreciation.

| Canada – United States<br>Mobile Equipment and Machinery Depreciation Rates | | |
|---|---|---|
| | Residual Asset Value after Applied Depreciation (Percentage) | |
| Year | Canada<br>Class 38 | United States<br>Class 15 |
| 1 | 85% | 80% |
| 3 | 42% | 28% |
| 6 | 14% | 0% |
| 9 | 5% | - - |
| 13 | 1% | - - |

The U.S. administrations plan to significantly lower corporate tax rates should further the need for changes to Canada's depreciation rates. Furthermore, the use of pro-investment depreciation policies in the U.S. have contributed to higher rates of corporate investment in productive equipment and machinery. Not only does this lead to a more productive industry, but given the tremendous environmental advancements in engine technology and pollution control equipment, a greener, more environmentally-friendly one as well.

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.

As significant purchasers of construction services, Canada's governments could benefit greatly from enhanced industry productivity. Given the considerable resources committed to infrastructure redevelopment over the next 10 years and the potential for skilled labour shortages in the sector resulting from aging 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 3**

- **Increase the permissible depreciation rate for Class 38 assets from 30 to 50 per cent, 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.**

## 3. Efficient Infrastructure Funding

### Single-Window Infrastructure Funding Information

The CCA commends the Government of Canada for its continued commitment to infrastructure funding which has direct benefits to the construction industry across Canada. However, accessing federal infrastructure funds for Canadian municipalities can be complex and bewildering. Over the decades, the Government of Canada has created a vast amount of infrastructure programs, and the number of programs continuously increases as older ones are kept, and newer ones are introduced. During the 2016-2017 fiscal year, for example, Infrastructure Canada was managing fifteen infrastructure programs. Furthermore, in Budget 2016, the concept of infrastructure was expanded to include green and social infrastructure and provided funding to 30 programs managed by nine federal organizations and the Federation of Canadian Municipalities (FCM).

With such a large number of infrastructure programs available to municipalities, it can be very difficult to know how best to access them, especially in jurisdictions with limited resources. Furthermore, some projects can be eligible for several different funds and municipalities sometimes need to be in contact with multiple different organizations for specific aspects of federal infrastructure funding. While Infrastructure Canada has recently made information more accessible on its websites, more can be done to the efficiency with which provincial-territorial and municipal governments access federal infrastructure funding.

Information that is more easily accessed and more transparent will allow municipalities to be more efficient in identifying infrastructure funds that they may apply for in order to begin specific projects that can benefit their communities. Projects that begin earlier employ those in the construction industry faster and realize economic benefits from projects sooner. A more coordinated federal approach is needed for infrastructure spending.

**Recommendation 4**

- **Infrastructure Canada needs to create a single-window for municipalities to more efficiently access infrastructure funding. It should also consolidate similar infrastructure programs to cut down on the number of programs that make it difficult for municipalities to identify which fund is more suited for their projects.**

### Modernize the Gas-Tax Fund Program

The Gas Tax Fund has been one of the most successful infrastructure programs for municipalities due to its predictable, stable and flexible financing. It was first introduced in 2005, made permanent in 2008 and indexed to 2% per year in 2013. It has received multi-partisan support because of the clear benefits it provides to municipalities across Canada. The program is worth $2 billion annually which is allocated on a per capita basis, but the specifics vary in each province and territory.

The flexibility of the program allows municipalities to decide which projects to prioritize within the established broad investment categories, which includes, for example, public transit, local roads and bridges, and tourism. They can pool, bank and borrow against this funding which creates additional financial flexibility. Municipalities can also plan into the future as the fund remains consistent even with changes in government or federal priorities. Provincial or territorial funding or involvement is also not necessary, which allows for independent priority setting and planning by municipalities. These reasons and more are why mayors from across the country have continuously praised the Gas Tax Fund in helping their communities realize real economic benefits through infrastructure projects.

While the Government of Canada in 2013 indexed the fund at two percent per year, which will allow the fund to grow by $1.8 billion over the next decade, this may not be enough to cover inflation in some years. Furthermore, basing the allocation on census data does not capture significant population growth that can occur in municipalities between censuses which occur every five years.

**Recommendation 5**

- **While the Gas Tax Fund continues to be successful in providing flexible and reliable funding to municipalities, Infrastructure Canada should consult with them and make appropriate improvements to the fund in order to ensure that it covers inflation and population growth between census years.**

## 4. Construction Innovation

CCA also supports the Canadian Construction Innovations Pre-Budget Submission which calls for the development and implementation of a comprehensive innovation strategy for the construction sector. This strategy will ensure the transformation of Canada's built environment for future generations and ensure this sector can realize its full potential. Given the complexity and scale of the transformation needed, we urge the federal government to partner with the construction sector's innovation ecosystem. Together, the industry and government will bring about change to meet the important national priorities of productivity, competitiveness, talent, growth and sustainability.

**Contact**

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