2.37 Ferry Operations

Introduction

The Department of Works, Services and Transportation is responsible for the Province’s ferry operations. As at 31 March 2003, the Province’s ferry operations included 21 vessels, 20 of which are serving 15 routes around the Province and 1 vessel, Hull 100, which is undergoing a major refit at Clarenville. Of the 21 vessels, 9 are owned by private operators and the remaining 12 are owned by the Province. Figure 1 provides the ages of these 12 Government owned vessels. As the Figure shows, the vessels range in age from 13 to 40 years and have an overall average age of 26 years.

Figure 1

Department of Works, Services and Transportation
Age of Province Owned Vessels
31 March 2003

<table>
<thead>
<tr>
<th>Vessel</th>
<th>Age</th>
<th>Vessel</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inch Arran</td>
<td>40</td>
<td>Sir Robert Bond</td>
<td>28</td>
</tr>
<tr>
<td>Green Bay Transport</td>
<td>36</td>
<td>Beaumont Hamel</td>
<td>18</td>
</tr>
<tr>
<td>Hamilton Sound</td>
<td>35</td>
<td>Gallipoli</td>
<td>17</td>
</tr>
<tr>
<td>Sound of Islay</td>
<td>35</td>
<td>Northern Ranger</td>
<td>17</td>
</tr>
<tr>
<td>Capt. Earl W. Windsor</td>
<td>31</td>
<td>Hull 100</td>
<td>17</td>
</tr>
<tr>
<td>Island Joiner</td>
<td>30</td>
<td>Flanders</td>
<td>13</td>
</tr>
</tbody>
</table>

For the year ended 31 March 2003, the Province spent $46.0 million on marine operations throughout Newfoundland and Labrador and reported related revenues of $23.5 million. In previous years we have reported on the expenditures related to a number of ferry operations. In particular we reported on the purchase and refit of the Hull 100, the coastal Labrador marine service and the Strait of Belle Isle ferry service. Figure 2 shows that, for the year ended 31 March 2003, approximately $22.0 million was spent on these two services and the Hull 100.
2.37 Ferry Operations

Figure 2

Department of Works, Services and Transportation
Marine Operation Costs
Year Ended 31 March 2003
($ Millions)

<table>
<thead>
<tr>
<th></th>
<th>Coastal Labrador</th>
<th>Strait of Belle Isle</th>
<th>Hull 100</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Transportation &amp; Communication</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td>0.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Supplies</td>
<td>2.6</td>
<td>0.9</td>
<td>0.1</td>
<td>4.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Purchased Services</td>
<td>10.6</td>
<td>4.9</td>
<td>2.1</td>
<td>7.9</td>
<td>25.5</td>
</tr>
<tr>
<td>Debt Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Gross Expenditure</strong></td>
<td><strong>14.0</strong></td>
<td><strong>5.8</strong></td>
<td><strong>2.2</strong></td>
<td><strong>24.0</strong></td>
<td><strong>46.0</strong></td>
</tr>
</tbody>
</table>

Scope and Objectives

In November 2003 we completed an update review of ferry operations. The objective of our review was to determine the current status of matters identified in previous reports.

Conclusions

Vessel Renewal and Replacement

Departmental officials have informed us that the normal life expectancy of a vessel is approximately 25 years. At 31 March 2003, 7 of the Province’s 12 vessels were more than 25 years old, the average age of all 12 vessels was 26.4 years and ranged from 13 years to 40 years.

The Department has developed a four phase plan to replace 5 of the Province’s older vessels; however, no cost or time frame has been established.
Hull 100

In May 1999, the Department purchased the Hull 100 (formerly the Ahelaid), for $930,000. At that time, the Department estimated that the purchase and refit of the Hull 100 would cost $2.9 million and that the vessel would be available for service in 2001. However, as at September 2003, the vessel is still not in service and actual costs to date for the purchase and refit are approximately $8.4 million. Furthermore, Departmental officials indicated that the final estimated cost of the Hull 100 will exceed $9 million and it will not be available for service until 2004.

As a result of an amendment to the Public Tender Act in December 2001, the Department paid $500,000 for refit work considered as unknown without having to issue a public tender for the additional work. Furthermore, as a result of the amendment, members of the House of Assembly are no longer required to be notified of this type of additional work not tendered.

Labrador Transportation Initiative Fund

In 1997, the Province received approximately $348 million from the Federal Government and assumed responsibility for the Labrador ferry service. The $348 million was intended to fund this service in perpetuity. However, $207 million of the Fund has been used to construct the Labrador Highway and $96.1 million has been used to fund operating costs of the ferry service. At 31 March 2003, the balance of the Fund was $107.4 million and officials of the Labrador Transportation Initiative Fund have indicated that, if Phase III of the Labrador Highway is funded through this Fund, it is expected to be fully depleted by the 2005-06 fiscal year.

Labrador Ferry Service

The Department contravened the Public Tender Act by awarding three contracts valued at $12.2 million without a public tender call. Each of these contracts were extensions of existing contracts. Furthermore, these exceptions were not reported to the House of Assembly as required under the Act.

The Department made payments totalling $98,520 to two contractors for costs that were not required under the contracts.
2.37 Ferry Operations

Findings and Recommendations

Vessel Renewal and Replacement

Departmental officials have informed us that the normal life expectancy of a vessel is approximately 25 years. As Figure 1 shows, 7 of the Province’s 12 vessels are more than 25 years old, the average age of all 12 vessels is 26.4 years and range from 13 years to 40 years.

The Department currently has a Committee in place to address concerns relating to ferry vessel age, condition and replacement. To date, the Committee has recommended that five vessels be replaced in four phases; however, no cost or time frame has been established. The vessels are scheduled to be replaced as follows: Phase 1 - Hamilton Sound, Phase 2 - Island Joiner and Inch Arran, Phase 3 - Green Bay Transport, and Phase 4 - Sound of Islay. The Department’s recommendation has been accepted by Government and proposals have been called for Phase 1.

In May 1999, the Department purchased the Hull 100 (formerly the Ahelaid), for $930,000. At that time, the Department estimated that the purchase and refit of the Hull 100 would cost $2.9 million and that the vessel would be available for service in 2001.

Hull 100

Hull 100 tied up at Clarenville, November 2003
However, as at September 2003, the vessel is still not in service and actual costs to date for the purchase and refit are approximately $8.4 million. Furthermore, Departmental officials indicated that the final estimated cost of the Hull 100 will exceed $9 million and it will not be available for service until 2004.

For the year ended 31 March 2003, the Province spent $2.2 million for the refit of the Hull 100. On 13 December 2001, the Public Tender Act was amended whereby Government would not be required to publicly tender work undertaken on an emergency basis, a vessel leased on an emergency basis, or work unknown during a refit. In 2003, the Department publicly tendered for a contract valued at $2.9 million for refit work on the Hull 100. However, as at the date of our review, the Department has paid $3.4 million without having to issue a public tender for the additional work because it was considered to be unknown work as allowed under the amendment. As a result of the amendment, members of the House of Assembly are no longer required to be notified of this type of additional work.

**Labrador Transportation Initiative Fund**

In April of 1997, the Federal and Provincial governments announced an agreement that transferred responsibility for the coastal Labrador marine services to the Province. As part of this agreement, the Province received approximately $348 million and all related infrastructure including two vessels - the MV Sir Robert Bond and the MV Northern Ranger. In return, the Province assumed responsibility for the ferry service between St. Barbe, Newfoundland and Labrador and Blanc Sablon, Quebec, the ferry and freight service between Lewisporte and Happy Valley-Goose Bay, and the freight and coastal boat service along the coast of Labrador.

When the $348 million was provided to the Province, the intention was that this would fund the Labrador ferry operations in perpetuity. However, as at 31 March 2003, $207 million of the Fund has been used to construct the Labrador Highway and $96.1 million has been used for operating costs of the ferry service which have significantly exceeded the Department’s original operating cost estimates. At 31 March 2003, the balance of the Fund was $107.4 million and according to officials of the Labrador Transportation Initiative Fund, “If Phase III of the... Labrador Highway is funded from the LTIF the fund is expected to be fully depleted by the 2005/06 fiscal year based on projected costs provided by the Department of Works, Services and Transportation...”.

2.37 Ferry Operations
2.37 Ferry Operations

Labrador Ferry Service

When the Province took over the Labrador ferry service in 1997, it entered into an agreement for Marine Atlantic to continue to provide this service from 1 April 1997 to 31 December 1997 at a cost of $11.6 million. In 1998, the Province publicly tendered and issued contracts for this service to private operators. For the year ended 31 March 2003 this service cost the Province $20.6 million. Originally the Department had estimated the cost of this service from 1998 to 2003 would be approximately $73.8 million; however, the actual costs were approximately $100.9, an increase of $27.1 million or 37%. Information on the estimated costs and actual costs from 1998 to 2003 are outlined in Figure 3.

Figure 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Cost</th>
<th>Actual Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$ 13.5</td>
<td>$ 13.6</td>
</tr>
<tr>
<td>1999</td>
<td>12.6</td>
<td>14.1</td>
</tr>
<tr>
<td>2000</td>
<td>13.1</td>
<td>13.8</td>
</tr>
<tr>
<td>2001</td>
<td>12.6</td>
<td>21.0</td>
</tr>
<tr>
<td>2002</td>
<td>11.0</td>
<td>17.8</td>
</tr>
<tr>
<td>2003</td>
<td>11.0</td>
<td>20.6</td>
</tr>
</tbody>
</table>

73.8 100.9

Source: Departmental reports, budgets and cost information.
The Labrador ferry service is provided through two main services, the coastal Labrador marine services and the Strait of Belle Isle ferry service. Issues identified during our review are outlined as follows:

1. **Coastal Labrador Marine Services**

The coastal Labrador marine service originally included the passenger and freight service between Lewisporte and Happy Valley-Goose Bay, and the freight and passenger service along the coast of Labrador as far north as Nain. In 2003, as a result of the completion of the southern Labrador highway as far as Cartwright, the passenger and freight service from Lewisporte was cancelled and moved to Cartwright, Labrador. Our review of these services identified the following:

- In April 1998, the Province awarded a two-year contract for the provision of freight and passenger service from Lewisporte to various ports in Labrador. This contract was for approximately $4.2 million per year and was to expire in March 2000 unless an option to extend for one year was exercised by the Department. In March 2000, the Department exercised the option and extended the contract to 31 March 2001.

  However, the Department did not publicly tender for two additional one-year extensions for fiscal years 2002 and 2003. As a result, the Department contravened the *Public Tender Act*. Furthermore, the exceptions were not reported to the House of Assembly as required under the *Act*.

- A contract for the lease of two vessels to provide freight service along the coast of Labrador expired in 2001-02. However, the contract, valued at approximately $3.8 million, was extended to cover the 2002-03 fiscal year without a public tender being called. As a result, the Department contravened the *Public Tender Act*. Furthermore, the exception was not reported to the House of Assembly as required under the *Act*.

- We found that the Department paid the contractor amounts not required in accordance with the contract. For example:

  - The contract with the operator of the MV Sir Robert Bond provides that the Department is responsible for the vessel during refit and that the operator will not be paid any rates while the vessel is in drydock. However, in April 2003 the Department paid the contractor daily rates totalling $70,495 for 23 days at $3,065 per day, while the vessel was in drydock.
The contractor charges a 10% administration fee on all billings to the Department related to refit work. From 1 April 2003 to September 2003 this fee amounted to $8,365 even though the tender specifications and contract indicated that administration costs were included in the daily rates paid to the contractor.

In April 2003, the Department paid $1,032 for services of crew members even though the per diem paid to the contractor already included these services.

In August 2003, the Department paid another contractor $18,628 relating to a claim for lost equipment and repairs to the MV Astron. The payment was made even though the contractor owned and controlled the vessel and under the contract should have been responsible for these expenditures.

2. Strait of Belle Isle Ferry

The ferry service from St. Barbe to Blanc Sablon was tendered in 1999 and awarded in 2000 to a private contractor for approximately $4.7 million per year. The contract was for 4 years covering the 2000 to 2003 operating seasons with an option for renewal for an additional four years, or any part thereof, at the sole discretion of the Minister. The contract would have expired on 3 January 2004 unless the option to extend was exercised within 90 days prior to termination.

On 2 September 2003, four months prior to the contract expiry date, the Department exercised the option and renewed the contract for another four years. The Department indicated that the contract was extended due to the poor responses to the original tender, the unavailability of suitable vessels worldwide and the increase in insurance premiums.

Recommendations

*The Department should comply with the Public Tender Act.*

*The Department should monitor all contracts to ensure that all expenditures are in accordance with contract requirements.*

Department’s Response

**Vessel Renewal and Replacement**

*The life expectancy of a vessel is dependent upon many factors including the preventative maintenance put into a vessel and any comprehensive*
mid-life refit carried out. With proper maintenance and refits, a vessel could last up to 35-40 years. Vessels of this age range can and are operating on our services daily without service interruption.

**Hull 100**

The Department has complied with the Public Tender Act in the acquisition of services for this vessel. The Department exercised clause 3.2.h.1 of the Act regarding unknown work identified during the phase 2 refurbishment contract. The Department monitors all contracts, with corrective action taken whenever appropriate.

**Labrador Ferry Service**

The extensions to the contracts for the Labrador ferry service were done under section 5.2 of the Public Tender Act, which does not require reporting to the House of Assembly. The contracts for the coastal service have since been tendered again and awarded for the next several years.

The Marine Atlantic cost figure of $11.6M cannot be used for comparison to the current costs. The Marine Atlantic did not include costs related to refit, winter maintenance of the freight handling facility, or the winter lay-up of the vessel. The estimated cost for the Labrador service of $73.8M was not intended to be a budgetary projection, but rather was calculated as part of an overall analysis of the service at that point in time (November, 1998). This analysis did not include infrastructure expenses, allowances for rising fuel and operating costs or any changes to vessels. Consequently, the situation assumed in this analysis never materialized.

Payments made for the Coastal Labrador marine service were in accordance with the contract. For the 28 days of dockyard refit, no payments were made to the contractor. For the remaining 337 days of the year, daily rates were paid depending upon the status of the vessel (i.e. lay up, operating, transport). As stated in previous responses to Auditor General reviews, the Department is responsible to pay these rates as per the precise terms of the contract. To say that the contractor is not entitled to a daily rate and must bear the costs regardless is not correct nor is it contemplated under the contract.

With respect to the payments made to the contractor for the MV Astron, the work performed at the end of the contract relates to clauses regarding off-hire survey work. Any difference to the vessel resulting from the carriage of freight is assessed by an independent surveyor at the beginning (on-hire) and at the end (off-hire) of the contract. The resultant work is the responsibility of the Department.
2.37 Ferry Operations