

# Case Study: A Link That Matters

## Island Communities Developing Consensus on Sustainable Ferry System

by Ian Curtin, President of ICP and Valerie Marcotte, Associate of ICP

### INTRODUCTION

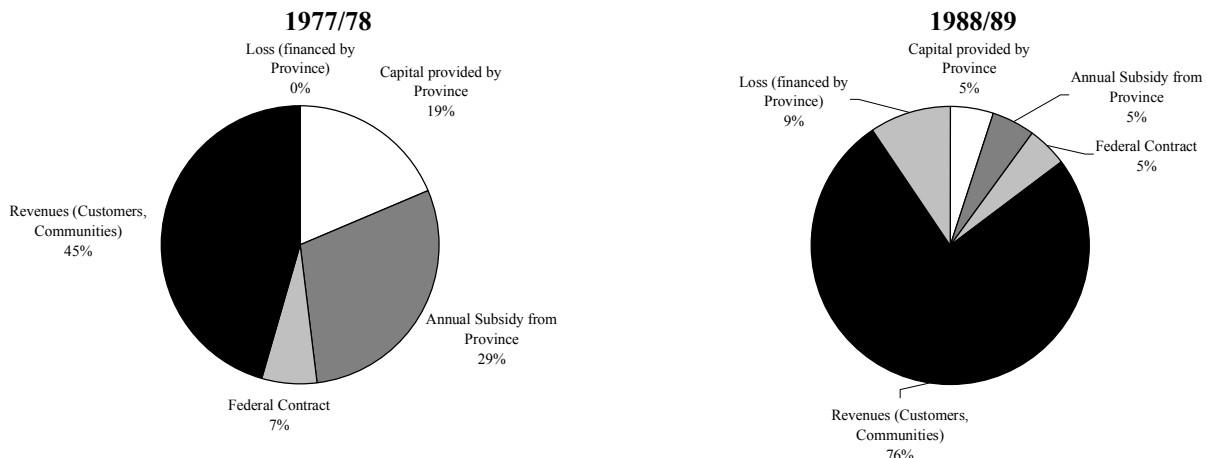
After decades of providing reliable ferry service for people living and travelling along the coast of British Columbia, the British Columbia Ferry Corporation’s Board of Directors stated its intentions to strengthen community relations. Their recommendation was to establish a public involvement program, supported by permanent central resources and the commitment of the Board and Management. The program’s goal was to encourage ongoing consultation with communities to develop long-term relationships for dealing with important ferry issues, most notably increasing financial losses. Thus began an extensive five-year public involvement program, involving over 35 coastal communities. This paper discusses the design of the program and its results, and identifies some of the important lessons learned.

### PROBLEM

Initially, the consultation program focused on working with communities to find ways to put the Corporation back on a firm financial footing. The Board had developed a financial framework under which revenues, before government subsidies, would cover direct operating expenses within five years. They were asking communities to identify operational efficiencies that would work under this framework. However, after a few years it became clear to stakeholders that this mandate had to expand to include consideration of a more sustainable financial framework. Communities believed that minor rationalizations of ferry service would not provide for a healthy inter-island ferry service for the future.

Initially, the financial framework for BC Ferries was composed of fares, provincial subsidy and a federal contract contribution. However, as the chart below indicates, the relative contributions from the Provincial Government and communities shifted significantly between 1977/78 and 1988/89 as a result of government policy changes. The Provincial Government’s contribution substantially declined while fare box receipts accounted for a much higher percentage of total revenues.

1977/78 vs 1988/89 Contribution Levels



Source: Treasury Group, BCFC



In 1989, the BC Ferries' financial framework was again changed by another major policy decision that required the Corporation to bear the full cost of its capital. As a result, the relative contributions shifted again and significant losses for the Corporation began being reported. To compound the problem, the Provincial subsidy to the Corporation continued to decrease during the 1990s and reached a low of \$4.7 million in 1998. During this same period the Corporation's losses continued to climb, reaching \$76.5 million by 1997.

During this time other ferry issues were becoming more pressing as well. One significant one was how to handle a forecasted increase in numbers of travellers, given a fleet of vessels with fixed capacity. Another was how to maintain that capacity in the future, given the aging fleet and limited capital resources to replace vessels. The communities each had issues specific to their own ferry routes, some of which were very complex and required cooperation among several island communities.

So in July of 1994, BC Ferries' Board of Directors developed a response to the increasing magnitude of the losses and directed the Corporation's management to begin a consultation program with coastal communities to address these problems.

### **INITIAL PARTICIPATION PROGRAM DESIGN**

The initial program design was based on a set of principles agreed upon by management personnel at pre-planning meetings. These principles guided the public involvement program:

- √ Ensure consultation process is broadly viewed as fair, open and thorough;
- √ Ensure all interested parties have an opportunity to participate;
- √ Ensure individuals, groups, and local government bodies have current and accurate information about operations/route/service planning issues and about how they can provide input;
- √ Ensure that input reflects the broad range of interest groups affected by any proposed change;
- √ Be cost-effective, drawing on existing resources;
- √ Establish on-going structures for communicating and monitoring the implementation of regional strategic plans.

Initially, pilot planning initiatives were commenced in two regions where significant savings could be achieved. Each Ferry Advisory Committee (FAC) was established by inviting stakeholders (local community politicians, advocacy groups representatives, employees, and management personnel) to an inaugural meeting. The stated focus of the Committee was mid- to long-term planning, and was not to include short-term operations. An independent facilitator was used for this inaugural meeting and a process known as the Creative Planning Process helped participants identify ferry-related issues of importance.

Participants were also asked to identify and agree on who should participate on a volunteer basis on a local FAC. To keep the Committee size workable, one representative was selected to represent each of the stakeholders. On most committees, B.C. Ferries was represented by one or two senior operations personnel. The committee mandate was intended to be subsequently created by members of the FAC at their formal meetings, although this task was never completed by every Committee.

Over the next four years, seven consultation processes were established using this Ferry Advisory Committee format. From the Corporation's point of view, the committees were established to accomplish the following goals:



- √ identify and provide advice on issues and options
- √ make recommendations on options
- √ assist in sponsoring public meetings and open houses
- √ provide a foundation for continuing consultation.

Meetings were held monthly or bi-monthly depending on the amount of research to be undertaken by BC Ferries' research staff. Initially, meeting facilitation varied by committee (i.e. independent facilitator, committee member, BC Ferries personnel, etc.). However, as the program matured, BC Ferries provided all facilitation by an internal consultant so that issues and procedures would be similar between each FAC. Project management and community liaison was provided by BC Ferries; using some regional operations personnel and some central support. The Corporation's Planning Department provided a research team and most of the central support personnel.

### **RESULTS IN THE EARLY YEARS**

It was clear from the start that the first task was the establishment of trust between FAC members and BC Ferries' management. Community representatives had never had an opportunity to interact with management in a collaborative manner. The single most important action the Corporation took to establish trust was to share information. Secondly, implementing recommendations as the committee work progressed gave each FAC a sense of accomplishment and generated more commitment.

The initial program design resulted in substantial changes in the way BC Ferries carried out its business. Some significant milestones of these processes included:

- √ agreement on goal of profitable service during peak periods on northern routes
- √ establishment of new route to provide additional service to northern communities
- √ agreement on key financial issues (e.g. validity of corporate overhead), laying a foundation for moving towards the Board's short term goal of direct operating costs equalling revenues, and the long term goal of balance sheet equilibrium
- √ implementation of a short term service option in the Southern Gulf Islands, resulting in more effective allocation of resources and substantial reduction in overtime
- √ creation of new service options contained in regional ten-year strategic plans
- √ creation of an analysis team to provide customers and BC Ferries with effective feedback on service and financial options
- √ development of an attitude of customer orientation in planning functions
- √ accumulation of substantial goodwill towards the Corporation during a period of significant financial cutbacks
- √ creation of effective channels of communication with communities through a number of forums (advisory committees, newsletter, open houses, etc.)
- √ more inclusion of employees in scheduling/planning issues

Initially, the public involvement program was designed to obtain community input on issues and options related to operational issues. As trust between each side grew, the program developed a more collaborative approach and the focus changed into the development of more comprehensive regional strategic plans. Also, three years into the program, the Corporation was reorganized into two divisions, placing responsibility for all public consultation processes under the new Inter-Island Services Division.

The experience with the regional public involvement programs confirmed for the Board the importance of their desire to open a dialogue with customers over the challenge of balancing three key and often competing factors: community goals and values; affordability or financial performance; and the demands of all customers.

However, in every case the public involvement process proved to be slower and more complex than originally expected. Nevertheless, each process was a success in terms of establishing solid working relationship with the communities served by the Corporation.

The one glaring weakness facing the initial program design was the inability to convey concrete financial targets for each region without an overall sustainable financial framework for the entire Corporation. The necessity of this framework remained critical throughout the program.

### **EVOLUTION OF THE PARTICIPATION PROGRAM DESIGN**

While the FACs initially focused on operational issues and regional strategic plans, a sudden rate increase in November of 1997 sparked a series of public protests that led to a substantial change in the focus of the public involvement program. Stakeholder representatives believed the process surrounding the tariff change was badly flawed and that the entire public involvement program mandate had to change. The trust that had been built up over a number of years was shaken to the foundation as a result of action taken by the B.C. Provincial Government in directing the rate increase.

There was such public outcry that a mediator was appointed by the B.C. Government to make recommendations to help get the BC Ferries' public consultation process back on track. The mediator recommended that a 'second tier' Advisory Committee be established to work with the Corporation to develop appropriate criteria for tariff determination, within an overall financial framework and transportation policy. Regarding the composition of that 'second tier' committee, the mediator suggested that representatives be elected from local FACs and that new FACs be established in remaining coastal regions to ensure all coastal communities were represented.

BC Ferries responded to the recommendations by inviting each FAC to send two representatives to participate in an inaugural meeting of a 'Tier 2' stakeholder forum. This group came to be known as the Coastal Council. The Council's inaugural meeting took place in June of 1998. There the Council set up five working groups (Financial Direction & Subsidy, Tariff & Revenue Generation, Service Efficiency, Terms of Reference, Communication and Audit). Subsequently, the first two working groups listed were combined into one known as the Financial Direction Working Group.

Also at the inaugural meeting, the B.C. government's Minister of Transportation requested the Coastal Council to provide him with a report within six months, outlining the Council's recommendations for a tariff increase and the need for and level of government subsidy.

To meet this request, Council's working groups met frequently over the summer and early fall in preparation for a series of three meetings planned in late fall. Working groups continued to meet separately to prepare their recommendations.

While there was a great sense of urgency for completing the task the Minister had provided to the Council, the initial meetings focused on generating an extensive terms of reference document. To begin a dialogue on an acceptable mandate and guiding operating principles for the 'second tier' forum, the Corporation distributed a draft terms of reference to each 'tier 1' FAC. Each FAC then forwarded their recommendations to the Council's Terms of Reference Working Group.

After much heated debate that focused on membership and decision-making, a Terms of Reference document was agreed upon. It included a mission statement, commitments by Council members and BC Ferries, committee membership (election and term), decision-making process, internal structure, communication guidelines (e.g. press releases, agendas, meeting summaries etc.) and ground rules for Council interactions. The creation of this document was central to the development of productive relationships. In its essence, it created a sense of safety and common direction for all of the participants in one of the most diverse advisory committees (i.e. over 35 communities) ever created in British Columbia.

The work of the Financial Directions Working Group was also a focus of the Council's attention since it was working on the bulk of the report requested by the Minister. In order to meet the Council's requirement to have a report to the Minister by the end of 1998, the Financial Direction Working Group identified the establishment of a sustainable financial framework as its most important priority.

In a preliminary report to the Minister, they rejected the Board's break-even policy (under which revenues before subsidies earned on each route should cover direct operating expenses within five years). The Council believed the target was problematic for two reasons:

- a. *Feasibility.* There are routes for which charging a maximum price does not generate enough revenue to break-even on operating costs. In other words there is no tariff, without accompanying reductions in service, at which some routes will break-even. Since service reductions further reduce traffic, there may be no combination of tariff and service level that permits these routes to break-even.
- b. *Different levels of break-even.* Breaking even on direct operating expenses still leaves corporate overhead and capital costs unfunded.

The Council concluded at that time that within the five-year period under review, the Corporation required additional revenue or reduced expenditures in the range of between \$75 to \$125 million per year to balance *all revenues*, including subsidy, and *all expenses*, including depreciation, so that it would ultimately achieve a sustainable financial framework.

This conclusion remained unaltered in the Council's final report to the Minister. The focus of this report was on the rationale for increasing the Provincial Government's subsidy and the means of providing this additional revenue. The Coastal Council's primary recommendation was that government be guided in its decisions with regard to the Corporation's affairs by the following statement:

"The British Columbia Ferry Corporation is an essential element of British Columbia's coastal environment. Coastal communities served by BCFC have developed to where they are today because of the level and cost of access to them. The ferries are a critical part of the highway system linking communities together. They provide public transportation to thousands of commuters each day and contribute to the economic diversity and vitality of the communities they serve as well as the entire province. Ferries are also a highly visible symbol of our prized lifestyle and environment, and attract people from around the world. Radical changes to service levels or fares have powerful effects on almost all aspects of the lives of coastal residents."

The Coastal Council unanimously recommended that BC Ferries be operated utilizing a sustainable financial framework wherein revenues, including the Federal and Provincial contributions, equal the Corporation's full costs, including depreciation. Simply put, the Council wanted the Government to increase its subsidy back to the level originally contemplated by the architects of the Corporation so its ability to deliver essential service to coastal communities would be maintained for future generations.

## **RESULTS OF "SECOND TIER" CONSULTATION PROGRAM**

Similar to the FACs, the amount of work required for the Coastal Council's success far exceeded the original expectations. However, the time frame given by the Minister was firm and the importance of the outcome of the process led all participants to work hard to meet the Minister's target. What was particularly note-worthy was the amount of volunteer time community representatives were willing to give to the process. The variety and depth of skills and experience brought to bear on the issues facing the Council was very impressive. Their ability to review the volumes of information being generated by the Corporation's Treasury Group, and to synthesize this into concrete options for action, surprised even the most critical observers of the process.

Within seven months, the Council had produced a sophisticated preliminary report that laid out the issues in a clear and concise manner. They identified the options they were considering and provided the Minister with a specific timeline for the completion of their final report. Six months later, the Council delivered an extensive final report complete with recommendations for developing a sustainable financial framework for one of the largest Crown Corporations in Province. They had met the Minister's request.

Subsequent to receiving the final report in July 1999, the Government announced they were increasing the subsidy level by over \$75 million per year by apportioning a percentage of the gas tax towards the Corporation. This amount would increase each year using the existing mechanisms for the gas tax. They also 'forgave' a large portion of the Corporation's debt. These two measures together have moved the Corporation's financial state into a manageable position.

While the amount of subsidy still fell short of the amount requested, the announcements were considered major successes for the Council, especially considering the political climate.. At that time, the B.C. Government was under increasing pressure to be fiscally responsible, particularly in light of a major scandal related to a fast ferry construction project promoted by the Government. That project had resulted in major cost overruns, and vessels that did not meet operational expectations. While the fast-ferry project was part of a subsidiary of BC Ferries and was not related to ferry operations and this public consultation process, this scandal resulted in more changes within the corporation. New senior management was appointed, and subsequent policy changes placed the public involvement program in a more minor role over the next couple of years.

However, the success of the program continues to be in evidence by a return to a more sustainable financial framework for the Corporation. In addition, the Corporation's standing was improved in many communities by the implementation of many local recommendations. Both the Ferry Advisory Committees and the Coastal Council will always provide an example of the positive potential for engaging in public involvement programs.

## LESSONS LEARNED

### 1. *When using on-going advisory boards, spend more on time terms of reference*

All parties to a public involvement program need to be clear on its' boundaries. Each terms of reference document should include a mission statement or mandate, commitments or responsibilities of participants, membership guidelines (e.g. election, term, etc.), decision-making process, internal structure, communication guidelines (e.g. press releases, agendas, meeting summaries, etc.) and ground rules for interactions. While each term of reference will be somewhat unique, it is important that all participants be actively involved and agree formally to this document. It should be well publicized so everyone who interacts with the public involvement program clearly understands how the program is intending to operate.

### 2. *Establish a framework for goals*

The one glaring weakness facing the initial program design was the inability to convey concrete financial targets for each region without an overall sustainable financial framework for the entire Corporation. The necessity of this framework remained critical throughout the program. An unclear target slows down the process and frustrates the participants.

### 3. *The importance of consistent and impartial facilitation*

Initially each advisory committee was very dependent on facilitation for moving forward. Leadership was in its formative period and impartial facilitation would have served to satisfy participant's needs for a safe environment while ground rules for participation were being worked out.

A good facilitator has the ability to help participants understand and respond appropriately to ideas; he or she can make the difference between whether or not an initiative ever sees the light of day — the difference between brainstorming and following through. Outside facilitators also can be especially helpful in meetings where divergent views create high emotions, because their “outsider” status ensures impartiality as they guide a group's energy.

### 4. *Building an atmosphere of safety and trust*

Creating a climate that encourages people to develop and share personal visions is crucial to success. For people to begin to open up and contribute their creative perspective, a safe environment has to be created and maintained. An atmosphere of safety has to be built where people really listen to each other in a meaningful dialogue. Dialogue happens when people offer their ideas and are not discounted, rather, they have the experience of being listened to.

The Creative Planning process used in the initial meetings provided a safe forum for participants to interact and offer their ideas. The sharing of information by the Corporation was another important element in building trust. Perhaps the most important characteristic that enhanced safety was the integrity of the people who interacted in the program. When management said they would do something, they did it; when community representatives agreed to liaise with their community, they did it. Each act of integrity built stronger relationships that would pay off when the going got harder.

### 5. *Inclusion of all parties in the consultation process as the mandate evolves*

A stakeholder is defined as anyone or any group that either affects the outcome and or are affected by the outcome of a proposed change. Given the evolutionary nature of any public involvement program, it is necessary to continue to evaluate who should be included throughout the duration of the program.



From the very beginning of this public involvement program, a hidden design flaw was the omission of some relevant parties. For example, it was only when the program's mandate shifted as a result of the tariff increase that was imposed on the communities by the B.C. Government that the necessity of including a government representative became apparent. Their act demonstrated they did indeed have an impact on the initiatives being reviewed.

## **CONCLUSION**

This case study has outlined the process by which public involvement was an integral part of a multi-party program that looked at ways and means to provide high quality yet affordable ferry services to coastal communities. It was initially motivated by a desire on the part of the BC Ferries' Board to improve the financial results, but evolved into defining a more long lasting, sustainable financial framework that communities, the Corporation and the B.C. Government agreed to. Countless more local recommendations were implemented, and continue to be implemented, that affect the daily lives of coastal residents who depend on the ferries.

Through a long-term dialogue that explored countless options over a six-year period, participants were able to develop constructive recommendations that could be acted upon. The significant change in funding policies for BC Ferries was the direct result of involving their "publics" in the difficult challenges they were facing. The initial foresight of the Board, and the continued commitment of community representatives, employees and management personnel led all parties to a set of solutions they supported.

## **ACKNOWLEDGEMENTS**

The public involvement program described in this paper was sponsored and directed by BC Ferries. The ideas and opinions expressed in the case study are the sole responsibility of the authors.