



BACKGROUND

December 14, 2006

Changing Course: A New Direction for British Columbia's Coastal Ferry System

Introduction

In 2002, government's core review identified two significant problems facing BC Ferries: the inability of the board of directors to operate in a business-like manner and the need for capital spending to replace many of the vessels and to upgrade terminal facilities. A variety of solutions, ranging from the status quo to outright privatization, were considered before government chose to create an independent authority to oversee coastal ferry service. Accordingly, in 2003, the Province passed the Coastal Ferry Act and entered into various transactions that had the effect of making BC Ferries an entity independent of government. No longer under government's control, the new BC Ferries provides coastal ferry services on a contract basis, under the regulation of the British Columbia Ferries Commissioner.

Why We Carried Out This Review

The coastal ferry system is an essential component of British Columbia's transportation system. Our purpose in reviewing the transformation of BC Ferries was to assess whether government is likely to achieve its objectives through the new structure, and how progress towards the objectives is being measured and reported. The report is also intended to help British Columbians understand the new structure and the relationships between the entities involved.

What We Looked At

We focused on the new governance structure for coastal ferry services implemented by the Province in April of 2003. Our report is based on information gathered through interviews with those involved in implementing the new structure and through a review of the Coastal Ferry Act and other documents. This information was gathered between October 2004 and August 2006.

This report was issued on behalf of the Office by the Deputy Auditor General, Errol Price. The Acting Auditor General, Mr Arn van Iersel, when he was Comptroller General for British Columbia, was part of the steering committee that oversaw the design of the new arrangements for the coastal ferry

system. Therefore, the Acting Auditor General chose not to be involved in the review by the Office.

What We Concluded

We concluded that the new structure has achieved government's primary objective of separating public policy and business decisions. This should allow BC Ferries to replace aging ferries and other infrastructure in a business-like manner. At the same time, we noted that the independence necessary to this separation means that BC Ferries no longer answers to the Province as owner. Instead, government must rely on other means to hold BC Ferries accountable, including the Coastal Ferry Services Contract and the British Columbia Ferry Commissioner.

We also concluded that the Province ultimately retains the major risks and benefits of ownership, since any increase or decrease in the value of the company would translate into gains or losses to the Province should the company ever be sold. At the same time, by negotiating service levels in the Coastal Ferry Services Contract, government has the ability to ensure that British Columbia's coastal economy receives the ferry service necessary to sustain it. That contract sets out what ferry services will be provided and what the Province will pay BC Ferries for those services, in addition to fare revenue charged ferry users.

Key Findings and Recommendations

1. To address the weaknesses in the previous coastal ferry service structure, government relinquished control of BC Ferries. However, there are no criteria by which government can measure whether or not the new ferry structure is achieving the objectives of the Coastal Ferry Act.
 - *Government should establish criteria for evaluating how well the coastal ferry service is achieving the objectives of the transformation and conduct evaluations of that performance, at least once in every performance term, in order to determine when or if changes to the Coastal Ferry Act should be made.*
2. The ferry service is administered by a collection of separate legal entities, each of which issues a report on its activities. There is no single report that covers all aspects of the ferry service.
 - *The Ministry of Transportation should issue, separately or as part of its annual service plan report, a comprehensive summary report on the coastal ferry service.*
3. The Coastal Ferry Services Contract requires government and BC Ferries to develop performance measures relating to the quality of service provided. This has not yet been done.
 - *The Ministry of Transportation and BC Ferries should develop performance measures relating to the quality of service, as required by the Coastal Ferry Services Contract.*
4. The BC Ferries Commissioner plays a key role in the new coastal ferry structure and is well placed to identify potential problems and solutions. However, a concern raised by the Commissioner in all three of his annual reports to date does not appear to have been addressed. The Legislature is not obligated to respond to concerns raised by the Commissioner, however,

given the role played by the Commissioner, legislators may wish to consider how best to address his concerns.