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## **Minister considers, then ignores, first ferry report recommendation** ~ Patrick Brown

Responding to questions in the legislature on November 19 about the BC Comptroller-General's October report on the governance of BC Ferries, Minister of Transportation and Infrastructure Shirley Bond said, 'We've made a commitment to consider every single one of the recommendations seriously.' However, having presumably done so, she has reappointed at least one of the directors of the BC Ferry Authority to both the Authority and the Board of Directors of BC Ferry Services Inc, despite the report's finding that such double appointments represented a clear conflict of interest, and prevented the Authority exercising oversight over the corporation. It is not clear whether the minister has considered the other recommendations that were made.

The report, which covered both BC Ferries and TransLink, was released on October 30.

The review was initiated when the government was embarrassed by the news that David Hahn, the CEO of BC Ferry Services Inc (BCFS), the 'privatized' but still government-owned ferry corporation, turned out to be making more than a million dollars a year in salary, bonuses, and other perks.

Comptroller-General Cheryl Wenezeki-Yolland ('the C-G') was asked to review both 'independent service delivery models' to ensure that the government was receiving value for money, and to determine whether the objectives of each structure were being achieved.

She confirmed that compensation for directors and executives was severely out of line for comparable public sector organizations, but that otherwise, the ferry system was well run.

However, she noted that the responsibility for protecting customers' interests had never been specifically assigned to any part of the structure, and recommended that the role of the Ferry Commissioner be expanded to include this, and that the Commission's oversight of fare levels be expanded to include reservation fees and other revenue sources, particularly for services (such as drop-trailer transport) which face private sector competition.

She also emphasized the need for both BCFS and the Commission to make more cost information (including

executive compensation) public, and to end the BCFS exemption from the *Freedom of Information Act*. She recommended that service levels for each route be re-evaluated, with public input, and suggested strongly that the search for alternative service providers, mandated by the *Coastal Ferry Act*, be abandoned ('...not a practical expectation.')

### **Compensation Criticized**

The C-G's investigation revealed that BCFS CEO David Hahn's compensation totaled more than double that of the CEOs of BC Hydro, BC Lottery, WorkSafe BC, ICBC, and other large public sector monopoly organizations. Other senior executives and board members were also shown to be receiving much higher remuneration than equivalent public sector officials. A significant part of executive compensation was bonuses; the report commented that qualifying for 100% of a potential bonus seemed 'easier than we would have expected.'

### **Separating the Authority and the BCFS Board**

The original governance arrangement, set up under the *Coastal Ferry Act*, saw the single share of BCFS held by the BC Ferry Authority, an organization that consisted solely of a government-appointed nine-member board of directors, with no staff of its own.

Initially, these same nine members were *de facto* appointed to be the first temporary board of BCFS. However, this arrangement was continued with the result that Authority directors currently hold a majority of 9 on the 13-member BCFS board; the practise that the C-G strongly criticized.

As noted above, the report recommends strongly that the Authority be completely separated from the Board of BCFS, and start to fulfil the duty of shareholders, which is to provide oversight to the BCFS Board. The point was specifically made that this would lead to nine vacancies on the BCFS Board, which should be filled by individuals with the mixture of skills necessary to direct the company and provide oversight to the senior executives; it was suggested that between 9 and 11 Board members would be sufficient. It is also recommended that the CEO should no longer be a voting member of the BCFS Board.

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## Enlarge the Responsibilities of the Commissioner

The BC Ferry Commission was created, first and foremost, 'to prioritize the financial sustainability of the ferry operator'; that is, to ensure that it is profitable enough so that it could borrow money on the private market to cover the capital costs of renewing the fleet. (According to the report, interest costs on BCFS' \$1.4 billion debt are approximately 1.25% higher than the costs of the government's own borrowing, a total of some \$14 million annually.)

The report recommends that the responsibilities of the Commissioner be enlarged to include protecting the interest of customers, since the present structure includes no independent body with this responsibility. This clearly includes input from customers about minimizing fares; the report comments that the *Coastal Ferry Act* objective of shifting costs to users appears to oppose this objective.

The result of some of these provisions of the *Act* has been, says the report, a 'narrow view' of the Commission's responsibilities. The report recommends that the Commission should take a longer term view, express it publicly, and not just limit itself to confirming BCFS' compliance with the contract for the current four-year term. It should review cost allocation, particularly on a route-by-route basis, and make the figures public.

It was also suggested that the Commission could comment on the operation of the Authority, thus bringing the oversight full circle. Finally, it should increase the opportunity for public comment.

The Commission presently has a part-time Commissioner and Deputy Commissioner, and a budget for consultants. The proposed increased responsibilities would require that it be enlarged; but it would also become the Commission overseeing TransLink.

The Deputy Commissioner, the C-G commented, was a brother of one of the BCFS directors; this might give the appearance of conflict, although no conflict was alleged.

## Productivity

The report defined 'productivity' in terms of ferry capacity utilization: 'On average, the ferries run only half full.' Percentages of capacity quoted were: Major cross-strait routes: 64%; Horseshoe Bay—Langdale: 56%; Minor routes—42%; and Northern routes—66%.

There are, of course, many factors that contribute to these figures—it is obviously easier to manage capacity when there

are large population centres at both ends of a route; the size and number of vessels used obviously affects their percentage utilization, some routes (like the Southern Gulf Islands) serve a number of destinations with different customer travel patterns, and the need to return vessels to their homeports for fuelling or crew changes may lead to 'dead-head' runs at the end of a shift. And fare levels affect ridership too.

(It might be better to measure productivity in terms of whether customer needs for transportation services at an affordable price were satisfied, rather than whether the vessels run full.)

The C-G suggested a comprehensive re-evaluation of 'service levels', which are set by the service contract between BCFS and the Ministry of Transportation. She recommended the Commission's involvement, and significant opportunity for public input.

## Reaction

So far, the report has received favourable responses from both the 'Save Our Ferries' group, who referred to their document 'Course Correction, Putting BC Ferries Back on Track', and the Ferry Advisory Committee Chairs, who applauded the report's recommendation that the focus on the financial sustainability of the operator 'needs to be balanced with the interests of users of the ferry system, local communities and taxpayers.' Both organizations complimented the C-G for listening to their ideas.

But BC Ferries' CEO, David Hahn, was reported as saying that the report was biased towards a 'public sector mindset.' He was also reported as calling parts of it as 'biased', 'craziness', and 'dumb'. He estimated that the additional ferry commissioner oversight recommended by the C-G would cost an extra \$3-5 million per year.

A joint release by the Canadian Taxpayers Federation, the BC Freedom of Information and Privacy Association, and the BC Civil Liberties Association applauded the report's recommendation that BC Ferries be once again be made subject to the *Freedom of Information and Protection of Privacy Act*—as it was before 2003.

BCFS' Board Chair Elizabeth Harrison issued a statement: 'I am extremely proud of BC Ferries' accomplishments since 2003.' She went on to credit '...independence from political interference, strong Board and management leadership, independent financial borrowing capability and sound commercial business practices.' She made no comment on any of the Comptroller-General's recommendations, but said the Board is reviewing the report and undertook to meet with the Minister '...once a suitable time can be arranged.' ✍

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