

Cabinet Submission

Minister: Honourable Judith Reid

Date: July 18, 2001

Title: Nisga'a Highway Upgrade

Decision Requested

The Ministry of Transportation seeks approval from Cabinet to increase the budget for the Nisga'a Highway Upgrade from the current amount of \$41 million. The current budget is not adequate. No new funding is requested as the additional funds required will be accommodated through surpluses realized on other projects and the use of unallocated expenditure space available in future years.

Government Values and Priorities

Approval of this request will demonstrate the government's commitment to honour previous contracts. It also supports the government's commitments to improving northern and rural transportation.

Current Status/Background

Upgrading of the highway was seen by the Nisga'a Nation as vital in order to provide better access and economic opportunities in the Nass Valley. Without the Province's commitment to upgrading the road, it is unlikely that the parties would have reached agreement on the Nisga'a Treaty, signed in July 1998.

In August 1998, the BC Transportation Financing Authority (BCTFA) entered into an agreement with the Nisga'a Tribal Council for the upgrading and paving of the Nisga'a Highway. According to the terms of the written agreement, the BCTFA agreed to design and upgrade 93 kilometres (km) of gravel road to the Ministry of Transportation's standards for a paved, two-lane road, a 70 km per hour highway design speed, and 100 percent legal load capacity. Discussions with the Nisga'a Nation on minor alignment modifications are allowed under the terms of the project agreement. The seven-year project started in 1998 and is scheduled for completion in 2006. No funding figure was included in the agreement.

When the agreement was negotiated, the budget for the seven-year project was set at \$41 million. However, the project budget was determined based on limited information. The ministry has a well-established project management process that it uses to determine costs; it was not allowed enough time to use the process, given the time constraints imposed by the previous government who wanted to finalize the Nisga'a Treaty. In addition, no allowance was made for inflation. Taken together, these factors meant that the cost of the project was underestimated. The problem was further exacerbated by volatile oil prices, which is driving up the costs of construction.

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After signing the agreement, further engineering work was carried out and it became clear that it would be difficult to achieve the scope, as defined in the agreement, within the budget. Cost containment strategies – value engineering and value analysis – were applied in an attempt to manage the project within the budget allocation.

Under the previous government, the former Ministry of Transportation and Highways also attempted to stay within the approved budget by reducing the scope of the project through sealcoating (a cheaper process for providing a hard surface), rather than paving, significant portions of the highway. The Nisga'a Nation rejected this proposal and have indicated that, in their view, pavement is a requirement of the agreement.

The current Ministry of Attorney General has reviewed the project agreement; the legal analysis suggests that the BCTFA has an obligation to pave the Nisga'a highway to the same standard as the existing full pavement treatment that ends just south of the existing construction project.

Financial Management Considerations

The Ministry of Transportation is requesting that the budget for the Nisga'a highway upgrade be increased from the current \$41 million. With more detailed engineering, and based on actual construction experience, the revised budget is required to meet the technical specifications of the agreement. The ministry is confident that the project can be delivered within the budget reviewed by Treasury Board.

Since 1988, the Ministry of Transportation has adopted project management principles as a means of enhancing the management of capital projects. As part of project management, the Ministry has also adopted thorough cost estimation procedures. Since the imposition of these rigorous standards, the ministry has a good record for delivering capital projects on time and within budget. Over the past ten years, the ministry has managed an average of 600 projects per year.

In the previous government's rush to finalize the Nisga'a Treaty, the ministry was not given enough time to follow its usual project management processes. As a result, the budget allocated for Nisga'a Highway Upgrade was not adequate.

The ministry intends to manage this project's budget pressure over the four years starting in 2002/03 through a number of measures, including using capital surpluses realized on other projects and finding efficiencies in current project delivery. Budget pressures not mitigated by program savings over the multi-year period would then consume unallocated funds, in that same multi-year period, within the ministry's capital plan.

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Having the budget for the project increase to over \$50 million requires the approval of Treasury Board. Treasury Board reviewed the request and directed that the ministry continue to meet the specifications for upgrading the highway, as laid out in the agreement between the BCTFA and the Nisga'a Nation. It also directed that the ministry must accommodate any increase in project cost within its existing capital plan. Further, Treasury Board has directed that the ministry seek cost savings through discussions with the Nisga'a Nation, as allowed within the terms of the project agreement, on the use of alignment modifications and advisory speed zones.

Recommended Decision

That Cabinet approve the direction of Treasury Board that the Ministry of Transportation will continue to meet the specifications for upgrading the highway, as laid out in the agreement between the BCTFA and the Nisga'a Nation. The ministry must accommodate any increase in project cost within its existing capital plan. Further, the ministry will seek cost savings through discussions with the Nisga'a Nation, as allowed within the terms of the project agreement, on the use of alignment modifications and advisory speed zones.

Honourable Judith Reid
Minister of Transportation