

April 27, 2009

British Columbia Government and
Service Employees Union
4911 Canada Way
Burnaby, BC
V5G 3W3

Attention: Darryl Walker, President

Dear Sir:

Re: Review of Highway Maintenance Privatization

Introduction and Terms of Reference

Our firm, Blair Mackay Mynett Valuations Inc., was engaged by the British Columbia Government and Service Employees Union ("BCGEU") to conduct an independent review of highways maintenance in British Columbia with a view to providing a reliable and objective assessment of whether the privatized highways maintenance model measures up to the public service model in meeting the needs of British Columbians over the twenty years since privatization was initiated.

Report of June 1994

The author of this letter, Ronald H. Parks, FCA, CA•IFA, was a co-author, along with Peter Burton, Kelvin McCulloch, and Robert Harvey (the "review team"), of a report of June 1994 entitled The Operational, Human Resource and Financial Implications of The Privatized Highway Maintenance Program of the Province of British Columbia, which was completed for the Ministry of Transportation and Highways.

Among other things the review team concluded and recommended as follows:

- "...that there is strong evidence to indicate that the privatized highway maintenance program...has cost substantially more than the predecessor program..."
- "...that there might be important advantages...if the Ministry undertook to deliver or directly control highway maintenance services in one or two strategic areas.

In this way, the Ministry could maintain its knowledge about input costs in relation to outputs, technologies, human resource issues and so on, to serve as the basis for administering the overall program as delivered by private contractors."

With regard to the first conclusion, the June 1994 report suggested excess costs may have amounted to \$15 to \$20 million annually. The recommendation following would serve to establish benchmarks for costs and outputs that could be used to determine whether private sector operations offer value for money for the taxpayers.

Methodology

Our usual method of determining value for money involves comparing the costs of the two service delivery models, private and public, and also taking into account, where possible, any significant differences in operational outcomes. The public service delivery model is normally a theoretical one, and in the language of public-private partnerships, referred to as a public sector comparator.

At the time the June 1994 report was prepared, there was available sufficient and relatively current information to determine whether the privatization initiative was cost-effective from the taxpayers' point of view.

Unfortunately, after more than twenty years of privatized highway maintenance, the information is not available on a current enough basis to conduct a meaningful value for money assessment. Furthermore, documentation regarding levels of public complaints and operational standards does not appear to be generally available and what does exist is anecdotal in nature. Accordingly, we have found the type of review you requested to be impossible with the very limited information available.

Recommendations

In order to provide a benchmark for future reviews and assessments of value for money, we recommend the Ministry consider adopting the course of action recommended in the June 1994 report; that is, to undertake to deliver or directly control highway maintenance services in one or two strategic areas.

Re-establishing the Ministry's knowledge about input costs and operational outcomes would enable effective value for money assessments and administration of services delivered by the private sector.

We believe adoption of this recommendation could be effected in 2013, when the next contracts come up for renewal. Thereafter, this arrangement could help to provide the benchmarks required to maintain a public sector comparator which could be used for future operational reviews, value for money assessments, and the tendering process.

We understand the current agreements have moved from three years to ten years duration. We are of the opinion that such a change has a detrimental effect on the Ministry's ability to maintain benchmarks for the purposes of assessing value for money and measuring outcomes. Such long term contracts should at least provide "windows"—timeframes during which the Ministry can conduct value for money analyses and can provide notification to rescind the agreement and return work to the province of BC if necessary.

Yours very truly,

BLAIR MACKAY MYNETT VALUATIONS INC.



Ronald H. Parks, FCA, CA•IFA
604-697-5242