



TRANSCRIPT OF THE OPEN CABINET MEETING

Friday, November 22, 2002

Province of British Columbia

EXECUTIVE COUNCIL

Premier and President of the Executive Council
Minister of State for Intergovernmental Relations
Deputy Premier and Minister of Education
Minister of Advanced Education
Minister of Agriculture, Food and Fisheries
Attorney General and Minister Responsible for Treaty
Negotiations
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Minister of State for Early Childhood Development
Minister of Community, Aboriginal and Women's
Services
Minister of State for Community Charter
Minister of State for Women's Equality
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Hon. Geoff Plant
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Hon. Linda Reid
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Hon. Gary Collins

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Minister of State for Intermediate, Long Term and Home Care
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Hon. Sandy Santori
Hon. Bill Barisoff
Hon. Rich Coleman
Hon. Graham P. Bruce
Hon. Stan Hagen
Hon. Judith Reid
Hon. Joyce Murray

Friday, November 22, 2002

The cabinet met at 10:02 a.m.

Opening Remarks

Hon. G. Campbell: Thank you very much. We are about to begin. I just wanted to give you a quick update.

As you know, yesterday the federal government laid out another so-called implementation plan for Kyoto. Once again, they have not shared their assumptions with us. Once again, they have not shared their analysis with us. Once again, they did not work with the provincial ministers in developing it. Once again, they've ignored the 12 principles that the provinces and territories have unanimously endorsed.

We've got a lot of work to do. There has been a ministerial meeting called for November 29, and we are looking at whether there's really much point in going to that in view of the lack of information the federal government has, once again, provided us with. While saying in words that they accepted a number of the principles we'd outlined, in fact, it looks like they have accepted less than half of them. That's a significant impact for British Columbians.

There is new information that suggests there are going to be larger economic impacts than were initially thought. Once again, they have reiterated that they have no intention of giving British Columbians a credit for the investments we've made in cleaning up the

climate through the last decade while sending literally hundreds of millions of dollars to our competitors overseas. Our industries are still concerned. Our forest industry is concerned; our pulp industry is concerned; our energy industry is concerned; our construction industry is concerned.

We have to continue trying to convince the federal government that the best way to arrive at a sensible long-term strategy on climate change is to work with the provinces and territories. I am still hopeful that we can convince them that they should, in fact, look at Canada as a federation of provinces with the federal government. When we work together, there is much more that can be accomplished than when we work separately or when things are imposed unilaterally.

I should just say that yesterday, I understand the Minister of Environment for the federal government suggested this was a matter of everyone turning off their dryers. You know, this is a very serious issue. It requires comprehensive public policy. I think the trivialization and the politicization of it by the federal government has not been something that serves the best interests of Canadians.

[10:05]

I will be going to Ottawa next Monday. There's a number of things on our agenda, but I will carry the message from British Columbia at that time. I'll be working with Joyce and Dick as we carry that through.

We have a number of items on the agenda today. I'm sorry it's truncated. It's because we ended up being caught by the weather - a number of us - on the other side. A number of you, I know, came back last night from Prince George and almost were caught by the weather. I guess I should have come over then.

At any rate, we'll try and get on with the items on the agenda. We have three items on the agenda today. The first item is ICBC, the core services review and the issue of rates for ICBC, which will be covered off. Second, we have the information report from Geoff on treaty negotiations. Third, we have a report from the Royal B.C. Museum with Pauline Rafferty taking us through some of the strategic shifts that they're hoping we can do to make sure that our museum becomes even better in service of the people of British Columbia.

We'll start with ICBC. Gary, do you want to introduce this?

We have the chairman of the board of ICBC here. Nick Geer is here with us today to

take us through a report. Then we will be faced with some decisions.

Nick.

For Decision: ICBC - Rates and Core Services Review

N. Geer: Thank you, Mr. Premier.

Good morning, hon. ministers, ladies and gentlemen. This morning we'd like to present to you the recommendations of the board of ICBC with respect to the core functions of the company and its review of the new-era statement to introduce more competition and lower the insurance rates in B.C.

Before the board first became involved with the company approximately a year and a half ago, we were all of the view that more change to the competitive environment in B.C. and the possible sale of all or a portion of the assets and operations of the company would be the decision that we reached. However, after spending considerable time reviewing the operations of the company, the industry and the situation in the marketplace, we've come to the conclusion that the introduction of more competition at the basic insurance level at this time would not reduce rates but would, in fact, increase them beyond where we are requesting this morning. We concluded further that the current focus to operate ICBC as a business for the benefit of our customers and the people of B.C. will best serve both the customers and the people of this province at this time.

We first would like to present to you our request of the company for an increase in rates for 2003 and then, if you wish, move to further discussion on our recommendations for change. Any change in rates that will be implemented will be implemented immediately for any new policies and on January 1, 2003, for any renewals.

I'm Nick Geer, president of ICBC, and with me is John Hancock, the senior vice-president of insurance of the company, to assist in questions on the rates if you have any.

We could not stand here before you today requesting an increase in rates for the upcoming year if we had not, at ICBC, made the effort to control our costs and minimize any rate increase that we need and remain financially viable in the upcoming year. Those are essentials.

ICBC expects to record a small net income in 2002, despite reports to the contrary, but

in forecasting for next year, we require an increase in rates to provide a reasonable return on capital after taking into account the trends and directions that we're finding in our business today.

Operating at a loss is just not acceptable. It's not acceptable for the taxpayers of the province and would endanger the future viability of the company. Continuous losses would threaten the reliability which the people of this province have come to expect and should be able to rely on.

I'm pleased to report that we have made significant strides in the last 18 months to get our house in order. For that, I would like to thank all of the employees of ICBC, the management and every employee, who have worked hard and long hours over those last 18 months to achieve what we have achieved so far today.

In the first nine months of this year our controllable expenses are down, when compared to last year, by some 22 percent. That's nine months compared to nine months. The number of employees at ICBC has been decreased by 1,300 since April 2001. That's approximately 20 percent of the workforce. Despite this, the morale is up, our customer satisfaction scores are increasing, and we have not changed anything that we do structurally.

[10:10]

We have removed over 130,000 square feet of leased office space, closed certain claim centres and rationalized many assets of the company - all with a view to reducing costs.

Minister Linda Reid asked last year when we were presenting, I think on November 7, about the cars at ICBC. She was right. We've reduced our fleet from over 930 to 196 today. Of that 196, approximately 110 are involved on the road in the compliance functions of the company.

Minister Thorpe asked about the government relations and communications department a year ago. We were going down at that time, but they had originally been 117. It is now 20 - working hard, working well.

All of the non-union staff at ICBC have seen their remuneration packages change from a focus on entitlement to a focus on performance. Time-off days are a thing of the past. Extended vacations are gone, and banked vacation pay - no, no longer. In their places are performance bonuses which will specifically link the remuneration of those individuals to their own individual performance, the customer performance and

customer satisfaction. The culture change at ICBC is underway - overdue, but it's now happening.

In reviewing our costs last year, Minister Santori asked if we benchmarked against the industry. IBC, which is the Insurance Bureau of Canada, the association of the private insurers, stated earlier this year that the expense ratios for the auto insurance business were somewhere between 25 and 27 percent of premiums. This compares to a published number for the property and casualty industry, which includes the auto insurance business, of 30.9 percent, which was published by A.M. Best, a well-recognized consulting firm.

Before the non-insurance expenses incurred at ICBC, for which we receive no revenue - that's the licensing and compliance, etc., - our expense ratio on a comparable basis in 2001 was 22.6 percent and will be 18 percent in 2002 - a full 7 to 9 percent lower than the industry. This represents a direct saving to our customers, and we continue to look for further improvements.

Unfortunately, we are not immune to the pressures that the entire industry is experiencing across the country today. Claims costs are going up - in particular, bodily injury claims - as a result of ever-increasing costs in settlement. Auto theft has become a major problem in certain areas in this province.

For the first nine months of 2002, claims have increased \$181 million over the prior nine months of the past year, whereas premiums earned in that period increased only \$123 million. This difference, fortunately, has been more than covered by a reduction in costs, leaving us a net income for the year, but further increases in claims are projected.

With respect to investment income, ICBC has been in the top quartile of the industry for a number of years now. We're earning in the first nine months at a rate of 6.6 percent on our portfolio of approximately \$5.8 billion. That money is set aside to pay future claims. It's not funny money or play money. It's there to pay the claims when they come due. This 6.6 percent compares to about a 4 percent amount, if you took a government bond of a similar rate matching our liabilities. We're earning at a rate of about 2.6 percent above what a risk-free rate of return would be.

With the difficulty in the equity markets today and the lower interest income that is available on bonds today, compared to what was available when many of the bonds we hold were bought, we are forecasting that investment income is likely to decrease. A 1 percent decrease in return represents \$58 million of lower income for ICBC. That's a large number.

We're not alone in this. All insurance companies are suffering from the same issues - and many of us personally. But one thing we are not going to do: we are not going to increase risk in order to increase return. That is not a business approach, and it would be foolish.

[10:15]

Before considering the rates for next year, we should first look at how we compare with other provinces. The Edmonton Journal recently published a study that was done on March 2002 - information for the Saskatchewan government done, again, by a well-recognized consulting firm. It was done on auto insurance rates in a number of cities across the country. It used as a proxy an over-25-year-old driver - so it got away from the young driver issue - with a clean driving record, driving a 2002 Ford Taurus. I don't know how many people are like that around there, but that was the proxy used as an average.

The slide shows the comparisons. The lowest rates are found in Saskatoon and Winnipeg, but Saskatchewan and Manitoba operate in a no-fault environment and therefore are really not strictly comparable to British Columbia. Vancouver, in this study, was the next lowest rate in Canada. We are 25 percent in the study, below Calgary, with Toronto 80 percent above Vancouver.

Further, I should point out to a number of the ministers that in this study Vancouver was the one studied and that this individual would have paid \$1,628. We looked into our records and compared the same individual in other cities. In Victoria he or she would have paid \$1,065, in Kamloops he or she would have paid \$1,242, and in Prince George he or she would have paid \$1,455 - considerably less than Vancouver, which is the highest-priced region for ICBC in the province.

These numbers are for an over-25-year-old, so they do not consider the issue of age non-discrimination in B.C. Also, B.C. has some of the best coverages in the country. We cover \$150,000 of medical expenses - in Alberta it's \$10,000 - as well as covering the licensing and other costs in the basic insurance premiums that we pay today.

Some other information which was published recently by StatsCan shows the rate of insurance premium increases across the country, by province, for the last 12 months. The average increase was 15.7 percent for the 12 months ended September 30. Again, apart from Saskatchewan and Manitoba, B.C. is the lowest with 7.4 percent - which is the rate you approved last November - as compared to 36.6 percent increases that have been experienced in Alberta. In Ontario the president of IBC recently commented

that Ontario rates are 20 percent underpriced and has also said that Ontario is in a state of chaos. There's a newsflash, actually. Yesterday StatsCan updated that to the 12 months ended October, and that period is now an 18.7 percent increase, not 15.7 percent. So the problem continues.

Mr. Premier, we're proposing today, for your consideration, a rate increase for private passenger vehicles of 1.4 percent - less than the increase in inflation - for the mandatory basic insurance rates, which is what you need to get you on the road. We're also proposing an increase of 7.6 percent for the optional portion for private cars. The optional portion, as you know, is in a competitive marketplace. Those two combined create an average increase that we are requesting today for private cars in B.C. of 3.9 percent as compared to the numbers you've seen before for other areas.

Just for a moment... The basic policy is there to protect another person if you've hit them. It gives you \$150,000 of medical expenses - you require it to get on the road - and it covers you up to \$200,000 of claims. It's mandatory, you must have it, and it's sold only by ICBC.

The optional portion really protects your assets. You can buy it if you wish. It protects your car if you crash it, it protects your car if it gets stolen or broken into - and one of the reasons those increases are occurring is because of auto crime - and it protects your assets if you crash into somebody and it costs more than \$200,000. It's an optional package, and it is in the competitive marketplace.

The overall increase in rates for everybody, including commercial, will be 4.8 percent - optional and basic combined. This is split, with the 3.9 percent for private cars, and 11.9 percent for the more competitive market of commercial vehicles in British Columbia. The overall rate increase is budgeted to provide a reasonable return on capital for ICBC for the year ended December 31, 2003, after taking into account the forecasted increase in claims costs and the anticipated reduction in investment income for next year.

[10:20]

The difference between basic and optional increases is designed to provide for a situation that will result in no cross-subsidies between mandatory insurance and optional insurance for the year in question when you pay your premium. As ICBC is the sole provider and distributor through independent brokers of the basic policy, these funds should not subsidize a competitive product in the marketplace in which others compete.

As you, Mr. Premier, noted last year, quoting averages is rather like drowning in a river that is six inches deep, so I'll go into a little more detail. Last year we stated that after a six-year rate freeze which created a lot of distortion in rates, it was necessary to look at removing, over time, some of the subsidies that had built up in the optional area between various rate groups. As a result, we've made a further step in that direction this year.

In this proposal, in all cases we are retaining the full public policy for basic insurance and applying the rates only over the regions and territories that ICBC has traditionally looked at. The further movement that we're proposing today will actually see decreases for over one million of our customers, or 40 percent of our 2.7 million customers. They will receive a decrease. Thirty percent - totalling, therefore, 70 percent - will see a rate increase of somewhere between zero and 5 percent in total; 22 percent will see an increase of between 5 and 15 percent; and 8 percent will see an increase of between 15 and 35 percent.

Those higher-ends are primarily high-powered cars, more expensive cars and some commercial fleets. Also, between the regions there will be a difference as we start to balance some of the issues that are there: from an overall decrease in the southern Island of 1.7 percent - that will be the average for the southern Island, a decrease of 1.7 percent - to an increase of 4.6 percent in the lower mainland and a high of 7.2 percent in the Cariboo, where we have a challenging record of premiums versus claims.

Should these rate increases be approved, Mr. Premier, the auto insurance rates in B.C. will remain the lowest in the country by reason of the comparison we have given. There will always be differences but in general terms, with the exception of Saskatchewan and Manitoba, which I noted provide different levels of benefits in the bodily injury area. The proposal should put ICBC on a sound financial basis for next year, which is essential, and further, in fact, adjust the balance between mandatory and optional insurance, which we believe is essential, again.

Mr. Premier, those are our rate proposals for the upcoming year. We invite any questions on the rate issue before moving on to the core review segment in our presentation.

Hon. G. Campbell: Questions?

Judith.

Hon. J. Reid: With the claims cost continuing to rise, could you explain that a little bit

more? What is it in? You talked about car theft. In bodily injury, is it the severity of the incidents, or is it what is being required to pay out? Has something changed?

N. Geer: We're seeing severities on bodily injury increase. They're up by, I think, about 7.9 percent year over year. That is impacting us significantly - a 7.9 percent increase in severities. The numbers are not much different than last year - up a little but not a great deal.

On auto crime we're seeing an increase of 10 percent over the prior year, and the prior year was double-digit over the year before. That is worrying.

Hon. J. Reid: With the severity of accidents or incidents, what do you attribute that to? I know that you try to be proactive in reducing this. What's happening there? Is that something that's national as well? Is there a trend? Or is there something in particular happening in British Columbia?

N. Geer: John?

J. Hancock: Thank you. One of the primary reasons, I believe, that we've maintained the record that we have - much, much better than any other province across the country - is the investment we've made in loss prevention and traffic safety. We continue to seek improvements and innovation in how we can better our loss-prevention programs. The unfortunate part of those loss-prevention programs is that they tend to have peaked; they tend to have matured. We're still getting the benefit, but the benefit has levelled off. We must seek to find better ways and other ways of reducing the carnage on the highways.

N. Geer: If I could add one thing, minister, if I may, also... On the auto crime area, for example, we are funding and working with the police and other agencies on the bait car program, for example, to attempt to get some handle and some input in that and try to reduce the auto crime that is affecting all of us. What we pay in claims, we have to collect in premiums.

[10:25]

Hon. J. Reid: As you might know, I'd be interested in the transportation portion of this and trying to link it together. I'm thinking, again, of what's happening on our highways. What I'm hearing is that there have been programs in place to try to address driver behaviour, and you're saying that that's levelling off. Again, is this something that's happening nationally, or is it because of the growing congestion on our roads? Is there

anything you can attribute this to that we should be trying to address in some other way?

N. Geer: One of the main reasons you see the incredible increases that are occurring... In the Maritimes you're seeing 50 percent and 60 percent increases in insurance premiums. In Alberta you've seen 37 percent increases in insurance premiums. What is being reported is that the reason for that is the increase in bodily injury claims. We are not alone. In fact, I believe the statistics show that we are far less than the other provinces. I think some of that is because of the programs... I think a lot of it is because of the programs that we implement.

As John says, those programs have a life. They reach a certain plateau; then we must introduce new items and new programs to try to again... This is a benefit to B.C. It's a benefit to ICBC. We don't spend money on road programs or claim reductions for social needs, although social needs are produced. We spend the money to reduce the costs of claims to our customers, because it is our customers' money. It is a good business investment. We will continue to do that in spades.

Hon. G. Campbell: Spades.

Rich.

Hon. R. Coleman: Thank you, Premier. I will get to this road safety and CounterAttack issue under the core services review, because I have a lot of dissatisfaction as to how the corporation's handling that in relations with my law enforcement community.

My question slides back in another direction, Mr. Geer. You are aware of the fact that we are dealing with what is a significant problem among our youth in this province with regards to street racing and dangerous driving. Yet we continue to have non-discrimination with regards to age in our insurance policies, which allows these young people who are literally raising the level of claim costs to us a huge subsidy in their insurance with regards to the fact that there is no age discrimination in our insurance in B.C.

The slide I was looking for this morning, that I didn't see, is... I guess maybe you can or cannot answer this question. If we insured the same as other jurisdictions with regards to age discrimination, how would that affect your proposed rate increase if we were doing it the same as other jurisdictions? Actually, when the insurance is applicable to an age group, that to me is a huge deterrent to the ability of people who have access to a high-performance car at the age of 16.

Secondly, this rate increase has been affected by some other historical perspectives, and I'd like to know how the \$200 million that was given back to taxpayers prior to the last election and the \$100 million or so write-down that you have to do on your real estate in Surrey has an effect on these two factors, outside of the normal. I mean, these are costs the corporation decided to spend, particularly the rebate, outside of... When you're running a business and now you're telling us a rate increase, I would like to know how those two things impacted, and the impact of actually looking at our youth and what the cost of it is costing us. It's cost us a policeman's life, and it's cost us a number of other deaths on our roads because we have this activity taking place. I'm wondering if you've actually looked at addressing it.

N. Geer: If I could answer those questions in reverse, the \$200 million or the \$219 million rebate that was given and the \$100 million write-down on Surrey were taken last year. That was done last year. It wasn't this year. We put that behind us. They were decisions of a prior government, decisions of a prior board. We put those behind us and got on with the business. We dealt with it. Those are not affecting this rate increase.

What they did do, of course, was reduce the reserves available to ICBC. Therefore, if something occurs that we are not expecting, that we are not planning for, that comes up and seriously impacts the ability of ICBC to make that payment, we would be affected because of the lack of reserves. But they don't affect specifically the rate increases this year. We dealt with them last year. We had the deal. But it has left us with less reserve than we should have, because \$300 million effectively is not there, which otherwise would have been there.

With respect to the issue of non-discrimination in insurance, that is a matter of public policy that basically you decide on, and we follow the public policy. It is not the policy of ICBC. I believe it is the policy of this government.

[10:30]

If the changes were to be made in one go, there would be very, very significant changes to a lot of people's insurance rates in this province. Some would skyrocket; some would go down significantly. I'm not going to get into the specific numbers, because I think to some degree, John, they would be hypothetical at this point. As I understand it, this is public policy of this government that we are following.

Hon. R. Coleman: I wouldn't mind, though, having an estimate of those numbers so that when we're having discussions with this community, we can actually identify to them that this is an issue as we go forward. I'd like to know what the approximate

numbers of effect would be on actually looking at an age group with regards to insurance in this province.

N. Geer: We've made those calculations; we've made those numbers. It's something I've looked at and asked John and his people to do. One of the issues, of course, is that a lot of the drivers buying optional insurance today wouldn't buy it, because the premiums would go up 300, 400 and 500 percent for some people. They would go up significantly. A lot would go up 50 and 100 percent immediately. What you would see, I think, is a lot of drivers that just wouldn't carry that optional and would have to change their lifestyle rapidly. It would be a rate shock that would be enormous. Would you still get the premiums from those people? I don't know, because I think they would actually stop writing.

If, in theory, everybody paid the premium that then would apply, you would probably see a very significant number of the people on the other side of the ledger go down. We're saying that 40 percent are going to go down with what we're proposing today. It would be more than that; 60 percent, 70 percent would go down if the premiums were collected on the other side. We get into some hypotheticals, but you would see significant rate changes instantly within the province. But as I say, this is, as I understand it, a matter of public policy, not a matter of rate-setting by ICBC.

Hon. G. Campbell: But I think to follow that up, you can prepare a report for us on the impacts of that policy so we can have a look at...

N. Geer: Yes, we can certainly prepare some numbers for you.

Hon. G. Campbell: Richard Neufeld.

Hon. R. Neufeld: Just a couple of quick questions. You talked - and maybe I misunderstood you, Nick - about 1.7 percent increase, and also in our binders it says 2 and 2.1 percent increase. Maybe I just misunderstand those numbers a little bit. That's one question.

Secondly, the average, I assume... When you talk about 4.8 percent, including both basic and comprehensive, is the average across the whole province? And then you laid that out a little bit further where Victoria gets a decrease, Vancouver will go up by a certain amount, and then you mentioned the Cariboo. I don't know how you have your districts. Is the Cariboo representative, then? I think you said about 7 percent average increase. Is the Cariboo representative of the whole rest of the province, or did you just pick the Cariboo because you like the Cariboo and you would probably want to move

there?

N. Geer: I love the Cariboo. No, what I was giving you, minister, was the lowest, which is the southern Island in the regions - a decrease of 1.7 percent. The highest is the Cariboo at 7.2 percent overall. The lower mainland, which is obviously the largest area in number of people, is 4.6, and then everything else is in between, up and down.

If I could just answer the other question, the 1.4 percent on the basic increase I mentioned is the increase in basic insurance - the mandatory side you have to buy on private passenger cars. The 2 percent is the increase on basic mandatory for everybody including commercial. That's the 2 percent. Then the averages fold out the other way. Does that answer your question, minister?

Hon. R. Neufeld: Yes, it does.

Hon. G. Campbell: Colin.

Hon. C. Hansen: Richard asked part of what I was going to ask. I think what's important here is that we focus in on the mandatory portion of this - the portion that everybody has to buy from ICBC. I think, clearly, if people don't like your rates for optional coverage, they can go to your competition and get their optional coverage there. Again, I wanted to get clarification around those numbers that you mentioned before.

When you talk about the number of drivers in the province that are going to see increases versus those seeing decreases, are you talking across the whole range of coverage - optional and compulsory - or are you talking just about the compulsory coverage? If we focus in on just the compulsory component of that, do you have numbers at your fingertips in terms of how many will see their rates go up or down?

[10:35]

N. Geer: The rates I quoted of averages is across the whole board, optional and basic. The 4.8 percent is right across the board. The 1.7 percent going down; that's optional and basic total. The 7.2 percent going up - optional and basic total. Those were quotes of what the entire packages of the 2.7 million customers are that we have today.

With respect to the basic number, John, you might comment on that.

J. Hancock: I can't answer your question directly; I don't have the information with me. But I can tell you, minister, that we deliberately capped the impact on the basic

premiums such that no one would pay more than 5 percent more than the 1.4 percent applied universally. The most anyone would pay would be 6.4.

Hon. C. Hansen: If I'm right, you're talking about the more expensive cars and the powerful cars that are going to see the high end of that increase on basic insurance, then. Is that the case?

J. Hancock: No, the increase for higher-end cars, muscle cars or sports cars would be on optional coverage. At the moment the basic pricing does not take into consideration the make and model of the vehicle.

N. Geer: The pricing on basic, minister, because it implies a lot of non-discriminatory rules that are remaining fully intact, will tend to be far more uniform than the changes we're making on optional. Optional is a fully competitive product. If people don't like ours, they can go somewhere else. There's a much different grade on the changes on optional than there is on basic, and that's where we're at 1.4 percent for private cars.

Hon. G. Campbell: Gary.

Hon. G. Collins: Nick, this is in response to Richard's question. I think he was asking something a little more detailed perhaps. You mentioned that of all the regions in the province, the lower Island is going down. I'm assuming that's based on the history of claims and where the projection of actual accidents and damages would be, so that reflects the driving habits and the numbers of people, etc., in that area. The lower mainland is by far the largest chunk of drivers in the province, and they're much more around the average rate, probably because they're a larger portion of that average. Then you mention the Cariboo as being the higher area. What's driving those rate increases in the Cariboo? You mentioned claim history, but is there some...? What's causing that?

N. Geer: You're absolutely right. It's the claim history on the optional side that is driving a number of these changes as we inch towards charging what it costs us in various areas. The 1.7 percent decrease in the south Island, for example, actually gives a 3.7 percent decrease in basic and a 3 percent increase in optional, averaging to a 1.7 percent decrease overall. What we're experiencing in the Cariboo and some of the other regions is that our claims are significantly in excess of the premiums collected on the optional side, so we're adjusting slowly to collect more in premiums to pay the claims in that region on the optional portion.

Those became significantly out of whack over time, over the six-year rate freeze, so

we're adjusting slowly to be able to collect enough premiums to pay for the claims. The premiums in those regions will still be less than Vancouver. Don't confuse the increase with the absolute. They will still be less than Vancouver.

Interjection.

Hon. G. Campbell: I've got pictures, Dick. Blacktop up there, right by Fort St. John.

John.

Hon. J. van Dongen: Just following up on Rich Coleman's question, the 4.8 percent increase overall, Nick - how much money does that raise?

N. Geer: Our total premium income is about \$2.7 billion. When we ask for an increase like this... The average premium comes in, in June 30, because people renew throughout the year. I think the 4.8 percent on the total premium in 2003 will raise slightly over \$60 million - \$62 million, \$63 million - and will be fully impactful in 2004, at double that, at about \$125 million.

Hon. G. Campbell: Any other questions? Okay, the recommendation before us is an overall average increase for all rate classes of 4.8 percent; 2 percent for basic premiums, which is 1.4 percent for private automobiles; and the balance that moves it up is for commercial fleet automobiles, etc.; 8.9 percent for other optional premiums.

Just let me ask one last question here, Nick. In terms of optional, we don't have any requirements that people dealing with our basic actually sell our optional? They're able to sell any optional they have that is available?

[10:40]

N. Geer: We distribute all of our products through independent brokers and will continue to do so, and they're fully free to sell whatever optional they wish to sell -our product or anybody else's.

Hon. G. Campbell: Okay, and the final part of that recommendation is effective immediately for new policies and January 1, 2003, for renewals. Thank you very much.

We'll move along to the core review section of this report. Go ahead, Nick.

N. Geer: I won't say good morning again. I've said it once before.

We're moving now to the core of your presentation. In this situation, I'm the chairman of ICBC, and I would like to turn to the recommendations. These are the recommendations of the full board. They're not my recommendations. These are nine people that became the board of ICBC last year, last July. With me today is Ted Smith, a board member of ICBC. I've asked him to join me to help me with any questions you might have with respect to the core review.

As I mentioned earlier, when the board came together last year, we were all expecting to proceed toward a very major change in the competitive environment and the possible sale of all or portions of ICBC. We were charged, however, with looking seriously at the alternatives, considering the New Era document and the five core review guidelines and also with ensuring that we recommended what we believe to be the right thing to do for the customers of ICBC and the people of this province. The two charges I took very seriously were that one and to run the company better.

We reviewed and seriously considered a large number of alternatives, from a complete sale of the company to doing absolutely nothing at all. We received a great deal of input, as you can imagine, from many, many sources and reviewed the industry in Canada and elsewhere. It became readily apparent fairly early on that ICBC could be run a lot better. With the help of the management and all of the current employees of the company, I believe we have started a culture change within the company that will benefit the customers, as I believe it is already doing, with respect to the rates we are requiring for next year.

During the rate presentation, we reviewed a number of changes that we have effected, already resulting in significant changes to the company and therefore lower rates. It's important in reviewing changes for the future, which will affect so many people, that the conclusions are carefully reached, that they're based on fact and that they use as a comparison the way in which the company can be run.

We've looked at the rates charged by ICBC and have found today that despite additional costs borne by the company as a result of public policy and rating practices, the rates charged by ICBC are some of the lowest in the country today. We reviewed the operating costs of the company after effecting the changes and have found that ICBC is operating at a cost below its competitors and significantly below the average cost for the industry in the private sector across the country. That impacts on lower rates.

We've looked at the private sector in other provinces and found recently a record of

massive rate increases in a move to bolster the bottom line in one of the worst markets ever experienced. Claims are running out of hand, in particular in the bodily injury area, and companies are ceasing to write or leaving many markets across the country.

For example, the Co-operators, a large private company, recently announced it would cease writing new preferred business in Alberta. A subsidiary of Allstate, which pulled out of B.C. recently - although they were writing very little business here, and a big fuss was made that it was done because of the delay of core review - reported recently that they had stopped writing any business in Alberta because they couldn't get a 40 percent increase. They also pulled out of the Maritimes.

We have looked at the possibility of a sale of all or a part of ICBC, which is an asset of the people of this province, and found that in today's market, it is not possible to provide a reasonable return to the shareholders, the people who would be hurt not only by selling an asset cheap but also by suffering higher rates at a later date. We also found that ICBC, a Crown corporation with significant assets close to \$6 billion and an impact on virtually every person in this province, clearly requires the application of public policy to ensure that the situation is not abused and that the people of B.C. are well served.

[10:45]

In the past there has been political involvement beyond the setting of public policy on auto insurance rates and activities that have led, I believe, to incorrect business decisions and incorrect practices. The key imperative, we believe, is to ensure that the consumers in B.C. can access affordable and reliable auto insurance at the lowest possible rates whilst applying public policy and making sure the taxpayers of this province are not also adversely affected.

Our conclusions may be considered by some to be counterintuitive, but they are based on facts as we find them today, and they are based on what we believe would be the impact of other alternatives. We have therefore, Mr. Premier, come to a number of conclusions which we would like to present to you today as the recommendation of the board of ICBC to the government on the core review process.

Firstly, we recommend that the commercial vehicle compliance and motor carrier activities currently conducted by ICBC should be transferred back to the government and operated by the appropriate ministries. These activities are not core to ICBC's insurance and licensing activities and are more appropriately handled by government, as they relate to law enforcement, which is the purview of the Solicitor General's department, and other activities currently handled by the Ministry of Transportation.

The cost of these activities, which currently approximates \$22 million a year, has been borne by ICBC in the past and covered by basic insurance premiums, with any revenue collected going to the province. In order to transition this change, it will be proposed that ICBC will pay a dividend to the province of approximately its cost of \$22 million for some period of time to provide for sufficient time for the ministries to rearrange their affairs and handle things differently. Coincidentally, a dividend of \$22 million is only a little bit above what a reasonable return on the equity the province has in ICBC today would otherwise be, so the numbers actually do make some sense. That way, the cost for a time would still be borne in basic insurance premiums.

ICBC would continue to retain and fund all of the driver and vehicle licensing activities. These activities have some relationship to the core insurance activities of ICBC and can be operated efficiently and effectively - two of the core review principles. The annual cost of these activities, which is in excess of \$70 million, would continue to be borne by ICBC. Any revenue collected from these activities is returned to the province today. It would be funded by basic insurance premiums, as it has been in the past, so it would not affect the competitive market and would be passed back to the province together with any fines and other revenue collected by ICBC on behalf of the province, 100 percent.

The tying in of licensing, particularly vehicle licensing, with the basic insurance has given B.C. the record of, I believe, the lowest number of uninsured drivers on the road anywhere in North America. It's insignificant here. It's below half of 1 percent. In California, I'm told, it's 40 percent, and in other places it's 10 to 20 percent, as it is in some parts of Canada. That tying in is, I think, critical going forward, for that reason and that reason alone.

Secondly, we recommend that an independent regulator be appointed by the provincial government to oversee ICBC. We wish to be regulated - strange request. The provincial government will set the duties and the responsibilities of that regulator. The oversight by a regulator will ensure that public policy is followed but that ICBC is capable of making sound business judgments and decisions without political involvement, provided the requirements and policies of the regulator are followed. Recognizing that ICBC has a monopoly on basic insurance, the regulator would ensure that ICBC is held in check and does not charge unreasonable rates for the monopoly product but is permitted to recover reasonable costs, including the cost of operating the licensing activities as well as administrative and claims costs.

[10:50]

As optional product is sold in a fully competitive marketplace, it will be important to ensure that ICBC does not subsidize a competitive product with a mandatory one and unfairly price against its competition. Similarly, in a competitive marketplace it will be important that ICBC reasonably prices its competitive product so as not to distort the marketplace. It will be the responsibility of the regulator, when in place, to apply public policy and to protect the customers of ICBC and consumers in general. This can be done by ensuring that rates are kept low while not unfairly penalizing ICBC such that the company, and therefore the province and its taxpayers, cannot operate on a financially sound basis.

It's also anticipated that the regulator will have an input into the investment policy of ICBC to ensure that the policies are appropriate to the business of the company and do not reflect other imperatives which may otherwise adversely affect the customers of the company. The key to the responsibilities of the regulator of ICBC will be to protect the consumer against unreasonable rates while ensuring the availability of auto insurance in the province and permitting ICBC to operate on an efficient, business-like basis.

Thirdly, Mr. Premier, we recommend that no further changes be made to the operating structure and activities of ICBC at this time and that the company be required to show that it is operating in a manner which meets the five requirements of the core review - namely, it is in the public interest, it is affordable, it is effective, it is efficient, and it is accountable. Given these changes, this will permit ICBC to operate on a financially sound basis. It will remove any problems between basic and mandatory and cross-subsidization and, I believe, will allow us in this province through a regulator to offer the lowest possible rates to the consumers of B.C.

Mr. Premier, ICBC is embarking on a three-year strategic plan internally, which will complete the changes currently underway and enable it to act in a fully competitive manner to better serve its customers, providing affordable, available and reliable auto insurance in B.C. at the lowest possible prices. Mr. Premier, those are our recommendations.

Hon. G. Campbell: Thank you very much, Nick. I have a number of questions.

First, I want everyone to hear what we said to people in British Columbia in the New Era document that we were going to do: introduce greater competition in auto insurance to create increased choice and reduce motor vehicle premiums. We know that's what motivated us, and we know that's the direction we gave to ICBC.

I also think it's important that we learn as we go through this. There's a number of things

I've learned, certainly, as I've gone through it. I'm hoping we can ask some questions today so that Nick can help elucidate some of the challenges we face in the automobile insurance business.

Geoff, then Gary and then Bill.

Hon. G. Plant: I have a practical question, which actually I think arises as a follow-up to a question Mike asked the last time we were sitting around this table - setting premiums. I think it was Mike who said that he didn't think that was a task we were necessarily all that well suited to do. I just want to make sure that it is said clearly. If we identify a regulator external to government, then cabinet will no longer be setting the premiums for ICBC insurance. Is that the implication?

N. Geer: That, I believe, is the implication of a regulator.

Hon. G. Campbell: Gary.

Hon. G. Collins: I have a couple of things I wanted to sort of expand upon, and make sure we have the right focus and people understand what this is going to look like and how it's going to affect the people of the province and the businesses that ICBC is competing with and some of the opportunities that I think are there for greater public involvement and how this works as opposed to just doing it around the cabinet table.

We saw an example again today of us having to deal with the rate-setting for ICBC. It's something cabinets have done for a long, long time in successive governments, and it's something we don't think should happen. We've done it twice in open cabinet, so it's at least somewhat more transparent, and people can see what it is that we're doing. In the past that was done behind the closed doors of the cabinet office.

One of the advantages, I think, too, of moving to a regulatory model with a regulator... We've had this monopoly that's been unregulated for a long time, and monopolies can sometimes be scary things for people. If you own one, it's not bad. If you have to deal with one, it can be very difficult. I know there are people who feel that way.

[10:55]

The idea of having a regulator in place for ICBC's basic and also for ICBC's optional - not the private industry's optional, but ICBC 's optional - allows for a couple of things. It allows for much more input from the public in that rate-setting exercise, and when we put in place this regulatory model... The Ministry of Finance has already done a fair bit

of preliminary work on what that model might look like and who the regulator might be and how it might be structured.

The goal here is to provide opportunities for ICBC, for ICBC's competitors and for ICBC's clients, the people of British Columbia, to come before the regulator and present their cases, argue why rates should go up or why rates should go down, why this should be in basic and that should be in optional or the other way around, and have an independent regulator free from the political presence of cabinet make those decisions in the best interests of the ratepayers. That is the goal of the regulator. That is the purpose of the regulator.

I look forward to that. I think it's going to be something quite different. It will take people some time to adjust to that. Certainly, the Ministry of Finance and I are going to be spending a bit of time talking to and hopefully hearing from individual British Columbians as well as people in the private insurance industry and ICBC on what that regulatory model might look like, how we would structure it, what processes would be in place to ensure we achieve the goals we've set for that.

I foresee that this regulator would hear presentations from ICBC, industry and individuals about what is included in basic; what should be included in optional; what the rates should be; are they competitive; is there any cross-subsidization taking place; are we ensuring that as we move towards greater competition on the optional portion of ICBC's business, there aren't structures in place that are anti-competitive or that make it easier for ICBC to compete as opposed to somebody in the private sector.

We really want to make sure that it's fair, that it's transparent and that people understand what it's about so that when people do go out there and get to choose their insurance product for optional, they know they're getting the best deal they can get and that competition is taking place in a fair manner.

I look forward to getting some feedback from people. Certainly, if your constituents have any suggestions, tell them to send them to me directly, and we'll look at that. As well, I know we'll be talking to ICBC at great length, as well as the independent sector, to make sure that we set up the structure in a way that benefits the ratepayers. I think it's going to be an interesting process.

Hon. G. Campbell: Bill, Christie, Greg, Rich, Richard and Mike.

Hon. B. Barisoff: Nick, how many representatives have you met with from private insurance companies?

N. Geer: Over the last 18 months I've met with the chair or the president of virtually all of the competitors that we have today. We've met privately.

Hon. B. Barisoff: What comments did they give to you about the direction that we're taking here?

N. Geer: Obviously, I did not share with them the direction that we're taking. That was confidential to us and the government. I asked them what they felt, and the response I got from all of them, not from their associations but from all of the individual private companies, is: "Go carefully. Go slowly."

This is a difficult market. It's got a lot of problems. We're not ready to jump in with both feet. Go slowly and go carefully. That was all of them.

Hon. G. Campbell: Christy.

Hon. C. Clark: Two quick questions. The first one is: you said that it wasn't possible to get a reasonable return for ICBC in today's market. It's a bit of a hypothetical question, Nick, but do you think that the board would have come to a different recommendation if the market for insurance had been better, and it had been possible to get a reasonable rate of return for ICBC's assets?

N. Geer: I have very great difficulty answering hypothetical questions.

One of the issues we have is that at the moment we have a lot of public policy involved in what we do. How do you transition public policy into the private environment if you sell an operation? It is a matter that would have to have come under significant discussion, so it becomes hypothetical, because the second part of the question was never asked.

If the market had been substantially different, maybe we would have pursued that second part of the question, but we didn't.

Hon. C. Clark: Okay. My second question...

Hon. G. Campbell: May I just interrupt for a second? Isn't it true to say that when we have a public asset like this - this is like conversations you've had with us before - there's a challenge in terms of the public asset? If it's not at its maximum potential to achieve value... In other words, however we've got to manage it, whatever the issues

you face, you've got to get it in the right position so you maximize value.

I think the first thing that would have happened is, if we had gone out and had not done that, and the private sector had come, and then they'd gone and done it, they would have done the easy part. We want to make sure that the public gets the advantage of the first stage of value-adding before we would even consider that, I would think.

N. Geer: Thank you for that, and absolutely right.... This is an asset of the people of B.C. It is an asset that the people of B.C. deserve the best value in whatever form it takes. If I own a house and I wish to sell it, I paint it and cut the lawn.

Hon. G. Campbell: So that's how you do it. [Laughter.]

[11:00]

N. Geer: That's what we've been doing, in many ways. I'm glad, Mr. Premier; you say the easy part. There's a lot of things to be done in the company. There's a lot of culture to change. We're in the middle of that, and the people are really contributing to it, and it's happening.

Hon. G. Campbell: Okay, great.

Go ahead, Christy.

Hon. C. Clark: My second question is about the regulatory decisions. Insurance companies, I think - well, I know - are regulated at the moment. Private insurance companies have a regulatory environment that they live with now in B.C. Why are you recommending that this go to the BCUC as opposed to having ICBC regulated on the same basis as private insurance companies are in British Columbia today?

N. Geer: The format and the state of the regulator will be a matter for the government, not for ICBC. We're not recommending where it goes. It's really for the Ministry of Finance and the government to decide how the regulator is set up, how the regulator operates and what instructions are given to the regulator. Our recommendation is that we should be regulated. We should not go through this each year. We should go to a regulator with respect to running a business and setting rates for our customers. It's up to the government to make the decisions you're mentioning.

Hon. C. Clark: Okay. Thanks.

Hon. G. Campbell: Gary, you wanted to say something.

Hon. G. Collins: There's one issue I do want to raise. You and I have talked about this, and I know that the caucus has come and talked to us as well. I think it's important for you to comment a little bit today on the supplier side. I know there are lots of suppliers out there to ICBC who have lots of issues with monopoly over the years, and I know we've been trying to work with them to try and see if we can solve those problems.

I think it's worthwhile, because I know some of them will be watching today to hear what we've designed for ICBC, and I think it's important that we hear from yourself as to some of the things the Crown and the government are trying to do in order to deal with some of those issues that still are out there. We've talked about the regulatory model from the rate-setting side and some of the structures from the company side, but we haven't really talked about what's going on with the suppliers.

N. Geer: Thank you, minister. It's a very good point, and I would like to expand on that. There have been problems in the past, and I think there have been many perceived problems. They have been actual and perceived. Whenever you have a monopoly in place, people will think they are being abused, whether they are or they are not.

A monopoly of the size of ICBC must act beyond where anybody else would normally act, because of its position. We spend our customers' money. We don't have money. We don't have any debt. We're not looking for any money from the government. We will never, I hope, ever require that. We spend our customers' money; we spend our customers' premiums.

When a job is done for ICBC by a supplier, it's not paid for by ICBC; it's paid for by our customers. We must ensure, to the extent we can fairly, that our customers' money is being spent properly, and we will always adopt that position. I think we have a responsibility to our customers and a responsibility to the whole community of British Columbia to make sure that when a car is repaired, it is done with quality and it is done safely.

I don't think we have any reason to be talking about cosmetics, talking about issues that don't deal with safety and the quality of the repair. In that area we will attempt to remove ourselves. We've got a major review ongoing in the company, which I hope will come to some conclusion fairly soon and is being driven... I'm driving a couple of particular parameters.

What I want to see is a regime by ICBC which says we will not in any circumstances

abuse or misuse our monopoly situation. We will permit the customer to make choices in the marketplace, given safety and quality as objectives. We will attempt to allow the customer to make choices, with quality and safety, yes, being required, and also try to make sure that the best payment is made so that our customers who pay the premiums and pay for these expenses are not abused by higher charges being levied against their insurance company, ICBC.

That is the thrust that we're going on. That is where we're trying to go. We've got a major review underway today to look at that and try and move from where some of the complaints have been coming in the past.

Hon. G. Campbell: Greg and then Rich and then Richard.

Hon. G. Halsey-Brandt: Thank you very much.

Good morning, Nick. My question is around the recommendation that you made about an arm's-length regulatory body. I can certainly see that within the basic insurance part. My question is around the optional.

[11:05]

I can see some regulation for the first few years, perhaps, as more competitors, we would assume, come back into the marketplace in British Columbia. Well, the recommendation, I guess, isn't time sensitive in the sense of how far that would be ongoing in the future.

How would a regulatory agency regulate you - obviously not the private sector- and why would they regulate you - I'm talking optional now - if your basic concern is that you're non-profit and, in terms of making any money, you're concerned about paying your premiums and keeping your reserves up? That's the only area I can see that they would be concerned about. How do you create a competitive environment that ICBC, in fact, can play in with a regulatory agency for the optional insurance in the outgoing years?

N. Geer: Maybe I can pass to the minister before I answer the question.

Hon. G. Collins: Maybe I can start, and if there's something Nick wants to add, that would be good too. If we accept this recommendation, after today Nick's only involvement, and ICBC 's only involvement, with the regulator is as one of the people that's presenting. We will take that over as the Ministry of Finance, and it will be very much at arm's length. We'll set the structure, and then ICBC will present to the regulator

like anybody else would present to the regulator.

The goal here... It's a little unusual. The question I think you're asking is: why would you...? You can see why we would regulate the basic, because they're the only ones out there. There's no one else you can go to, to buy basic at this point.

On the optional side, there are lots of people out there. There is competition out there right now to a certain extent, but I think there is certainly confusion. There is uncertainty as to how fair that competition is because ICBC has this big chunk of basic business. Are the administrative costs properly allocated to the basic insurance premium or to the optional? Do you take costs that are a part of your optional and push them into the basic and have higher basic rates than perhaps are necessary to lower your optional rates in order to attract more business? That would be the concern that the public has. I think it's fair for them to have that uncertainty, because there's no way for them knowing one way or another, other than the insurance is by ourselves or by ICBC itself.

You need to regulate the optional and the basic for ICBC, partially because while they have 100 percent of the basic, they have over 90 percent of the optional business as well. They're huge in the optional side. When you have that much market dominance, you have almost an effective monopoly, because of the size of the market they already have. As you transition, as we try and get as much competition and as fair as possible competition on the optional side, you need to have a regulator on this big player - this big gorilla in the marketplace - to make sure they're behaving fairly and that the regulator part of what they do - no personal... So to make sure they're behaving properly - that there is no cross-subsidization, that those costs and optional are just optional and that they are competing fairly...

We'll hear from the independent insurance people on how we set up this system, and then I'm sure they'll want to talk to the regulator. They'll come in with a list of things, and they say: "ICBC is doing this, this, this and this unfairly." ICBC will say: "No, we're not. No, we're not. No, we're not. Well, maybe. No, we're not. " They'll have this discussion with the regulator. Average British Columbians can come in and present their case too. You need to have that regulator there.

On the private sector insurance, they are regulated already to a certain extent just for basic solvency, to make sure they have got enough reserves to pay the claims that are there, but we don't set their rates. That's done through the Financial Institutions Commission in the Ministry of Finance now. ICBC will continue to have the same solvency requirements - all that sort of stuff to compete fairly - but for this intervening period at least, until we get some shake-out and until we know what we're dealing with,

they'll also have to deal with the regulator on their optional side as well.

N. Geer: Thank you, Gary.

I would just like to echo the point that with our rates that we've introduced today, the difference between the basic and the optional increases is part and parcel of putting ICBC into the position of not subsidizing its optional premiums, which are in a competitive market place, by overcharging on basic. I believe that is fundamental. We are moving there within the company; we intend to, but we need to be checked. You can't just take our word for it. Somebody has to check it, because if we were to cheat, if we were not to do that, then it's not fair in a competitive marketplace. In a competitive marketplace it must be fair. We're looking to try to see a level playing field so that we're competing within a competitive marketplace fairly. I echo Gary.

Hon. G. Campbell: Rich.

[11:10]

Hon. R. Coleman: Thank you, Premier.

I just have a question before I get into my second topic. The first question is: do private insurers on the optional have the same access to driver's licence information as ICBC does?

N. Geer: John, maybe I could ask that of you.

J. Hancock: I didn't catch the question over here, minister.

Hon. G. Campbell: Do private insurers have the same information off of drivers' licences as ICBC does?

J. Hancock: I believe they do. I'd have to check.

Hon. R. Coleman: Would you get back to me? It's just a curiosity of mine, because you actually have all the driver's licence information, and you actually issue the drivers' licences. That's obviously a different advantage in the marketplace, versus private insurers not having that access.

My second subject, though, is a bit more involved, particularly with my ministry. I just got back from meeting with all the senior officers of the RCMP in Canada and giving a

speech to them in Ottawa. I met with the B.C. Chiefs of Police yesterday. We are trying to integrate law enforcement in British Columbia to the point where we will break down silos in how we operate in policing.

One of the silos we have is ICBC. The difficulty is that we're going to move over the compliance branch so we can actually integrate that into law enforcement. We still have issues in and around CounterAttack and road safety programs where the corporation seems to be wanting to keep those in-house and dictate to law enforcement how they would deploy their manpower. That is a troublesome issue, first of all, because the RCMP has not entered into a CounterAttack agreement with ICBC and, frankly, as I'm told, have no intention of doing so as long as ICBC dictates where, when and how the people will be deployed. They see that in an integrated relationship in traffic enforcement in B.C. - both with the municipal police forces and the RCMP - the funds, if they were allocated through to, so that you could actually hire the personnel to do the job versus having to do this on overtime... We could get a much better bang for our buck.

The issue we have here is that we can actually track some of our sick time in some of our law enforcement community to officers coming in on their day off to do CounterAttack at time-and-a-half. They come in on their day off and work, and then they're are sick on the day that they should be on duty, which has an effect on our ability to perform in law enforcement.

I have continually asked ICBC to look at saying, "How much are we prepared to invest in this over a three-to-five-year period with regards to this?" and: "Let us go and actually hire the additional police personnel so we can enhance traffic safety in the province and an integrated traffic program to the level it should be, rather than using money for existing personnel on overtime." I am not, frankly, getting the response from the corporation that, as I understand it, talking to my police services and to the law enforcement agencies both yesterday and today in advance of this meeting...getting satisfactory answers that we're getting the cooperation at your level.

Integration in policing is what will stop us from having long-term difficulties that we've experienced in different investigations and issues. We need to integrate information. We need to integrate the relation of policing, and we don't need to have it integrated on the basis that one funder is actually dictating the use of personnel while the management of the structure of policing is being affected. I have a concern about that, and I just want you to take that back to the corporation - that we would like that issue, frankly, revisited.

Don't look at it being a silo in-house to the corporation, but look at it as being an

integration with law enforcement in B.C. for the long-term success in road safety programs. We are not there today, and I'm concerned that we're not, and it doesn't seem to me, at least from the information I'm getting, that we're getting any cooperation in getting there.

N. Geer: Can I answer that? I totally agree with a number of comments that you make, minister. While we were under the core-review regime and we didn't know where this company was going to go, we had to keep private from any of the employees and the management personnel, apart from a very small group, what our thinking was and what our discussion was with the government. Nobody in ICBC had any idea whether we would even exist tomorrow, what our longevity would be or what was going to happen to basic insurance, and we could not make long-term planning or long-term planning objectives or put them in place in any way, shape or form, because we didn't know what our future was going to be.

At a meeting that was held nine or ten months ago with the Ministry of Transportation representatives - representatives from your government, your department - and representatives of ICBC, we collectively said: "Wouldn't it be nice if we could reach long-term arrangements - three-, four-year arrangements - so that we could better deploy the funds in a more sensible way over a longer period of time so that resources could be better applied for the common objective of stopping drinking and driving and other effects on the road?"

[11:15]

If we proceed as we are suggesting today, I think we have crossed that hurdle. We now can sit down with all of the resources of ICBC and with the resources of your department and the Ministry of Transportation to be able to reach long-term agreements and long-term understandings. We now would be comfortable that we are capable of doing that.

The second point is that ICBC invests its customers' money. It invests those customers' money not for social policy, not because we're a welfare agency or because we are a policing force. We invest our customers' money to keep premiums down. That is our job, so we try to invest our money where we believe we can reduce costs of claims. It is not our job to be involved in enforcement. It is not our job to be involved in policing. It is not our job to do any of that whatsoever.

But if we are to spend our customers' money, we must have the relationship and the communication to have comfort that our customers' money is being spent for the benefit

of our customers. I hope that with today's suggestion, if we move forward in this way, we will now be able to sit down and talk long-term planning in exactly the way you wish, and I will carry that message back to the company. Thank you.

Hon. R. Coleman: Thanks, Nick. When you go back, you know, and you say it's not your job to be involved in enforcement and policing... But in respect, you are today in some municipalities. They are using you for overtime money to fund other programs simply because there is no integrated relationship in policing relative to whatever funding you're putting into road safety as it affects the police.

I know from meeting with the RCMP, in particular, you should know that it is not on - that in the future relationship, it will be the corporation dictating the deployment times, etc., with regard to this. They will enter into an agreement with you. They will deploy the officers. They will hire them. They will make sure it's an integrated relationship as to how it can be successful, but an insurance corporation really should not be influencing the daily operations of policing, which has actually had some effect today.

N. Geer: Absolutely.

Hon. R. Coleman: Going forward, as we move forward, the goal will be, if you are involved, having integration of policing and deploying manpower effectively and properly.

N. Geer: We look forward to the best utilization of our funds, our customers' funds, to achieve our objectives to reduce claims.

Hon. R. Coleman: Okay.

N. Geer: And if we can reach our long-term objective, I applaud that and look forward to it.

Hon. G. Campbell: Richard.

Hon. R. Neufeld: Quickly, a few questions, Nick. Under commercial vehicle compliance, will that include new configurations of axles in licensing? Will ICBC still process that part of it?

N. Geer: You're into a detail that I would like to have John answer you, if I could.

J. Hancock: That responsibility will move over if you accept the recommendation.

Hon. R. Neufeld: Okay, that answers my question. That's just great, because you guys moved with glacial speed. Maybe we can get something done someplace else.

Hon. G. Campbell: This government does it a whole lot better than that, actually. They're working on it, but - you know. Okay, good.

N. Geer: This is the reason why these things should come to government and should not be in ICBC. It's not part of our business.

Hon. G. Campbell: Okay.

Mike.

Hon. M. de Jong: Nick, as you might expect, given my comments referred to by the Attorney last time, the notion that we would be moving to a regulatory agency of some sort is one I'm in favour of, but I just want to make sure that I understand and we understand the significance of that move. If we go ahead with this, we're removing one of the great spectacles of B.C. politics, which is where cabinets go away -well, we do it publicly, but they have historically gone away - and there's grey smoke if rates are going up and white smoke if they're going down. The white smoke is usually just before an election.

That's all going to change. We are vesting in this regulatory agency, if we follow through on this decision, the kind of authority to decide the kinds of issues that the Solicitor General raised. We talk about setting rates. The costs are easy - I mean, the basic rates - but there are more fundamental questions like the adoption of a policy around age categorization.

I have a different view than the Solicitor General, and we would have a healthy argument about that. But those kinds of decisions will no longer be made in this forum. People will have an opportunity to make submissions before this regulatory agency. Do I understand that correctly?

N. Geer: My understanding, and then I'll pass it to the minister, is that all matters of public policy - and those are matters of public policy - would be the purview of the regulator and that ICBC must operate on matters of public policy as instructed by the regulator.

Hon. M. de Jong: I see.

[11:20]

Hon. G. Campbell: The government will be giving the regulator the public policy framework, so if there is a public policy on fair pricing, we will tell the regulator that's the public policy. The regulator's task, then, is to carry that out. If our public policy is no cross-subsidization, you tell the regulator that, and the regulator's responsibility is to carry that out. What we're trying to do is depoliticize the decision-making that takes place around the cabinet table where you end up saying: "I feel like a project somewhere. Let's see if we can build something."

Hon. G. Collins: Just a specific question on road safety initiatives. We could give a mandate to the regulator to say ICBC will be responsible for funding, out of its basic insurance premiums, those road safety initiatives. How ICBC deals with the Solicitor General is something... That's public policy. ICBC would have to deal with that, the Solicitor General would deal with it, and cabinet would say: "We like this model," or "We like that model." The regulator wouldn't do that. What the regulator would make sure is that ICBC wasn't finding some other source of funding in order to make that happen.

Hon. M. de Jong: Yeah. I actually wasn't talking about road safety. I was talking about this whole question of age and...

Hon. G. Collins: Oh, sorry. Yeah.

N. Geer: The other thing, too, is don't forget that one of the five principles of the core review test, which we buy into completely, is be accountable. We are owned by the people of this province, whom you represent. It is absolutely necessary that we are accountable to our shareholders in the way we report, the way we say what we do and the way we reveal the operations of ICBC. That will be essential and will continue, so our accountability doesn't go away.

Hon. G. Campbell: Joyce. Colin.

Hon. J. Murray: Thank you. Mike asked the first question I had, which was about policy-making and the regulator. The second question I have in terms of our decision around the regulator - I don't know; Gary, you might have the answer to this, or Nick: how much does it cost to have a regulatory body do what government used to do with its existing budget? What's that extra cost? Who pays it? If the customers of insurance end up paying that, then how does that make ICBC more efficient? And if government is going to pay the cost of the regulator, where's that going to fit into our pretty tight budgeting?

My questions are around costs.

Hon. G. Campbell: Gary.

Hon. G. Collins: Preliminary estimates are around a million or million and a half dollars, I think, for the annual costs of the regulator. That will be borne by ICBC - much like B.C. Hydro has a regulator and, you know, will be re-regulated. It used to have a regulator, as well, and still does for some things, just not for rates. The regulator would be funded from the people they're regulating, and that's sort of common practice around the world.

N. Geer: We would bear that cost. We will price it into our premiums, but I would hope that because of our greater ability to operate in a business environment, making business decisions, we could save that and then some.

Hon. G. Campbell: Colin.

Hon. C. Hansen: Thank you. I just had a quick question which I think may only require a one-word answer, but it follows up on what I had raised earlier. If you go back to the new-era commitment that we made in the election campaign, it was to introduce greater competition in auto insurance, to create increased choice and to reduce motor vehicle premiums. I think when you start looking at the greater competition and the greater opportunity for choice, I see that around the optional side, and with this regulatory structure, there's certainly a vehicle where people can argue for even greater access to optional insurance in the future.

I guess, around the reduced rates, I know from the previous decision we've got a million policyholders. We'll see their rates come down as a result of this decision. I guess I would just like some assurance from you that this new structure will, in fact, ensure that British Columbians in the future will get the lowest possible auto premium rates from ICBC as a result of this new structure that we're talking about.

N. Geer: The one-word answer: yes.

Hon. G. Campbell: We have some recommendations before us. I'm glad you came back to that new-era commitment, because I think we have to be aware of this. There's no question that both the government and, I think, a lot of members of the public thought we were going to go out, and suddenly there wasn't going to be an ICBC.

[11:25]

The issue for us was to increase competition. We are starting down that road here. There will be increased competition for optional. I think it's clearly a challenge to lower rates in the government policy framework that we have, but I also don't think that we would shy away from saying this. The so-called fair rate structure we have that doesn't take into consideration the normal actuarial tables that are in place and says, "This is how we're going to manage it," is a government policy decision. You probably could remove that policy, and you would find some people whose rates would go down significantly. You'd also see a whole bunch of people whose rates would go up significantly.

I take it here, Nick, that the recommendation we're receiving is the best advice we can get from the ICBC board about how to minimize rate increases, how to minimize rates for British Columbians across the province. I don't think we should leave the impression with anyone that this is going to mean plummeting rates for anyone. There are other big policy decisions we could have and discussions we could have that may result in some of the - what is it? - 1.7 million policyholders having significant reductions. It would also mean a good chunk of those 1.7 million policyholders would have significant increases.

I can tell you at least that when I was discussing this in the campaign - I think it was in Cranbrook - and the issue was raised with regard to that, I said we were going to try and maintain that fair-pricing policy. That is something that's up for debate and up for discussion. It is a public policy that we could lay onto the regulatory agency we will be putting in place, and it's a choice we'll get to make. But today I think we're being asked to do three specific things that reflect the results of the core services review that has been undertaken by the committee as well as by the board of ICBC.

The first is to transfer ICBC's commercial vehicle compliance and motor carrier functions back to government. They are not insurance functions; they are government functions. Frankly, they were moved over to ICBC to hide the costs of them - to hide that tax, if you want, or those costs within the rate structure of ICBC. That's the first recommendation they've made.

The second is to move ICBC under the authority of an independent, arm's-length regulatory body. The reason we're doing that is to depoliticize these decisions. We can all go back and look over the last decade and see a number of very bad public policy decisions that were made on behalf of both ratepayers and taxpayers because of political interference. This is saying: "Let's move that out."

A regulatory process will be the most open process we've ever had in terms of rate-setting with ICBC. It will include consumers; it will include suppliers. Everyone will be

involved in that opportunity, including ICBC. I think one of the advantages of that is that it provides the public with a full array of information on rates. In fact, it may well be argued that our ICBC rates are a competitive advantage, if our province is looking for competitive advantages. Those are things we're looking at.

Finally, the recommendation is that within the scope of its remaining responsibilities, ICBC will focus their priorities on right-pricing its insurance products and right-sizing its operations. That means the management task is not complete yet. We expect it to be carried out over the next three years, as Nick has pointed out. They're going to right-size the corporation, so we can make the transition to a more competitive environment for our ratepayers over the next three years. Those are the three recommendations that are coming out of the core services review.

If there are no further questions or concerns, we will move forward with them as of now.

Thank you very much, Nick, for the work. I appreciate it.

N. Geer: Thank you, Mr. Premier.

Hon. G. Campbell: The next item on the agenda is an item for information from the Attorney General with regard to treaty negotiations. I should note that both Miles Richardson and Grand Chief Ed John are here today. Miles Richardson, as you know, is the head of the Treaty Commission. Jack Weisgerber, who is the provincial representative from the Treaty Commission, is also here with us today.

Welcome to all of you.

Geoff.

For Information: Revitalizing Treaty Negotiations

Hon. G. Plant: Thank you, Premier. I have a relatively brief update on what we are doing to revitalize treaty negotiations. I'll just get right down to it.

What I want to do first is remind us of the context for the treaty project and the reason why it is so important that we find a way to fast-track treaty negotiations, consistent with the commitment we made to the voters in the last election.

[11:30]

Increasingly, it's my view that the treaty process and the treaty project, if you will, are an essential economic development tool. That is, by concluding treaties with first nations, we can strengthen the economic and social fabric of British Columbia. This happens in, of course, a legal context. The courts have told us repeatedly that aboriginal rights and title exist, and they have significant impact on the way government does its business. Government has to take that reality into account as it continues to manage the lands and resources of British Columbia.

If we talk about aspiring to maximize the opportunity for economic development and job creation for all British Columbians, which lies in the development of our natural resources, we have to find a way to reconcile the rights and the interests of first nations with those of the Crown. I think settling treaties is the most valuable tool we have for achieving that reconciliation.

Clearly, there has not been the success in the treaty process that its architects intended for it. There have been some successes along the way, but the project of treaty-making was intended to lead to treaties. We've been at it nearly a decade, and we don't have any concluded treaties under the B.C. Treaty Commission process. I think that is all the evidence we need to form or reach the conclusion that we need to look for new approaches to break this impasse.

There's been a lot of work done with our treaty negotiation partners in the First Nations Summit and Canada to identify new approaches. There has been one particular project that is critically important to us as a government and to us as a province, as one of three partners in this process. That is the referendum.

Earlier this year we asked British Columbians to participate in a referendum that dealt with the principles that the province should take to the treaty tables. On each of the eight principles, the results were overwhelmingly positive. We were given a strong mandate by the people of British Columbia to get on with treaty-making. The task now is to transform that direction and that renewed vigour or renewed mandate to get these negotiations on track and to produce agreements. What we have to do is take the direction that we received from the referendum and transform it into actual agreements.

What we did in the aftermath of the referendum results last summer was to issue new directions to our negotiators. We instructed our negotiators to go back to the tables to seek to achieve agreements that were consistent with the referendum. We also invited our negotiators to be flexible and creative, because I think flexibility and creativity are essential if we are going to achieve success.

As I said consistently throughout the referendum process, British Columbia is one of three parties to this process. There are two other parties. There's a first nation at every table, and there's the federal government. If we're going to achieve agreement, we need to recognize that each of the three parties has to move towards that place in the centre that we're looking for as the place where we can, in fact, reach agreement.

When I think about what that place in the centre might look like, I reflect on the fact that for a long, long time, I think people have seen the treaty process as about wiping a slate clean in terms of historical issues. We have focused on land, cash, fish, resources and self-government issues as being part of a package of projects, opportunities and benefits that is essential to concluding an agreement that will allow us, in effect, to finish unfinished business.

I think that as we watch what the courts have told us, as we listen carefully to what first nations are saying and as we listen to what all British Columbians want from the treaty process, the reality is that treaties are and ought to be about building respectful relationships between first nations and other British Columbians. We need to focus on that theme, that goal, of building respectful relationships.

[11:35]

Treaties have to acknowledge that there is a rich and enormously diverse history of aboriginal people in British Columbia. Treaties also have to acknowledge that while we have much to celebrate in this history, there is also much to regret. The sad fact is that within the lifetime of most of us sitting around the table, aboriginal people could not even vote in this country. That's not very long ago. It may seem as though it is something we can forget, but in truth it is so recent in our collective experience that it is today as much a part of our present as it is a part of our past. What we have to do is reconcile that past with the present in a way that builds a hopeful future. There, again, I think the theme is relationships.

In practical terms, treaties need to provide us with a clear understanding of relationships that have to do with the ownership of lands and resources, the responsibility for providing government programs and services, and the interactions between and among the various levels of government. If we develop clarity in those relationships and if we understand our respective rights and obligations with clarity, we have created certainty. Certainty is the goal that is, if not the principal goal, certainly from the province's perspective one of the critical goals in the treaty process.

I want to talk for a minute or two about certainty. Certainty - that is, the objective of

certainty - has proven to be elusive in many ways. For a long, long time, people have thought the key element to certainty was an approach to treaty-making that pursued the goal of, essentially, purchasing aboriginal rights and title and then seeking to wipe the slate clean, as though those rights and title no longer existed.

The fact is that first nations have today constitutional rights they are not prepared to give up through treaty-making. However, government also requires treaty arrangements that will allow it to proceed in an effective and an efficient management of Crown assets such as forests or oil and gas. As one of the other partners in this overall enterprise, business, to be successful, needs clarity about the legal and regulatory regime in which it must operate. Companies are not likely to invest in mining or forestry projects if they are uncertain about their rights, about government rights or about how aboriginal or treaty rights will affect their operations. First nations have the aspiration to participate in mainstream economic activity. Treaties need to recognize and give effect to that aspiration.

When you see the competition or the multiplicity of interests at stake, it's important - I think critically important - to recognize that the status quo is not certainty. The status quo is uncertainty. So we have to look for ways to achieve certainty. While the words that lawyers use are hugely important, I am convinced that the best certainty is a workable agreement that all parties have respect for and are willing to work within. The moment - and I'm fond of saying this, and I can say this from experience because I've spent a lot of my life as a lawyer - that one party or the other to an agreement, whatever the agreement, is no longer happy with the arrangements made in the agreement is the moment that party wanders down the street to visit their lawyer and look for ways to get out of the obligations. There will always be ways.

As Dick knows, in Treaty 8 country some people think the cede, release and surrender language in Treaty 8 should provide certainty for oil and gas exploration. It does not, and the reason is the relationship isn't working. It's time for a new approach to certainty. I think it's time for an approach that recognizes our obligation to serve our own interests as a province but also to accommodate the interests of others.

[11:40]

First nations have told us that they will not accept an extinguishment of rights to achieve certainty. We acknowledge the validity of this position. British Columbia therefore rejects the use of extinguishment or the technique known as cede, release and surrender.

We also think it is important that the certainty of the relationship we seek be responsive

to the reality that as aboriginal rights and title jurisprudence develop, there will probably be changes in our understanding of what aboriginal rights and title consist of. We need to ensure that whatever we do in the treaty to build certainty allows for the possibility of amendments to accommodate our evolving understanding of our rights and responsibilities.

The other point here though, as I've already said, is that certainty lies in the strength and stability of the entire treaty, so we're not looking for just one single method to achieve certainty. We think we can achieve certainty in a variety of arrangements that correspond to particular issues or circumstances. The overall approach we are moving towards, I want to re-emphasize, is that we reject the use or idea of extinguishment of rights. We reject the tool of ceding, releasing or surrendering rights. We need to see that we will not achieve certainty - we can't hope to achieve certainty - if we can't build a strong relationship based on mutual respect for our continuing interests as province, as federal government and as first nations. I think this approach will foster economic development, and it will also provide the key to the subject of self-government, which I want to talk about next.

Treaties must also provide clarity about aboriginal self-government. We received a strong mandate from the people of British Columbia in the referendum to move forward to negotiate self-government arrangements, but to do so from a perspective that recognizes some critically important aspects of the provincial public interest. Yet there are other aspects of the issue of self-government that make it a challenge and need to be taken into account. Aboriginal communities are unique. They're not just unique and different from our larger community - the majoritarian community - but individual aboriginal communities are unique amongst each other. They are often distinct according to where they are in the province, their proximity or distance from urban and rural locations, the languages, the cultural traditions, their resource-harvesting activities. All of these things create a diverse patchwork that is hugely important but that creates challenges.

We also have to remember that aboriginal self-government exists under the Indian Act. In my respectful view, it's largely dysfunctional. The goal of treaty-making is surely to move us beyond the failed Indian Act arrangements, but we need to recognize that first nations already enjoy broad self-government powers under the Indian Act.

The challenge, therefore, is to develop an approach to self-government that reflects the diversity and the varying needs I've talked about, and also reflects the reality that we cannot freeze people's aspirations - that they will grow and they will evolve. Our own aspirations and needs will grow and evolve over time, and so too will the needs and

aspirations of aboriginal communities. We also have to develop an approach to self-government that ensures aboriginal communities can work well and practically with their neighbouring local governments. We need to build strong relationships at the community level.

What are we looking at in terms of an evolving approach to self-government? I think we need to recognize, first of all, that if flexibility is key to good government and if in fact accountability and responsibility are critical elements to good government, then the core authorities that deal with the day-to-day operations of aboriginal government should be set out in a delegated agreement. By setting it out in a delegated agreement, we will permit evolution and change to take place.

[11:45]

It is also important, however, to recognize that self-government is hugely important to first nations - negotiating self-government, recognizing that they believe passionately that the law already recognizes their right to self-government. I think we can give effect to that aspiration and that desire by recognizing there is a right to negotiate a self-government agreement. We can guarantee that right while ensuring the majority of day-to-day operations, the powers that are exercised, are exercised in agreements that are separately negotiated outside treaties, where the authorities are delegated.

We also need to recognize a third element. When it comes to the issue of cultural identity and when it comes to the issue of how first nations can effectively manage the lands that will be an inseparable component of all treaties, we think there will need to be treaty authorities that ensure that we can bring those issues into the treaty not just for the purpose of recognizing that they're there but also for the purpose of ensuring that we can build section 35 certainty in relation to those issues.

I think this approach will, in addition to being entirely consistent with the referendum principle that I referred to at the outset of this part of the discussion, also allow us to ensure that as aboriginal self-government develops, it will continue to be democratic, it will continue to be accountable, and it will be fiscally responsible. Those are aspirations that I believe first nations share, as do all British Columbians.

There is an overview of some approaches that I believe respond to the need to set out a treaty relationship that is respectful, that gives effect to the mandate we have been given by the people of British Columbia to move forward with treaty negotiations and that at the same time recognizes the unique role of first nations in British Columbia. I believe this represents a set of interests that we can take forward to the actual

negotiations, where we can build certainty and a respectful new relationship. The details of how we make these principles work are matters for negotiation at individual tables.

What I wanted to do today was outline, in very general terms, the sense of direction that I think we need to take if we are to achieve the agreements that we do need to achieve in order to build and grow the lands and resources of British Columbia for all British Columbians. Thank you for the opportunity to provide that summary.

Hon. G. Campbell: Thanks, Geoff.

I think Geoff's got to head out to wherever it is he's going - Ottawa or something.

Hon. G. Plant: I have four minutes, yeah.

Hon. G. Campbell: This is sort of a broad framework for everyone to know what we're pursuing. We'll have lots of chances to go through it in detail when we deal with individual agreements-in-principle that come along as a result of the great work your guys are doing. Okay. Thanks, Geoff.

The next item on the agenda is the Royal B.C. Museum. We have Pauline Rafferty here, who's the CEO of the museum, to take us through these decisions.

Go ahead, Pauline.

For Decision: Royal B.C. Museum - Strategic Shifts

P. Rafferty: Premier, ministers, ladies and gentlemen, thank you for the opportunity to present on the Royal British Columbia Museum. The presentation today is the result of a year of meetings with the core review and deregulation task force, but it's something that the museum has been striving to achieve over many years.

We know that the government supports the important role of the museum and the role that we play on behalf of all British Columbians. We also know that you can't afford to pay what is needed to fully support the museum. Today we're asking you for the tools to allow us to be successful.

This is, I know, about looking forward, but as a museum we need to look back, because we need to inform our past in order to make the right decisions for our future. This museum was established in 1886 in a small corner of these legislative buildings. It grew in size and stature; collections grew. In 1967, the dream of W.A.C. Bennett, we moved

to our current building. It was a centennial project. In 1985, Her Majesty the Queen bestowed upon us the royal designation in recognition of the museum's international reputation.

[11:50]

Through the nineties, unrelenting pressure on government funding made us look really closely at what we were doing and make a fundamental shift in direction. In 1996 we were granted the status of special operating agency, allowing us to conduct business in a more entrepreneurial fashion. We gained an advisory board and a funding agreement with Treasury Board.

We are the museum for the province of British Columbia, and the collection represents all areas of this vast and wonderful province. That collection is the very essence of the Royal British Columbia Museum and this province, and it is to secure the specimens and artifacts that represent the human and natural history of British Columbia and then to increase knowledge through communicating that knowledge through research, programs and exhibits.

We undertake this with enormous passion and commitment, and we extend that role and play a significant role in the tourism industry through our blockbuster exhibits. We also are sought out for our expertise on projects like Kwaday Dän Sinchí, the frozen human remains that were found in northern British Columbia. We worked very closely with the Champagne-Aishihik in recovering the human remains but then developed the international research project that went with that.

We house over ten million objects in our collections, and they're valued in the order of \$600 million. We have 9,500 Friends of the Royal B.C. Museum, who support us through membership and a variety of fundraising activities.

We serve about a million people on an annual basis. Those people come to the exhibits, and we run programs throughout the province. School students attend programs at the museum and those we run outside Victoria. We also obviously have lots of people who come to visit our galleries in the evening for special events. We have about ten million hits on our website. We have 95 staff, and we have over 500 volunteers who support us in all aspects of museum activity.

In going through our process with the deregulation task force, we were asked, in respect to the tests - public interest, affordability and the effectiveness role of government... In successfully passing these tests, I need to underscore that the cultural treasures in the

museum's collection and the exhibits remain in the public trust in perpetuity and for the good of everyone. Our lives are richer through that understanding of our heritage. We serve a million people a year, who learn about the province through our exhibits and programs. Our collections are used for research at other museums and institutions around the world, which really just evidences our respected and trusted reputation.

We earn 27 percent of our revenue from business activities, which includes revenue from admissions and rental of our galleries, and through three public-private partnerships: the IMAX National Geographic Theatre, the museum cafe and our retail gift shops - three profit centres, operated by the private sector, that support the public good of the museum. The ongoing financial contribution of government is a source of confidence for potential donors, as government is a very vital partner in the work of the museum.

How does this museum represent and stand up against other jurisdictions in terms of how we're governed? Well, across Canada, the United States, New Zealand and Australia most museums have a strong government role. If we look at the Te Papa museum in New Zealand, the Canadian Museum of Nature in Ottawa or the Royal Ontario Museum in Toronto, they all have a governing fiduciary board. Government support ranges from 89 percent at the Canadian Museum of Nature to 59 percent at the Royal Ontario Museum. The Royal B.C. Museum is a special operating agency and only has an advisory board. Therefore, we're not like the other museums in how we are governed.

[Interruption.]

That's a wonderful noise of the lawnmower. Good weather in Victoria, I think.

To survive and thrive, it is crucial that we increase revenues from both attendance and from fundraising, but fundraising studies indicate that our closely held ties to government limit our ability for fundraising as we are seen to be very closely held, and people don't really think they should necessarily fund the museum if government should fund the museum. Coupled with that, a decreasing government support - \$2.5 million over the next three years - means that there is less investment in new projects, in new products and in new exhibits.

[11:55]

A stale product lowers attendance. Lack of change lowers our appeal to the private sector and to corporate donors, and therefore the museum just can't be competitive.

Without a change of governance that allows us to attract private sector funds and to invest in new exhibits and programs, we need to augment the support we receive from government by diversifying revenue, building on partnerships...

[Interruption.]

A Voice: Can someone take a picture...of the Premier in here while they're mowing the lawns out in front of the Legislature?

Interjections.

Hon. G. Campbell: Shh.

Pauline.

P. Rafferty: Thank you. It does mean wonderful weather, though, doesn't it?

A Voice: It doesn't mean we're selling the place, does it? [Laughter.]

Hon. G. Campbell: We're paying attention, Pauline. Believe me.

P. Rafferty: Our change in strategic shifts that we have approved is that we will have arm's-length governance to allow us to raise funds from corporate donors and to respond to business opportunities; revenue diversification through new products and repeat visitation to increase the museum's financial stability; the creation of new exhibits and programs to complement our very successful blockbuster exhibits, to increase revenue and to repeat visitation to the museum. We will continue our programs in communities across the province and continue to develop community partnerships. We will evaluate all of our activities, because I've often heard it said that if you're not measuring it, you're probably not doing it.

With these strategic shifts, we were then asked to review the synergies with other government agencies with similar mandates and to look at governance models that would support the organizational change.

Through the review of synergies, the concept of the cultural precinct was developed. The British Columbia archives, founded in 1898, is attached to the museum and has a mandate that is sympathetic. Incorporation of the archives is part of this proposal. The heritage branch has close links to the museum's mandate, and we considered their process of devolution. Our recommendation includes Helmcken House, adjacent to the

museum and the oldest house in the province on its original site.

Finally, the assimilation of the Carillon, a gift from the Dutch community to British Columbia for Canada's centennial. It is recommended that we would incorporate that for enhanced public interpretation.

The museum, the archives, Helmcken House and the Carillon on one site create the cultural precinct that showcases British Columbia across from the legislative buildings and on the magnificent Inner Harbour. We recommend the cultural precinct as the organizational model.

There are several practical synergies. Four responsibility areas from three government ministries are amalgamated. Public access can be streamlined to both the archives and the museum collections and services. Public interpretation for Helmcken House and the Carillon can be enhanced. There are on-line information and systems synergies, and admission and front-line marketing requirements can be amalgamated for efficiency.

The next task was to consider the governance models that could link the requirements of the cultural precinct and, at the same time, keep in mind the key issues faced by the museum. The first option, of course, was the status quo. We are a special operating agency. We have a board of directors that is advisory and has limited accountability for business success of the museum. Combine that with time-consuming approval processes that are required through Treasury Board and various committees, and the result is lost revenue and partnership opportunities that really need to be responded to very quickly in a highly competitive business marketplace.

Corporate donors still perceive us to be closely held; therefore, it constrains our ability to increase corporate donations. Individuals who make a bequest to the museum have no guarantee that their money will go to the museum, because we're limited in our ability to carry over funds between fiscal years, which further limits our reinvestment in new exhibits, programs and products. As I've said, the board is advisory and limits our accountability for fundraising. Maintaining the status quo does not maximize synergies, and the key issues remain.

[12:00]

The second option would be to devolve to the not-for-profit such as the Friends of the Royal B.C. Museum, a very vital organization that supports the museum. The financial model would be the same, earned revenue and government funding, and that would be executed through an annual contract with the society to manage the museum.

The public, I believe, though, would object to the distancing of the provincial collection from the Crown. In addition, insurance costs for that collection would be prohibitive unless government agreed to self-insure. There could be labour relations issues, in that the society is non-union and the museum is BCGEU. There would be increased management freedoms, which would allow the responding to business and marketplace. A fiduciary board would have, obviously, a proactive role for business and a very strong role for fundraising.

However, the recommendation that we would like to put forward to you today is a Crown trust. The financial model is earned revenue and government funding. It provides the ability to proactively fundraise and to grow an endowment for long-term sustainability. The trust board would be accountable for the economic vitality and base that on business decisions. They would also be responsible for fundraising, long-range planning and accountability for the museum operations. The province would appoint the board and approve the business plan.

The implications of the Crown trust. The public will continue to see the clear link to the province and their provincial museum. The collection remains protected in perpetuity. New legislation is required, but it is currently drafted. The museum becomes accountable for business success through a fiduciary board, and the museum would report to the minister responsible. The board manages the museum, enabling rapid and efficient response to partnerships and marketing opportunities, increasing donations, long-term financial planning and reinvestment.

Our recommendation before you today is an organizational structure of a cultural precinct led by the Royal B.C. Museum as a Crown trust. Crown trust is a governance that encompasses the requirements of both the museum's mandate and the cultural precinct, allowing the museum to achieve its strategic shifts. Crown describes the relationship that will exist between the museum and the provincial government, thereby preserving government's interest and responsibility for the collection while ensuring the museum's accountability. The people of B.C. will have certainty that while the museum becomes a corporation, the artifacts and historical records that document the province's past are in trust and secure in perpetuity. It will resolve the dynamic between revenue generation and governance that is the key to our future success.

As I have said, legislation is required to create the Royal British Columbia Museum Crown trust. That legislation has been drafted. The board of directors will be appointed by the Lieutenant-Governor-in-Council and be selected to provide the best potential to enhance fundraising and business partnerships and to represent British Columbia communities, ensuring a broad British Columbia viewpoint. Those skills will be

combined with the significant and unique responsibilities of securing and preserving cultural assets.

The board will appoint the chief executive officer, and the CEO will have the authority to hire staff and perform other duties related to the operation of the museum. Staff of the new museum would continue to be public servants and subject to the public service, labour relations, benefit and pension plan acts.

The Minister of Finance is the fiscal agent responsible for negotiations with investment banks, monitoring financial requirements and providing loan and debt-management products. The board will prepare a service plan and provide it to the minister responsible 30 days prior to the beginning of each fiscal year. Of course, that would be tabled in the Legislature.

We believe that the Royal British Columbia Museum Crown trust strikes the prudent balance of fiscal accountability and government trusteeship to satisfy the people of B.C. that the treasures of their natural and human history are preserved and protected in perpetuity. At the same time, it grants the museum the management freedoms consistent with similar institutions worldwide that have cultural preservation and public interpretation at their core. By moving forward, the museum will be positioned to achieve the vision and strategic objectives, including reinvestment in new exhibits and programs, thereby ensuring the museum remains a cultural institution which all British Columbians can be proud of.

[12:05]

If we receive your approval today, we will move ahead with a museum-led project team that will amalgamate the service plans of all components. Legislation for the spring of 2003 will be prepared to move forward. We will build capacity for fundraising and business planning, and we'll build a strong board. This will take time, but it will be done with the same passion and commitment of everything we do. We will demonstrate our success over the coming years. We therefore request your approval for the creation of the Royal British Columbia Museum Crown trust, the cultural precinct to include the Royal British Columbia Museum, the B.C. archives, Helmcken House and the Carillon.

We will continue to need your financial support. It will be impossible for us to carry forward without government support, and we ask for that through an annual allocation. We also ask for you to review us in five years, to give us time to build success.

Thank you for the opportunity to share our hopes and our dreams. They are big dreams,

but they are based on an enormously solid foundation that goes back to 1886. With your support we will go forward to realize these dreams and ensure that the Royal British Columbia Museum Crown trust can become everything it should be.

Hon. G. Campbell: Thanks, Pauline.

George.

Hon. G. Abbott: Thank you, Premier. I just wanted to make a few comments here to complement those of Pauline in respect of the museum, as the minister responsible for it. Pauline's done, I think, an exceptional job as the executive director at the museum. Her board and the Friends of the Royal British Columbia Museum have also been a very important part of putting together the proposal that is before cabinet today, Premier.

We've all spent a lot of time looking for the right model for the future of the Royal British Columbia Museum, and I do think, as Pauline's analysis showed, the special operating agency has some real limitations for the future of the museum. We think we found the right model in the Crown trust.

Most importantly, that model will provide a lot more opportunities for the museum to do some independent decision-making in respect of their programs, presentations, marketing and so on. It really is going to put them on a much better basis or footing to do partnerships with the private sector, with the city of Victoria and so on, in terms of marketing, operations - that kind of thing. Partnerships are going to be a big deal here, and the Crown trust is a good model to secure those partnerships.

It's also going to, as Pauline noted, really enhance the opportunity to secure endowments to the museum. I think there's a lot of interest in that. With the move away from the special operating agency to the Crown trust, I think we will greatly enhance that.

I have absolutely no reluctance in this recommendation to cabinet. It is very much the right model and the right thing to do. I think the cultural precinct is an exciting kind of synergy for that very important part of our museum, and I think it will continue to help build on that international reputation of excellence the museum has today.

Thanks, Premier.

Hon. G. Campbell: Greg.

Hon. G. Halsey-Brandt: Thank you, Pauline, for the presentation. I thought it was excellent. Certainly, the cultural precinct offers an opportunity, I think, to expand things perhaps around the greater Victoria area and to build on that synergy. The question I've got, though... To me, if you really want to take off and get buy-in and support from the public in sort of a trust model... My thought goes back to the British heritage trust and other operations around the world. Not everybody can get to Victoria, and not everybody, when they're here, can get to the museum.

[12:10]

I think it's really critical to reach out in terms of financial support from people around the province and that two things happen. One is that the museum gets out around the province in terms of exhibits. You may do that now. I'm not aware of any, but you may do it. Secondly, we all have our local museums, and I think there should be a tie-in to those, particularly with travelling exhibits.

The other thing is there are provincial sort of live museums, if you wish - Barkerville or Fort Steele - and we've got federal ones - Fort Langley and the gulf of Georgia cannery in my community. I think if it was more like a package to the people of British Columbia, where they could see your exhibits or maybe the ticketing or the newsletters... Tie all that stuff together so that when we do travel in the summer or we go places, it's kind of seen as one thing. We'll go to visit several different sites perhaps. It's more like the museum belongs to us, as opposed to: "We've got to pack up the kids and make an effort to get over to Victoria during working hours to see particular exhibits." It becomes our museum.

P. Rafferty: Thanks, minister. I'd like to talk just in response to that. Several years ago the museum recognized that as a museum for the province, we needed to be very much out in the province, so we did some significant consultation across the province and asked people what it meant if the museum came to their community and how we could have a significant impact. What we undertook was a program that we call living landscapes. We focus in one region for two to three years. We work with the local museum, historical society, natural history societies, and we develop, based on the discussion with that community and their vision of what they would like to develop, a program that develops research collections and also programs within that region or area. We began in the Thompson-Okanagan. We then moved to the Columbia basin. We've just finished work in the upper Fraser, and we will be moving to the Peace River.

I think what the communities said was: "We want you all to come to town, and we want to see programs, we want to see school programs, and we want to see research." The

synergy that has come from that is that... Natural historians don't always talk to human historians, and so we found new synergies within communities that have resulted from that.

I think your comment around travelling exhibits is one we would certainly need to address in the new museum, with this new approach.

Hon. G. Campbell: It is important, I think, to note that the museum is part of the capital. We are in the midst of a review of the Provincial Capital Commission as well, which is looking at how we can do many of the things you're talking about - making the capital something British Columbians feel is theirs, the museum something that's theirs, the heritage of the province theirs. We're going to look for ways we can maybe reconnect people from all over the province with the capital in Victoria as well as with the exhibits, the things, the history of British Columbia in a way that's constructive and useful.

Seeing no further questions, we have a request for a decision that we will create a new Crown trust via legislation in the spring session. I think we should agree with that. Also, there is a request that we establish the cultural precinct which will amalgamate the components that were mentioned earlier - the British Columbia archives management services, Helmcken House and the Carillon - with the museum.

Seeing no hands for any additional questions, Pauline, let me say thank you on behalf of all of us for doing that, and good luck.

P. Rafferty: Thank you. That's wonderful.

Hon. G. Campbell: We're adjourned.

The cabinet adjourned at 12:13 p.m.

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