



# Laurentian Pilotage Authority

## SUMMARY

## 2017-2021 CORPORATE PLAN

2017-2021 Corporate Plan Summary | 2017 Operating Budget Summary | 2017 Capital Budget Summary

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# EXECUTIVE SUMMARY

## Executive Summary

Overall, the volume of assignments in the past few years has given the Laurentian Pilotage Authority ("LPA" or "the Authority") a certain degree of stability and financial health. After the low point in assignments reached in 2009 (19,611) because of the global economic downturn, volumes were maintained between 2010 and 2015 within a range of 21,000 to nearly 22,400 assignments, and rose slightly during the first six months of 2016, compared with the same period in 2015. The Authority expects to close 2016 at the upper end of this range in terms of the volume of assignments.

The LPA has a promising economic outlook in the short and medium terms with the implementation of the Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (EU) and the widening of the Panama Canal, and can thus foresee attractive commercial opportunities. With the articulation and implementation of the Government of Quebec Marine Strategy on the St. Lawrence, certain projects are taking shape that could have a significant, positive impact on the economic development of the St. Lawrence River region and the robustness of marine traffic. It will be up to the LPA to ensure that it is prepared to benefit from these potential opportunities.

For the time being, international economic indicators for 2016 point once more to a year of sluggish economic activity around the world, although some indicators, particularly those from the U.S., seem to be suggesting more sustained growth. The majority of sources consulted agree on a Consumer Price Index (CPI) of 1.9–2.2% for Canada in 2017. Recent analyses conducted by the LPA demonstrate once again an upward trend in average ship sizes and a grain transport season that is expected to take off quickly in fall 2016 due to good harvests this year.

The LPA must continue to play a leadership role on all issues that could have an impact on pilotage and the safe and efficient movement of marine traffic in our region. In this regard, the LPA is in the process of establishing an Advisory Committee of which it will be the chair. This committee will examine pilotage issues within the pilotage areas under its jurisdiction and should start holding meetings in the fall of 2016. The LPA is also planning to take steps to strengthen its capacity and in-house technical expertise with respect to pilotage and navigation in order to have access to the necessary resources and expertise to better fulfil its mandate. These actions will have no impact on the Authority's tariff regulations, which are planned to be frozen for 2017 to the benefit of its customers.

Shortcomings in the *Pilotage Act* and the apparent ability to circumvent the regulatory process through a service contract or an arbitration decision are significant concerns for the LPA. The only way to mitigate this risk is to seek changes to the *Pilotage Act* and the judicial review process.

Maintaining financial self-sufficiency continues to be one of the Authority's key priorities. In this regard, as a result of its strong performance, the LPA is able to freeze its tariffs in 2017 for a second consecutive year. This will result in a planned net loss of about \$400,000 for fiscal year 2017. The Authority's cash liquidities will

## EXECUTIVE SUMMARY

remain sufficient to enable it to upgrade its assets, to invest to meet its strategic objectives and to maintain its operations, while having the capacity to respond to major and unforeseen situations.

The financial forecasts in this plan therefore reflect the above-mentioned key priorities of the Authority, and the current and projected economic constraints and opportunities.

# MANDATE AND CORPORATE PROFILE

## Mandate and Corporate Profile

### MANDATE

The mandate of the Authority, a federal Crown corporation, is to establish, operate, maintain and administer, in the interest of navigational safety, an efficient marine pilotage service in Canadian waters in and around the Province of Quebec and north of the northern entrance to the St. Lambert Lock, with the exception of the waters of Chaleur Bay south of Cap d'Espoir.

### VISION

To become a world leader in maritime pilotage by assuming a leadership role in the maritime sector and to serve the public interest by striving for excellence and continuous improvement in the provision of efficient pilotage services that contribute to navigational safety, environmental protection and the maritime industry's competitiveness.

### POWERS

To achieve our mandate and our vision, the *Pilotage Act* allows the Authority to make regulations on the establishment of compulsory pilotage areas, to determine which ships are subject to compulsory pilotage, to define criteria for the issuance of pilot licences, and to determine the compulsory training for pilots and other safety requirements connected to pilotage services. However, the approval of the Governor-in-Council is required. The *Act* also authorizes the LPA to negotiate service contracts with the pilot corporations representing the pilots in our region.

The Authority is required to charge fair and reasonable fees that will enable it to be financially self-sufficient. Tariff revisions must be published and authorized by Order-in-Council.

### ACCOUNTABILITY

Although sections 20 and 33 of the *Pilotage Act* provide the Authority with regulatory and disciplinary powers, the Authority is accountable to the Canadian Parliament for its actions. The LPA reports to Parliament through the Minister of Transport.

# MANDATE AND CORPORATE PROFILE

## DESCRIPTION OF ACTIVITIES

To fulfil its mandate, the Authority has established three compulsory pilotage districts: the Port of Montreal (district No. 1.1), the navigable waters between Montreal and Quebec City (district No. 1), and the navigable waters between Quebec City and Les Escoumins, including the Saguenay River (district No. 2). These districts cover a distance of 265 nautical miles between Montreal and Les Escoumins and another 70 nautical miles along the Saguenay.



Ships are subject to compulsory pilotage based on a number of criteria. For Canadian-registered ships navigating districts No. 1 or No. 1.1, compulsory pilotage applies to those that are over 70 metres in length and over 2,400 tons gross tonnage. For Canadian-registered ships navigating district No. 2, compulsory pilotage applies to ships over 80 metres in length and over 3,300 tons in gross tonnage. Lastly, for ships not registered in Canada, all ships longer than 35 metres are subject to compulsory pilotage, regardless of the district.

## MANDATE AND CORPORATE PROFILE

Pilotage services offered in each of the three districts are provided by contract pilots organized into two separate corporations: the Corporation of Mid St. Lawrence Pilots (CPSLC), and the Corporation of Lower St. Lawrence Pilots (CPBSL). The services are performed under separate service contracts negotiated between the Authority and each of the corporations. When, in accordance with the law, the pilots choose to organize themselves into pilot corporations, the Authority cannot hire its own employee pilots.

The Authority administers and operates a dispatch centre which runs 24 hours a day, 365 days a year; the centre serves all pilotage districts and is located at the LPA's headquarters in Montreal. The operational, financial and administrative services of the LPA are also located in Montreal.

Lastly, the LPA uses five boarding stations for its contract pilots. The Quebec City, Trois-Rivières, Sorel and Montreal stations are owned and administered by Groupe Océan, with whom the Authority has a service contract. The fifth station, in Les Escoumins, is owned and operated by the LPA, which includes the operation of two pilot boats. These boarding stations are used to carry pilots from shore to ship, and vice versa.

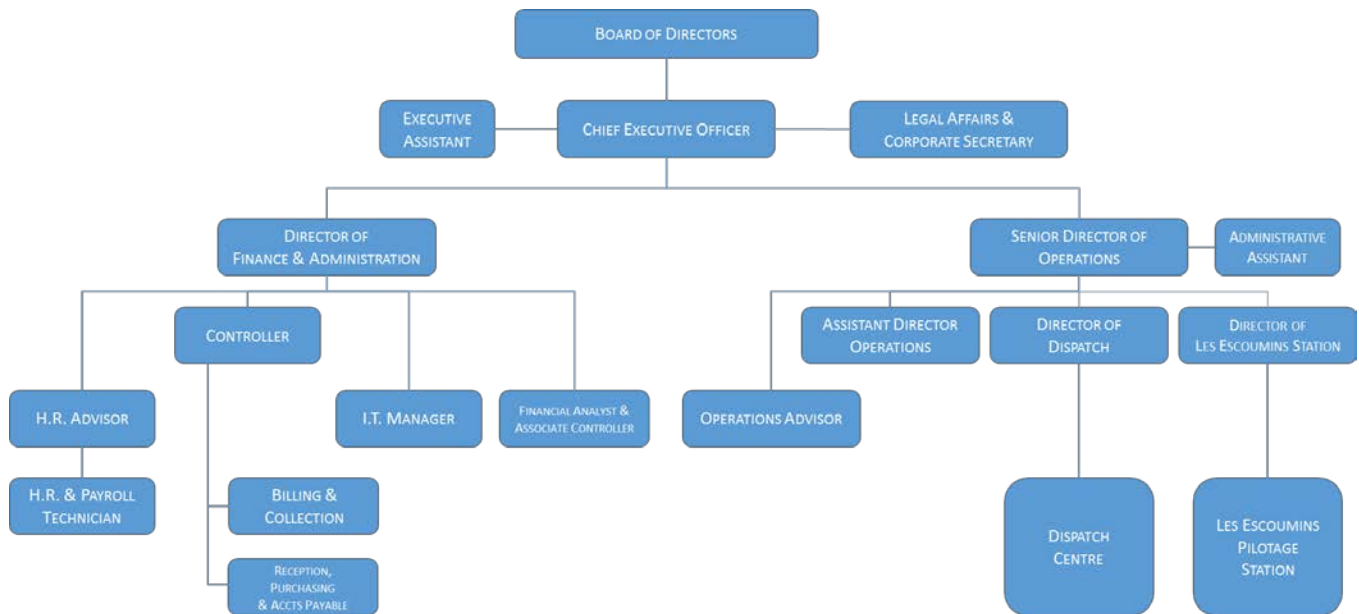
For any additional information, please refer to our most recent annual report, available on our website.



# MANDATE AND CORPORATE PROFILE

## ORGANIZATIONAL CHART

At 31 August 2016



## GOVERNANCE

Since September 2012, Fulvio Fracassi has been the Authority's Chief Executive Officer. His responsibilities include developing the organization's overall strategy, providing leadership and overseeing the stewardship of the Authority's resources and assets in order to fulfil the LPA's mission pursuant to the *Pilotage Act*. Before joining the Authority, Mr. Fracassi was Director General of Transport Canada's National Marine Security Program and is a lawyer by training. He chairs the Internal Management Committee, which is made up of the Authority's managers, which meets on a regular basis.

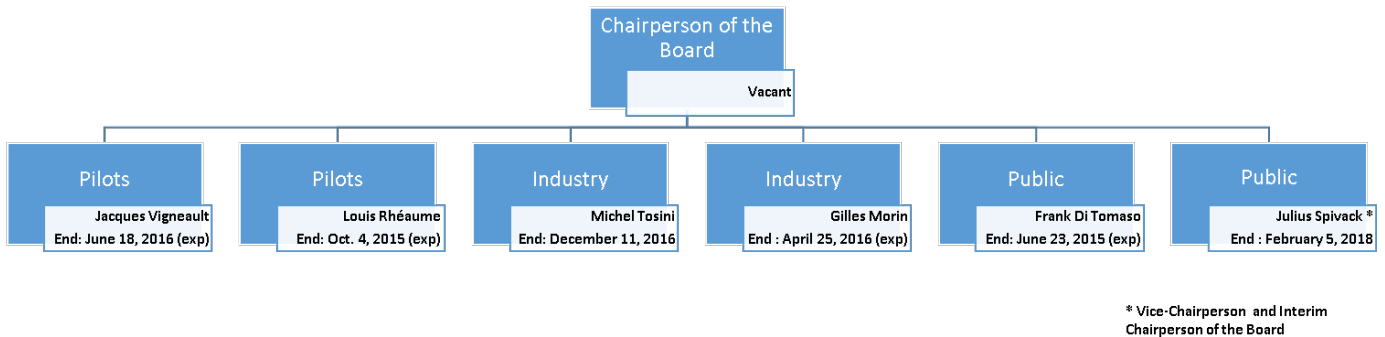
# MANDATE AND CORPORATE PROFILE

## Board of Directors

The Authority maintains a modern governance structure that enables it to fulfil its mandate. For this reason, various powers are exercised by the Board of Directors, whose operating procedures are set out in the Authority's by-laws.

The Board is composed of seven members appointed by the Governor-in-Council including the Chairperson of the Board. The Board is composed of two representatives from Canadian society at large, two members who come from the Canadian and international marine community, and lastly, two members from the pilot corporations. The post of Chairperson is currently vacant.

The members are appointed for an initial term of up to four years; thereafter, they may be reappointed for a term not to exceed four years. The *Pilotage Act* does not include a limit as to the number of reappointments a director can receive. The terms of four of the six members have currently expired. The Chief Executive Officer, who reports to the Board of Directors, occupies a full-time position at the Authority.



Sections 20 and 33 of the *Pilotage Act* provide the LPA with regulatory disciplinary powers. These various powers are exercised essentially by the Authority's Board of Directors, whose operating procedures are set out in the Authority's by-laws, which were completely overhauled in 2009 to provide the Board with up-to-date management tools tailored to its needs.

The Board of Directors is also responsible for the Authority's strategic planning, including its Corporate Plan, finances and overall stewardship. This includes the identification of major risks, succession planning and the setting up of an information system to meet its requirements.

To fulfil its responsibilities, the Board has created two committees, each made up of three Board members.

# MANDATE AND CORPORATE PROFILE

## **Audit Committee**

This committee is responsible for monitoring and supervising the Authority's financial situation and its various management practices, including, but not limited to, the various financial controls and the efficient operation of its information systems. The committee meets about five times per year. This committee is chaired by Julius B. Spivack, with the assistance of Gilles Morin and Louis Rhéaume.

## **Governance and Human Resources Committee**

This committee is responsible for reviewing the Authority's governance practices and, where necessary, making changes to the employment management strategy, including current policies. The committee members meet about four times per year. This committee is chaired by Frank Di Tomaso, with the assistance of Jacques Vigneault and Michel Tosini.

## Environmental and Strategic Issues

### EXTERNAL ENVIRONMENT

#### Global Economy

Turbulent since 2008, the global economy is still fragile and uncertain. Although some growth occurred in the last year, recent events, such as the outcome of the vote on Great Britain's withdrawal from the European Union (Brexit) are making continued growth more uncertain. Leading analysts anticipate relative growth in world GDP in 2017 of about 3–3.4% (1.5–1.8% in advanced countries, 4.3–4.6% in emerging countries), with more sustained forecasts for 2018. (IMF website, July 2016; National Bank of Canada, *Economic Monitor* July/August 2016; Scotiabank, *Global Economics*, August 2016)

Commodity prices are still quite low, while demand for these products is rising very slowly. A crucial transition is taking place in China, where growth should remain more stable (6%) compared to the higher growth experienced in the years since 1992 (7.62%–14.2%); this more stable growth will not support demand for mining products. India should see its GDP rise by 7.5%, matching the rate of growth in the preceding years. (Scotiabank, *Global Economics*, August 2016; database, World Bank)

Currently, the price of oil is trending slightly downward. The combination of the rebound in production by OPEC countries and the Brexit vote is producing uncertainty on prices. In the United States, production is down compared to the same period last year, but all signs indicate that slight growth could be achieved.

*Sources:* (IMF website, July 2016; National Bank of Canada, *Economic Monitor*, July/August 2016; Scotiabank, *Global Economics*, August 2016)

#### Canadian Economy

After weakening, the Canadian dollar showed signs of recovery in late spring 2016, when rates were approaching US\$0.80. However, because of the outcome of the Brexit vote and low exports, the loonie is oscillating around US\$0.75. Analysts do not anticipate a major rise or fall for the Canadian dollar, which should close 2016 at virtually its current level.

Economists from the National Bank estimate the Canadian GDP will grow 1.2% in 2016 and 1.7% in 2017, while IMF economists estimate growth levels of 1.5% and 1.9%, respectively. The lower forecast by the IMF follows a decrease in oil exports and low commodity demand. Exports of forest products, plastics and automotive parts are nevertheless popular.

In spring 2016, Canada experienced a significant drop in its daily oil production, while Alberta was dealing with major forest fires. However, the data published by the Canadian Association of Petroleum Producers is rather optimistic, with forecasts approaching the actual production levels of the year 2015, and growth can be expected in the near future.

# ENVIRONMENTAL AND STRATEGIC ISSUES

## Global Marine Transportation

The global shipping market is rapidly changing and large global enterprises, which were prosperous in the past, are increasing the volume of transactions in order to be able to get through this difficult period. The pressure is highest in the container ship sector: the annual collective financial loss may exceed 5 billion dollars for 2016, while overall capacity is rising faster than demand (*Maritime Magazine*, No 80). The trend toward acquisition of mega-ships in the European and Asian markets is still ongoing, although the economic advantage of these types of ships is currently about 5%, weaker than expected. Competition has intensified and prices continue to be exceptionally low. Lastly, as of July 1, 2016, a new international standard established by the International Maritime Organization requires shippers to accurately report the verified gross weight of containers shipped. This new procedure is intended to reduce the number of accidents/incidents caused by overloaded containers.

## International Projects under Development

One of the most important projects on the world stage is the opening of new Panama Canal waterways. The expansion project, costing US\$5.3 billion dollars, will enable the canal to accommodate larger vessels, about three times bigger than the ones currently transiting the canal. With the completion of the expansion in June 2016, the canal's capacity has doubled, and there could be a doubling or even tripling of the tonnage in transit. However, ports currently serving the canal will not be able to accommodate the new ship sizes. The sector will need hubs in order to complete the transit. Jamaica, the Bahamas, Cuba, Mexico and the Dominican Republic are clear choices for the creation of these shipping points to be used for the transit.

The Panama Canal's main competitor, the Suez Canal, unveiled its expansion in August 2015. This project, estimated at over 10 billion dollars, consisted of adding a lane to allow ships to travel in the opposite direction and expanding the principal lane. With this expansion, which reduces travel time from 22 to 11 hours, the authorities aim to double traffic by 2023, increasing from 49 to 97 ships a day, to achieve annual revenues estimated at 16.8 billion dollars, compared to 7.6 billion. However, many international shipping trade experts are not convinced that the demand is there, as shipowners are more interested in reducing operating costs than cutting travel time.

## Canadian Marine Transportation

In spite of fairly stable economic forecasts for the country overall, Canada's major port authorities believe that infrastructure investment and upgrade are necessary. New facilities with improved services will allow the ports to continue to meet current demand and remain competitive with U.S. ports. The amounts spent by the different levels of government are also intended to encourage private investment and promote the emergence of new clientele. Certain Canadian regions want to maximize Canada's use of its waterways. This is the case in the Great Lakes, among other regions, as can be evidenced by the joint initiative announced by the governors of the American states bordering the Seaway and the premiers of Ontario and of Quebec (Conference of Great Lakes and St. Lawrence Governors and Premiers). It is also the case in Quebec, where the government

# ENVIRONMENTAL AND STRATEGIC ISSUES

announced its Maritime Strategy on the St. Lawrence. The Atlantic coast has two major projects, including the potential construction in Nova Scotia of a container terminal and a boarding hub able to accommodate giant container ships.

## Grain Market

The 2016 grain harvest looks promising. The Seaway transport volumes are showing a resurgence in activity for ocean-going ships as well as for the Canadian ships that will carry grain in autumn 2016 and spring 2017. The various stakeholders involved in logistics and transport are already coordinating their efforts to permit efficient movement of the harvest toward national and international clientele. All signs suggest that Canadian grain destined for Europe will travel via eastern Canada, while grain for Asian clientele will move toward the West.

## Energy Transportation

The Authority also oversees pilotage services for the transportation of energy products in its waters. Several projects have had a significant impact on marine traffic, and others are expected to also commence. The reversal of the Enbridge pipeline in 2015 led to the creation of a shuttle service in the Montreal-Quebec City corridor.

In addition, another energy source may soon reach the St. Lawrence. In fact, two projects are currently under development concerning liquefied natural gas (LNG). GNL Québec is studying the possibility of building a liquefaction facility on the territory of the port of Saguenay (Énergie Saguenay project) with the goal of exporting the LNG. Across the river, the Pétrolia-Tugliq partnership wishes to install a floating plant in Gaspé, to supply energy to Quebec businesses.

## Projects under Development

In the region where the LPA operates, there are a number of new projects already ongoing or coming in the future, many of which could affect traffic. The Port of Quebec City, with its Beauport 2020 project, will make an initial investment of \$190 million to upgrade the services offered by extending the wharf line and developing the area behind the wharf. The potential total investment is about \$250 million to \$400 million. The Port of Montreal has three projects in progress. The first, the development of a container terminal in the Viau sector, is currently under way, and the second of its two phases should be completed by the end of 2016. A second project is the rehabilitation of the Alexandra pier, which is used by cruise ships. The \$78-million project is scheduled to be completed in 2017. Lastly, the expansion of the port terminal at Contrecoeur is in the public consultation phase. The work should begin around 2018 and be completed in 2021.

Lastly, in addition to the Government of Quebec's Marine Strategy on the St. Lawrence, which will lead to the creation of industrial port zones along the St. Lawrence, regional development will continue with the Arianne

## ENVIRONMENTAL AND STRATEGIC ISSUES

Phosphate project in Saguenay and the Arnaud Mine project in Sept-Iles. Both facilities plan to extract and export phosphate. Once approved by the responsible bodies, these projects will have a life span of approximately 25–30 years.

# ENVIRONMENTAL AND STRATEGIC ISSUES

## INTERNAL ENVIRONMENT

### Background

Like the economy in general, the shipping trade is constantly changing as it attempts to adapt to global competition that grows stronger every year. This is equally true for pilotage services whereby clients put their ingenuity to work in order to seek to reduce operating costs. This leads to the adoption of new technologies on the vessels with the aim of optimizing travel times and the quantity of fuel used, or the presence of mega-ships allowing more goods to be transported in the same trip. Although pilotage fees do not make up a significant part of a vessel's expenses, all costs are put under the microscope by clients to find ways to make a trip more economical and to justify using one mode of transportation versus another.

For this reason, the LPA is under pressure from the industry to keep costs at an acceptable level, while maintaining its safety record and level of efficiency. To achieve this, the Authority must be in a position to establish realistic traffic estimates and demand for its services so that it can prepare budget and financial forecasts. The LPA must also possess the necessary tools to enable it to analyze internal data and market trends, understand the information obtained and make detailed projections.

The Authority must take care to conclude service contracts with its various partners, including one with a pilot corporation in the fall of 2016, which will help it better determine its future operating costs.

Lastly, the conclusions of the *Canada Transportation Act Review*, dealing with the efficiency of transportation systems in Canada, were made public by Transport Canada in February 2016. The LPA agrees with the study's findings that the governance of pilotage services is problematic and that the *Pilotage Act* should be modernized in order to address these shortcomings as well as others. Transport Canada asked the various stakeholders concerned by this report to provide feedback or relevant recommendations that will allow the department to formulate its final conclusions by the end of 2016. The LPA prepared and submitted its recommendations to the Minister of Transport in July 2016.

### Risk Management

To ensure the continued delivery of safe and efficient pilotage services, the management of the LPA conducts an annual review of its risks. This exercise makes it possible to identify the principal risks faced by the LPA and to implement mitigation measures that will help the LPA maintain its financial self-sufficiency and carry out its mandate, as well as meet its strategic objectives.

Risks were identified and documented by the executive committee and followed-up with the Authority's senior managers. During these discussions, the risks raised were all documented (description, facts, potential impacts, controls) to provide a common basis of understanding. The risks were assessed according to their likelihood and impact. Impact relates to the extent of the negative effects the event could have on the LPA's strategic objectives. This categorization makes it possible to calculate the inherent risk on a scale from 1 to 25. The risk was then mitigated according to a mitigating factor determined according to the quality of the control in place, which is rated on a scale from 1 to 5. The residual risk represents the amount of inherent risk left over after mitigation.



## ENVIRONMENTAL AND STRATEGIC ISSUES

The ultimate objective of this analysis is to identify the key risks and determine whether the current measures are sufficient to reduce the risk to a tolerance limit acceptable to the organization. It also seeks to identify when the implementation of additional controls are necessary to adequately address the risks in question.

It should be noted that a yellow "residual risk" box indicates a low risk whose management is considered adequate, an orange "residual risk" box indicates a moderate risk that requires the attention of management, and a red "residual risk" box indicates a high risk that requires immediate action on the part of management.

# ENVIRONMENTAL AND STRATEGIC ISSUES

## RISK TABLE

No	Risks	Inherent Risk	Residual Risk
1	Lack of adequate legislative powers and absence of managerial rights with regard to the pilot corporations significantly hinder the LPA's ability to fully carry out its mission and serve the public interest.	Red	Red
2	Negative impact on service efficiency and pilotage governance because the assignment rules for notice of departure, at night, imposed by arbitration decision are manifestly different from those required by the regulations.	Red	Red
3	Establishment of an efficient tariff planning and setting process in order to maintain a competitive rate structure for clients while ensuring the organization's financial self-sufficiency.	Yellow	Yellow
4	Lack of thorough monitoring procedures following accidents and recurrent training and assessments of pilots.	Yellow	Yellow
5	Delays in the installation/removal of priority lighted buoys.	Red	Yellow
6	Potentially insufficient number of future pilots based on projected annual increases in assignment numbers and the potential impact of risk study findings.	Red	Yellow
7	Impact on navigation efficiency because of delays attributable to pilots, ships and navigation restrictions.	Red	Yellow
8	Coordination between public organizations for the purposes of providing marine services.	Yellow	Yellow
9	Human resources: Access to human resources with sufficient skills and expertise to carry out the organization's mandate, achieve its strategic priorities (leadership, safety) and handle its workload.	Red	Yellow
10	Inadequate physical condition of pilots.	Yellow	Yellow

Following our recent update of risks and mitigation measures, the LPA believes that the identified risks are, in general, well controlled. However, shortcomings in the *Pilotage Act* and the apparent ability to circumvent the regulatory process through a service contract or an arbitration decision are significant concerns for the LPA. The only way to mitigate this risk is to seek changes to the *Pilotage Act* and the judicial review process.

## STRATEGIC ISSUES

To a large extent, the Authority's strategic issues revolve around the challenges related to the management of the pilotage system where the pilots are not employees of the Authority, the limited scope of our legislative powers, adequate in-house access to navigation and pilotage expertise, and maintaining navigational safety throughout our territory.

# ENVIRONMENTAL AND STRATEGIC ISSUES

## **Leadership Role and Vulnerability with Regard to In-house Technical Expertise**

The LPA must be positioned to play a leadership role on all issues that could have an impact on pilotage and on the Authority's ability to ensure the safe and efficient movement of marine traffic in our region. To effectively carry out its mandate, the LPA must become a key player in navigational safety and pilotage issues. For these reasons, it is essential for the Authority to position itself to be the primary point of contact by being more visible and more involved with its clients, stakeholders and safety of navigation committees.

As permitted under the *Pilotage Act*, the pilots operating on the Authority's territory have chosen to organize themselves as a separate legal entity from the LPA, enabling them to perform pilotage services as independent contractors. In such circumstances, the *Act* also prohibits the LPA from hiring its own employee pilots. As a result, the Authority is not currently able to develop and have access to a source of pilotage expertise within its own organization. The Authority thus uses the services of contract pilots for advice on pilotage issues. In the event of a negotiation or dispute that may involve one of the two pilot corporations themselves, this creates a possible conflict of interest. In such situation, the LPA finds itself without access to objective and independent expert advice on pilotage. The only way to bridge this gap under the current legislative framework is for the LPA to retain or access non-pilot navigation expertise (i.e. captains) or, where possible, use external advice and independent expertise.

## **Management of Pilotage Services and Ability to Regulate Adequately in the Public Interest**

The Authority's legislative mandate is to operate, maintain and manage, in the interest of navigational safety, an efficient pilotage service in our region. In spite of this legislative mandate, the *Pilotage Act* provides the Authority with very few tools to achieve this objective, in a situation where the pilots have organized themselves into corporations with whom the Authority negotiates service contracts. This is the reason why it is important to seek changes to the *Pilotage Act*.

## **Maintaining Navigational Safety throughout our Territory and in our Jurisdiction**

Navigational safety is at the heart of the LPA's mandate and for this reason, we must evaluate the need to be involved appropriately throughout the territory for which we are responsible. On the heels of the Tanker Safety Expert Panel report that emphasized that the Gulf of St. Lawrence was one of the regions presenting the highest risks, we announced the launch of a three-phase pilotage risk assessment beginning with the ports of Sept-Iles, Port-Cartier, Baie-Comeau and Havre-Saint-Pierre. The pilotage services are provided by unlicensed pilots working for private enterprises in the region. The risk assessment will make it possible to evaluate what measures, if any, the Authority should require or undertake in order to ensure the navigational safety.

Our intent is to continue to be proactive and identify when risk reviews should be undertaken to ensure that the pilotage requirements continue to address both the needs of safety and ensure the efficiency of pilotage services.

# ENVIRONMENTAL AND STRATEGIC ISSUES

## Financial Projections and Tariff-Setting Mechanisms

The Authority aims to provide services at a reasonable price and fix its tariff accordingly. This means a price that allows it to cover its expenses, have sufficient cash liquidities to be able to upgrade the Authority's assets and invest to meet its strategic objectives and maintain its operations. To achieve this, the LPA must conduct appropriate analyses to establish traffic forecasts and formulate adequate financial projections. The more accurate the projections, the likelier it will be that the Authority can offer competitive tariffs. The LPA must also carefully monitor its expenses throughout the year, to ensure that the tariffs established for the year in progress are sufficient.

The pilotage tariffs are established through regulatory amendment and are approved by the Governor-in-Council. Over the last few years, this process has been long and laborious. In 2014, a delay in the approval and implementation resulted in a net revenue loss of over \$200,000. The tariff-setting mechanism does not allow us to respond to the clientele's needs nor to rapidly changing commercial trends related to marine traffic volume. The strategic challenge for the LPA is to be able to use its financial leverage (through its cash reserves) to meet its needs and those of its clientele. This includes freezing its tariffs for 2017, as it did in 2016. The LPA will track and update its financial projections on a regular basis to ensure tariffs reflect current needs. Changing the current tariff-setting mechanism to one similar to that used by port authorities would allow for a more efficient process that will better meet the needs of the LPA and its clients.

As noted by the Office of the Auditor General of Canada (OAG) in its Special examination report in 2005, the *Pilotage Act* stipulates that the Canadian Transportation Agency (CTA) take the public interest into account when it evaluates the LPA's tariff increase requests. However, if the LPA and a pilot corporation do not reach agreement on a new service contract, an arbitrator is not required to take into account the public interest in the "final offer selection" process mandated by the *Pilotage Act*. The difference between the tariff increase approved by the CTA and amounts payable to pilots imposed by an arbitrator may significantly hinder the Authority's ability to maintain its financial self-sufficiency.

For example, in 2002 an arbitrator granted a large increase to the fees paid by the LPA to the CPSLC. To help cover this increase, the LPA requested a higher tariff. Because the CTA rejected the tariff increase, the LPA was not in a position to maintain its financial independence. As a result, the LPA was practically facing bankruptcy, and the Governor-in-Council had to intervene to reverse the CTA's decision.

While there was an effort at the time to take the necessary steps to avoid the recurrence of such a situation by amending the *Pilotage Act*, the legislation ultimately remained unchanged. As a result, this situation could easily repeat itself. It is therefore essential that adequate protective measures be put in place to ensure the financial well-being of the pilotage authorities.

## Strategic and Operational Objectives

To fulfil its mandate and adequately address the above-mentioned strategic issues, the LPA carried out a strategic planning exercise from which specific objectives and initiatives were identified. These initiatives constitute our key strategic and operational objectives. The following section presents an overview of this plan.

### THE ORGANIZATION'S LEADERSHIP ROLE

#### **Establishment of a Pilotage Advisory Committee**

To effectively carry out its mandate, the LPA must become a key player in navigational safety issues. It must bring together and coordinate the key issues related to its mandate such as the impact of the absence of lighted buoys, how to safely navigate large ships, determine night departures, the start and end of the winter navigation period, and double pilotage requirements. To achieve this and foster transparency, the involvement of the marine industry, and greater cohesiveness among the various marine decision-makers, the Authority undertook to create a Pilotage Advisory Committee chaired by the LPA. The committee will begin its meetings in autumn 2016.

To emphasize this committee's strategic importance and endow it with clear authority, the LPA intends to explore the possibility of including its mandate and responsibilities in its regulations.

In addition, the Authority will explore ways to enhance its knowledge and technical expertise as well as other options to help it pursue this objective of playing a greater leadership role in the marine industry.

#### **Marketing Communication Plan / Website Update**

As mentioned in the 2016–2020 Corporate Plan, the organization has begun to improve and update its communication and promotional tools. Its redesigned website was launched in December 2015. The Authority is constantly seeking to upgrade its communications and will evaluate the feasibility of developing a way to make its website more interactive to better serve its clientele and its various partners, and developing a promotional video on the Authority's role in pilotage.

### OPTIMIZATION OF FINANCIAL PROJECTIONS AND TARIFF PLANNING

#### **Renewal of the Service Contract with the Corporation of Lower St. Lawrence Pilots**

A major component associated with tariff planning is maintaining continuous cost control. Most of the organization's costs are pilotage fees, which vary according to the volume of traffic and, hence, revenue. These

# STRATEGIC AND OPERATIONAL OBJECTIVES

costs are based on agreements negotiated with the two pilot corporations and are clearly very important issues in these negotiations. The Authority finalized the service contract with the Corporation of Mid St. Lawrence Pilots in 2015, and in the fall of 2016 it will undertake negotiations on the renewal of the contract with the Corporation of Lower St. Lawrence Pilots.

## **Deployment of Market Intelligence**

At the end of 2015, the LPA launched a project concerning the collection and analysis of commercial data from a variety of sources, both internal and external, commonly known as "Market Intelligence". This market knowledge will allow it to better identify and document market trends in order to establish more detailed and accurate budget assumptions and financial forecasts. Once this knowledge and know-how are in place, the LPA will be in a better position to analyze the gaps between actual and budgeted results, and to improve budget projections for future months and years. The market intelligence familiarization phase is complete, and certain tools are now accessible. The Authority will validate the various assumptions as the project advances.

## **MAINTAINING NAVIGATIONAL SAFETY**

### **Follow-Up on Recommendations on the Safe Duration of a Voyage in District No. 1**

The study on the safe duration of a voyage performed by a single pilot in District No. 1 has now been completed, and the LPA has examined the various findings. The report recommendations include reviewing the maximum duration of single pilot assignment, reducing the uncertainty associated with the current pilot assignment system, increasing the rest period between two assignments, improving synergy among bridge resources and, insofar as is possible, reducing delays. The LPA has conducted an appropriate follow-up on the recommendations. The Authority intends to promote, when appropriate, the adoption of safety rules through the regulatory process, after consulting with interested stakeholders, to ensure greater client involvement and transparency.

### **Continuation of the Risk Analysis on the Former District No. 3 - North Shore and South Shore of the St. Lawrence**

On February 4, 2015, Transport Canada published the Regulations Repealing the *Laurentian Pilotage Authority District No. 3 Regulations* in the *Canada Gazette*. This regulation had not been of real value for a number of years given that the pilotage licences were only issued for the contiguous pilotage zone on a reciprocal basis with the Atlantic Pilotage Authority, and the latter had put an end to this practice.

To ensure navigational safety, the Authority initiated a three-phase risk assessment to assess the need to regulate pilotage services in its territory east of Les Escoumins. This area is also identified as a sensitive high

# STRATEGIC AND OPERATIONAL OBJECTIVES

risk sector, according to the report submitted on November 15, 2013 by the Expert Panel on Tanker Safety, which states that the Gulf of St. Lawrence and the St. Lawrence River are among the sectors with the highest risk of major oil spills.

The first phase, which targets the four North shore ports (Baie-Comeau, Port-Cartier, Sept-Iles and Havre-Saint-Pierre) is drawing to a close. Phase II, focused on the South shore of the St. Lawrence, may begin in 2017–2018 and will be followed by Phase III, which will look at transits of the former District No. 3 made in situations with significant ice.

## **Pilot Training and Evaluation Program**

As stated in the 2016–2020 Plan, it is a priority for the LPA to ensure that it has a system for training and conducting comprehensive periodical assessments of its pilots as there currently is no mechanism to officially validate a pilot's continuing competency once the licence has been issued. This initiative is consistent with sound governance practices recognized by a number of professional associations. The training and evaluation program must also include clear criteria to determine when a pilot is ready to be promoted to a higher category licence. The Authority has started developing the program, and it should be implemented no later than late 2016 with the Corporation of Lower St. Lawrence Pilots. Specific changes have been proposed concerning the training of apprentice pilots in the Corporation of Mid St. Lawrence Pilots. The Authority is awaiting their response and will continue its follow-up on the implementation of this program. The LPA has also requested the establishment of a training program similar to the pilot training program in the process of being implemented in the Lower St. Lawrence. The Authority intends to amend its regulations to include these standards as part of its regulatory change projects (see the section "Regulatory Update" below).

## **Follow-Up after Accidents/Incidents**

The post-accident/incident review protocol implemented in recent years is administrated by the operations department of the Authority. The LPA is analyzing the protocol to see how it can be improved and made more effective. This protocol aims to prevent the recurrence of incidents and to develop best practices in navigational safety. It also outlines the procedure for the Authority to follow when investigating accidents involving vessels piloted by holders of pilotage licences or certificates. The LPA also wishes to finalize and sign a memorandum of understanding with Transport Canada (TC) and the Transportation Safety Board (TSB) to better coordinate and ensure the sharing of information and expertise on these subjects.

# STRATEGIC AND OPERATIONAL OBJECTIVES

## GOVERNANCE / EFFICIENCY / SERVICE QUALITY

### Review of the *Pilotage Act*

The modernization and strengthening of the *Pilotage Act* and its regulations is essential to providing the LPA with the necessary authorities and tools it requires to face its operational challenges and ensure the safety of navigation and the efficiency of its services.

The *CTA Review* expert panel report confirmed that legislative changes to the *Pilotage Act* are now appropriate and necessary. Amending the *Act* will make it possible to ensure adequate supervision of the pilot corporations, and ensure that the safety rules, practices and procedures concerning the delivery of pilotage services are subject to the rigors of the regulatory process and will not be able to be modified by contract or arbitration decision. Moreover, clear legislative powers authorizing the conduct of post-accident reviews, the imposition of compulsory pilot training and pilot re-assessment, where justified, will provide the LPA with new and essential tools to enable it to better fulfil its safety mandate. A position paper presenting the LPA's recommendations was submitted to the Minister of Transport in the summer of 2016.

The replacement of the current tariff-setting process with a more efficient and flexible process, the adoption of the necessary measures to give the LPA the tools to enforce the *Act*, and modern regulations are also essential if we are to achieve our stated objectives relating to the safety and efficiency of our pilotage services.

If implemented, these recommendations will make the pilotage system more accountable and transparent, as well as ensure that decisions and requirements related to pilotage always take the public interest into account.

### Regulatory Update

Proposed changes to the LPA's regulations have been drafted to improve transparency by including certain essential safety and efficiency rules in these regulations. The proposals include:

- Allow the Authority to have prompt access, without excessive restrictions, to information and to the persons involved in an accident/incident, to enable it to take necessary measures to mitigate risks to navigation;
- Require the pilot corporations to submit for the Authority's approval apprentice pilot training plans and continuing education plans, including the periodic assessment of pilots as well as the assessment scales used by the corporations;
- Clarify and identify the communication procedures and information to be shared between the pilot and the captain;
- Clarify and update the rules on notice requirements to obtain access to pilotage services;
- Determine the special circumstances that may serve as grounds for refusing service;
- Select and define the powers of the Review Panel's chairperson;



# STRATEGIC AND OPERATIONAL OBJECTIVES

- Determine the conditions for the lifting of suspensions of licences or certificates;
- Define the role of the Pilotage Advisory Committee and the scope of its responsibilities.

## **Four-Season Buoys**

In the near future, technological advances should make it possible for four-season buoys to be installed in the river, with the objective of improving safety and reducing double pilotage. Because such buoys do not have to be replaced at the end of a season, the impact on navigation on the river will be lower, the costs will be easier to forecast and the restrictions on navigation will be less restrictive. The LPA is not leading this project, but will continue to support the Canadian Coast Guard in the implementation of this initiative that will improve navigational safety while promoting better traffic flow on the river.

## **OPTIMIZATION OF HUMAN RESOURCES**

### **Dedicated Resource**

As mentioned previously, access to in-house pilotage and navigation expertise and resources is essential for the LPA to fully meet its mandate. The LPA is increasingly asked to respond to and engage with committees dealing with navigational safety and efficiency issues. In addition, the LPA is also involved in leading risk studies, dealing with questions relating to post-Panamax vessels, determining the start and end of winter navigation, or determining double pilotage requirements as well as conducting post-accident reviews. With the implementation of the Pilotage Advisory Committee, the issuance of notices and advisories to pilots and the marine industry, and the potential role that the organization will have to play in the Gulf of St. Lawrence, the LPA plans to take measures to enhance its capacity and its in-house technical expertise with respect to navigation and pilotage. This approach is in line with the human resources strategic management plan and the succession plan (strategic orientation 2016).

### **Development and Implementation of a Human Resources Strategy and Succession Plan**

To align the organizational resources with the Authority's strategic and operational priorities, a human resources strategy has been developed, implemented and kept up to date to ensure it reflects current requirements. It is essential for the organization to have adequate human resources in place, with the appropriate skills and training to achieve the strategic objectives defined by management. With this in mind, one of the priorities in the human resources strategy is to prepare a detailed succession plan for the executive team; this plan will be developed in 2016 and implemented in 2017. We are also going to examine our organizational structure to ensure that it fully meets the needs of our organization.

The LPA is also continuing the implementation of its action plan relating to the workplace climate, initiated in 2013. Steps will also be taken to organize training sessions for managers concerning harassment and

# STRATEGIC AND OPERATIONAL OBJECTIVES

implementation of measures connected to mental health in the workplace. These components of the action plan are intended to optimize the management and performance of the Authority's employees.

## TECHNOLOGY

Information systems are an undeniable asset for any organization wishing to play a leadership role in its area of expertise. Pilotage is not immune to technological advances, and the LPA must invest in the various systems to remain at the forefront and to ensure that navigation in its sector is safer and fluid. In this way, it can help the St. Lawrence and the Saguenay remain globally competitive. On this subject, the Authority has identified some priority projects in which it will invest in the coming years.

### **Portable Units (PPU and Rate of Turn)**

Portable units are nothing more than portable computers—or tablets—dedicated to marine navigation. These units enable pilots to connect to the ship's central system, take the bearings of the river and identify the other vessels navigating in the area, which helps to enhance safety on the river and make navigation more efficient. These tools, among others, make it possible to navigate at night and facilitate navigation in the most difficult conditions. Rate of Turn equipment is used to perform calculations and position the vessel, as well as the vessels the ships will pass, based on real-time data.

The Authority plans to make a financial contribution to the Corporation of Mid St. Lawrence Pilots when their PPUs reach the end of their service life (February 2017). This contribution will be made to support the replacement of the PPUs and to help add Rate of Turn technology to their new units. These up-to-date instruments will be used in the re-evaluation of navigation restrictions so that the recommendations in the report of the working group on the navigation of large ships on the St. Lawrence between Montreal and Quebec City can be implemented. This working group was set up to improve traffic flow by looking at whether certain navigation restrictions are still necessary, while maintaining navigational safety through the use of new technology.

### **Information Systems – Head Office**

The head office's information systems have three main functions: to prepare and monitor pilot assignments, to process invoices and accounting, and to perform analyses on the data collected. The software used by the Authority will soon be obsolete. The software is being updated less frequently, and the new technologies available are more flexible and open the door to new possibilities.

The LPA is currently in the process of replacing its main assignment/billing system. The first step, analyzing the current processes and determination of needs, is in progress. When this step is complete, the Authority

# STRATEGIC AND OPERATIONAL OBJECTIVES

will be able to perform an analysis of the available systems and select the supplier. The configuration and integration of the new software are planned for the second quarter in 2017.

Because data analysis is essential to the organization, new software will be evaluated for its capacity to offer analysts the possibility of creating their own reports and mining deeper into the collected information. Modern software can be used to compare data and make better forecasts. For this reason, it is possible that current office productivity suite, which is at the end of its service life, will also have to be updated.

## PERFORMANCE INDICATORS

### Safety and Efficiency

The provision of safe and efficient services are at the heart of the LPA's mandate. The LPA achieved on accident free rate of 99.93% in 2015. The LPA aims for 100% of its assignments to be free of accidents/incidents. However, the objective established is for an accident/incident rate of under 0.10% of assignments to reflect that certain situations beyond the LPA's control may—and certainly will—occur.

In 2015, the Authority was able to provide pilotage services without pilot-related delays in 100% of cases in District No. 2. In total, in 2015, the LPA provided services without delays caused by pilots 99.96% of the time.

The ultimate objective for 2017 is to provide 100% efficiency in all pilotage services in terms of service delays due to pilots. The Authority is aware, however, that certain situations beyond its control may arise and affect performance; this is why the objective was reduced by 0.10%.

### Complaints

Although the LPA does not have an objective with regard to the maximum number of complaints received, all complaints are recorded in order to know the number and status of the complaints. The same is true for positive comments received.

### Assignment Errors

The Authority has the objective of 99.90% assignments without error in 2017.

### Accounts Receivable

For 2017, the LPA has the objective that the proportion of unpaid accounts receivable related to pilotage missions and exceeding the 28-day credit terms will be under 10% of total accounts receivable for pilotage services.

# STRATEGIC AND OPERATIONAL OBJECTIVES

## Summary Table - Objectives and Performance Indicators

The following chart outlines the objectives and implementation strategies as well as performance indicators that the Authority adopted during the annual strategic planning process.

OBJECTIVES AND PERFORMANCE INDICATORS				
OBJECTIVES	MEANS	IMPLEMENTATION STRATEGIES	PERFORMANCE INDICATORS	TIMELINE
<b>Maximize efficiency, quality and safety by being attentive to needs</b>	Ensure the provision of safe and high-quality pilotage services	Review the training and continuing evaluation program for pilots and apprentice pilots from the two pilot corporations	LPA approval of the pilot corporations' training programs, and incident rate kept below 0.10%	Ongoing
	" "	Establishment and start of work of the LPA's new Pilotage Advisory Committee	A minimum of two meetings per year Consultations on safety and efficiency issues involving LPA partners and clients	2016 and onwards
	" "	Acquire and develop technical navigational expertise	Hire an additional resource within the operation department	2017
	" "	Reduce delays and causes of pilot shortages	Maintain the proportion of pilot-caused service delays at under 0.10% of all assignments	Ongoing
	" "	Reduce delays due to clients	Delay statistics	Ongoing
	" "	Management monitoring and application of LPA's post-accident/incident review protocol	Signature of a TC/TSB Memorandum of Understanding Appropriate application of our protocol	2016 and onwards
	" "	Complete the risk study on the former District No. 3 on the four major North shore ports	Analysis study report & identification of potential measures	2016-2017

# STRATEGIC AND OPERATIONAL OBJECTIVES

OBJECTIVES	MEANS	IMPLEMENTATION STRATEGIES	PERFORMANCE INDICATORS	TIMELINE
	" "	Begin the risk study on the former District No. 3 on the four major ports on the South shore of the St. Lawrence	Analysis study report & identification of potential measures	2017
	" "	Continue the necessary follow-up on the recommendations of the risk study on the safe duration of a transit in District No. 1	Number of delays and number of accidents/incidents	2017 and onwards
	" "	Negotiate service contract with the CPBSL (2016)	New service contract beginning on January 1, 2017	2016
	Continue the internal review of the LPA Regulations	Identify the key provisions and pursue consultations	Proposal for new LPA regulations discussed with stakeholders	2017
	Use risk management approach to addressing navigational restrictions and safety requirements	Risk studies	Study findings	Ongoing
	Enhance the level of communication and co-operation	Focus on co-operation and communication with partners	Organization of regular meetings	Ongoing
	" "	" "	Make LPA's new website more interactive with its business partners Promotional Video	2016 and onwards
	Maintain an adequate number of pilots	Plan the volume of marine traffic and pilot retirements with the pilot corporations	Analysis of apprentice pilot needs	Ongoing

# STRATEGIC AND OPERATIONAL OBJECTIVES

OBJECTIVES	MEANS	IMPLEMENTATION STRATEGIES	PERFORMANCE INDICATORS	TIMELINE
	Enhance the efficiency and reliability of equipment, primarily pilot boats	Maintain the facility preventive maintenance program (Les Escoumins wharf, and equipment)	Minimize major breakdowns and unforeseen expenditures	Ongoing
	Specify organizational requirements and foster a positive organizational environment	Continuation of the action plan on workplace climate	Action Plan	2016 and onwards
	" "	Development of a succession plan for LPA management	Succession Plan	2016
	" "	Implementation of a succession plan for LPA management	Skills Development LPA organizational chart incorporating actions undertaken	2017 and onwards
	" "	Begin introducing measures to support employees with mental health issues	Training for managers Information to employees	2016 and onwards
	Ensure the safety and quality of pilot boarding services for pilots, employees and passengers	Update the pilot boat operations manual	Pilot boat operations manual	Ongoing
<b>Maintain financial self-sufficiency</b>	Stay within budget	Conduct monthly expenditure audits (management)	Financial statements, budget report and monthly graph showing status of the operating results	Ongoing

# STRATEGIC AND OPERATIONAL OBJECTIVES

OBJECTIVES	MEANS	IMPLEMENTATION STRATEGIES	PERFORMANCE INDICATORS	TIMELINE
	" "	Conduct quarterly reviews of revenues and expenditures (Audit Committee)	Quarterly financial statements; comments submitted by Committee members and approved by the Board of Directors	Every quarter
	" "	Publish the Authority's annual report	Performance indicators included in the annual report	March 31, 2017
	Establish the tariff planning strategy in order to maintain a competitive rate structure	Develop a Market Intelligence approach that permits building more realistic commercial budget assumptions	Budgeted comprehensive income	2016-2017 and onwards
	Monitor employee costs	Renewal of the collective agreement with the Merchant Service Guild	New Collective Agreement	2017
	Increase revenues by publishing fair and reasonable tariffs	Maintenance of the tariff freeze for 2017	Achievement of adequate financial situation to enable the maintenance and upgrading of assets	2017
	Optimize costs arising from the ownership and operation of assets	Maintain and upgrade assets	Achievement of adequate financial situation to enable the maintenance and upgrading of assets	Ongoing
	Avoid bad debts	Ongoing maintenance of credit strategies	Bad debt expenses	Ongoing

## STRATEGIC AND OPERATIONAL OBJECTIVES

OBJECTIVES	MEANS	IMPLEMENTATION STRATEGIES	PERFORMANCE INDICATORS	TIMELINE
	Finalize upcoming changes to the assignment and billing software program	Start the development and installation with the selected software supplier	Enhanced organizational performance and efficiency	2017
<b>Comply with Government of Canada policies</b>	Good governance practices	Work of the governance and human resources committee	Periodic review of the charters of the Board of Director committees	Ongoing
	Update the Corporation's risks, including financial risks	Update the list of the various risks.	Annual follow-up report in the Corporate Plan	Annually and on an ongoing basis
	" "	Internal payroll system audit	Go-ahead of the internal audit project	2016–2017
	Responsible management of operating and capital budgets	Tracking the actual expenditures against the approved budget.	Assignment and administrative expenses	Ongoing
	Ensure compliance with the travel and hospitality expenses directive; update policies	Meetings and internal analyses to finalize required changes to the policies	Modification of our policy to ensure conformity with the order Disclosure of these expenses on the LPA website	2016 and onwards
	Submission of the LPA's position on the review of the <i>Canada Transportation Act</i>	Filing of submission to Minister and Transport Canada	Management monitoring of developments on the issue	2016–2017



# LABOUR RELATIONS AND COMPENSATION

## Labour Relations and Compensation

As at December 31, 2016, the Authority will have 47 employees working in its Montreal headquarters and its pilot boarding station in Les Escoumins. The collective agreement for dispatching and billing employees, as well as deckhands, represented by the Public Service Alliance of Canada, expired on June 30, 2013 and a new agreement was signed in June 2016 for a six-year term, until the end of June 2019.

The collective agreement for Les Escoumins pilot boarding station employees (captains and mechanics) took effect on May 28, 2015, following successful negotiations with the Canadian Merchant Service Guild. The collective agreement will expire on June 30, 2017.

With respect to the Authority's pension plan, all LPA employees are enrolled in the Public Service Pension Plan administered by the Government of Canada. The Authority is not required to make additional contributions to cover past service costs, funding deficits or actuarial deficiencies of the Public Service Pension Plan. The service contract with the Corporation of the Lower St. Lawrence Pilots will expire on December 31, 2016. The active contract with the Corporation of Mid St. Lawrence Pilots has been renewed and will expire on June 30, 2020.

### NUMBER OF EMPLOYEES AND LICENCED PILOTS

	ACTUAL	FORECAST	PLAN				
	2015	2016	2017	2018	2019	2020	2021
<b>Employees</b>							
Management	5	5	5	5	5	5	5
Administrative	9	9	9	9	9	9	9
Operations and assignment	20	21	22	22	22	22	22
Ship employees	12	12	12	12	12	12	12
<b>Total</b>	<b>46</b>	<b>47</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>48</b>
<b>Pilots</b>							
Contract pilots	186	179	180	180	180	180	180
Apprentices	9	15	15	15	15	15	15

## Government Policies and Directives

### GENERAL DECLARATION

The LPA has incorporated all opportunities for operational efficiencies into the Corporate Plan.

As part of its commitment to the *Multiculturalism Act*, the LPA conducts its activities with due consideration to Canada's multicultural reality, as witnessed by the cultural diversity in its workplaces. In recognition of the heritage and the role of First Nations in the history of pilotage, as they were the first "pilot" guides on the St. Lawrence in the era of the "Nouvelle France", the LPA named one of its two pilot boats "Taukamaim," meaning "To take to the open sea" in the Innu language.

However, the Authority must also balance its responsibilities relative to the Canadian economy and its partners by ensuring that it can provide all levels of required services. Given the high proportion of variable costs, the capacity to partially reduce these costs is very limited, and any reduction in these expenditures would have a negative impact on the Authority's revenues, resulting in lower earnings.

### GUIDELINES ON TRAVEL, HOSPITALITY AND CONFERENCE EXPENSES

In July 2015, a certain number of Crown corporations, including the Authority, were directed by the Governor-in-Council to align their policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures. The LPA has complied with this directive.

Through the values expressed in its vision and mission statements, the LPA has made a further commitment to make effective use of the resources provided to it. For this reason, the Authority intends to proactively disclose the travel, hospitality and conference **expenses** of the board chairperson, the chief executive officer and the other board members on its website each quarter.

The Authority is also assessing whether it would be appropriate to disclose on its website during fiscal year 2016 highlights of its **process for managing** the travel, hospitality and conference expenses of the board chairperson, the chief executive officer and the other board members and the management.

For fiscal year 2015, expenses in these categories total about \$25,000 for the board chairperson and the chief executive officer and about \$9,000 for the other board members. In addition, for the period from 2017 to 2021 covered by this Plan, these expenses are estimated at an average of \$26,000 each year for the board chairperson and the chief executive officer and at \$8,000 for the other board members.

## AUDITOR GENERAL RECOMMENDATIONS

The last Special examination of the LPA performed by the OAG was in 2013. The report filed by the OAG noted that no major deficiency was identified. Furthermore, the OAG reported that the LPA has sound governance practices, a rigorous strategic planning process, that its resources are managed economically and efficiently and that appropriate systems are in place to ensure that the pilotage services are secure, efficient and of high quality. The LPA has implemented the report's two recommendations: (1) that the risk management measures identified are updated and reported to the board of directors annually or whenever a significant change occurs; and, (2) that the training program for apprentice pilots of the Corporation of Lower St. Lawrence Pilots is approved by the Authority, while specific modifications to the training plan for apprentice pilots of the Corporation of Mid St. Lawrence Pilots have been requested; the Authority is awaiting a response.

# 2017-2021 FINANCIAL STATEMENTS FORECAST

## 2017-2021 Financial Statements Forecast

### STATEMENT OF COMPREHENSIVE INCOME

Actual 2015, forecast 2016 and 2017–2021 budget

(in thousands of CND\$)

	Actual 2015	Forecast 2016	2017	2018	Budget 2019	2020	2021
<b>INCOME</b>							
Port of Montreal District	3,300	3,980	4,107	4,182	4,341	4,533	4,733
Montreal–Quebec City District	41,486	47,600	48,691	49,984	52,531	55,381	58,433
Quebec City–Escoumins District	30,349	29,921	31,453	32,226	33,645	35,321	37,094
Pilot Boat Contracts	7,627	8,918	8,918	8,918	8,918	8,918	8,918
Escoumins Pilot Boats	2,925	2,607	2,681	2,704	2,671	2,691	2,711
Other	542	102	140	140	140	140	140
	86,229	93,128	95,990	98,154	102,246	106,984	112,029
<b>DIRECT EXPENSES</b>							
Port of Montreal District	2,279	2,826	2,882	2,927	3,040	3,176	3,315
Montreal–Quebec City District	35,458	40,317	42,150	43,168	45,362	47,864	50,489
Quebec City–Escoumins District	27,916	27,976	30,489	31,318	32,785	34,507	36,337
Port of Montreal District (ancillary costs)	0	2	2	2	2	2	2
Montreal–Quebec City District (ancillary costs)	1,343	2,286	2,776	3,304	3,493	3,651	3,404
Quebec City–Escoumins District (ancillary costs)	220	333	362	384	399	401	402
Pilot Boat Contracts	7,392	8,580	8,581	8,582	8,584	8,586	8,587
Escoumins Pilot Boats	2,505	2,507	2,543	2,565	2,533	2,553	2,571
	77,114	84,827	89,785	92,249	96,198	100,739	105,107
	<b>9,115</b>	<b>8,301</b>	<b>6,206</b>	<b>5,905</b>	<b>6,048</b>	<b>6,245</b>	<b>6,922</b>
	10.57%	8.91%	6.46%	6.02%	5.92%	5.84%	6.18%
<b>ADMINISTRATIVE AND OPERATING EXPENSES</b>							
Personnel Costs	3,289	3,712	4,061	4,137	4,199	4,262	4,326
Transport and Communications	130	141	169	131	131	134	134
Information	51	43	80	80	80	80	80
Professional and Special Services	1,444	1,546	1,571	1,377	1,208	1,250	925
Rental	306	362	385	391	408	416	421
Repairs and Maintenance	9	90	21	14	14	14	14
Utilities, Supplies and Procurement	120	166	166	134	141	134	141
Amortization	66	81	102	168	146	145	141
Bad Debts	0	0	0	0	0	0	0
Interest	(3)	1	1	1	1	1	1
Other	71	62	64	64	64	66	66
	5,483	6,204	6,620	6,497	6,392	6,502	6,249
	<b>3,632</b>	<b>2,097</b>	<b>(414)</b>	<b>(593)</b>	<b>(344)</b>	<b>(257)</b>	<b>673</b>
<b>COMPREHENSIVE INCOME</b>							

# 2017-2021 FINANCIAL STATEMENTS FORECAST

## STATEMENT OF FINANCIAL POSITION

Actual 2015, forecast 2016 and 2017–2021 budget

(in thousands of CND\$)

	Actual 2015	Forecast 2016	2017	2018	Budget 2019	2020	2021
<b>ASSETS</b>							
<b>Current</b>							
Cash	7,665	10,488	8,945	9,514	10,065	10,998	11,348
Accounts Receivable	10,246	11,126	11,464	11,722	12,212	12,779	13,382
Short-term Investment	1,528	2,776	3,459	3,459	3,459	3,459	3,459
	19,439	24,390	23,868	24,695	25,736	27,236	28,189
<b>Non-Current</b>							
Long-term Investment	3,477	2,229	1,547	1,547	1,547	1,547	1,547
Property and Equipment (net)	15,522	14,865	14,231	13,592	12,935	12,298	11,658
Intangible Assets (net)	746	488	2,244	1,715	1,471	912	1,869
	19,745	17,582	18,022	16,854	15,953	14,757	15,074
<b>Total Assets</b>	<b>39,184</b>	<b>41,972</b>	<b>41,890</b>	<b>41,549</b>	<b>41,689</b>	<b>41,993</b>	<b>43,263</b>
<b>LIABILITIES</b>							
<b>Current</b>							
Accounts Payable and Incurred Liabilities	10,933	11,736	12,074	12,332	12,822	13,389	13,992
<b>Non-Current</b>							
Employee Benefits	433	349	371	393	415	437	459
Lease Inducement	228	200	172	144	116	88	60
	661	549	543	537	531	525	519
<b>Total Liabilities</b>	<b>11,594</b>	<b>12,285</b>	<b>12,617</b>	<b>12,869</b>	<b>13,353</b>	<b>13,914</b>	<b>14,511</b>
<b>EQUITY</b>							
Retained Earnings	27,590	29,687	29,273	28,680	28,336	28,079	28,752
<b>Total Liabilities and Equity</b>	<b>39,184</b>	<b>41,972</b>	<b>41,890</b>	<b>41,549</b>	<b>41,689</b>	<b>41,993</b>	<b>43,263</b>
Working Capital at Year End	8,506	12,654	11,794	12,363	12,914	13,847	14,197

# 2017-2021 FINANCIAL STATEMENTS FORECAST

## STATEMENT OF CHANGES IN EQUITY

Actual 2015, forecast 2016 and 2017–2021 budget  
(in thousands of CND\$)

	Actual 2015	Forecast 2016	2017	2018	Budget 2019	2020	2021
Retained Earnings, Beginning of the Year	23,958	27,590	29,687	29,273	28,680	28,336	28,079
Comprehensive Income for the Year	3,632	2,097	(414)	(593)	(344)	(257)	673
<b>Retained Earnings, End of the Year</b>	<b>27,590</b>	<b>29,687</b>	<b>29,273</b>	<b>28,680</b>	<b>28,336</b>	<b>28,079</b>	<b>28,752</b>

# 2017-2021 FINANCIAL STATEMENTS FORECAST

## STATEMENT OF CASH FLOWS

Actual 2015, forecast 2016 and 2017–2021 budget  
(in thousands of CND\$)

	Actual 2015	Forecast 2016	2017	2018	Budget 2019	2020	2021
<b>OPERATING ACTIVITIES</b>							
Comprehensive Income for the Year	3,632	2,097	(414)	(593)	(344)	(257)	673
Non-Cash Items							
Amortization	1,019	1,041	1,154	1,249	1,225	1,221	1,124
Changes in the Long-Term Portion of Employee Benefits	(92)	(84)	22	22	22	22	22
Changes in the Long-Term Portion of the Lease Inducement	58	(28)	(28)	(28)	(28)	(28)	(28)
Loss (Gain) on Asset Disposals	(384)	(26)	0	0	0	0	0
Decrease (Increase) in Accounts receivable	1,931	(880)	(338)	(258)	(490)	(567)	(603)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(1,461)	803	338	258	490	567	603
Cash Flows from Operating and Non-Operating Activities	4,703	2,923	734	650	875	958	1,791
<b>INVESTING ACTIVITIES</b>							
Net Additions to Fixed Assets, Intangible Assets and Long-Term Investment	(806)	(100)	(2,277)	(81)	(324)	(25)	(1,441)
<b>CASH</b>							
Change for the Year	3,897	2,823	(1,543)	569	551	933	350
Balance, Beginning of the Year	3,768	7,665	10,488	8,945	9,514	10,065	10,998
Balance, End of the Year	<b>7,665</b>	<b>10,488</b>	<b>8,945</b>	<b>9,514</b>	<b>10,065</b>	<b>10,998</b>	<b>11,348</b>

## Notes to Financial Statements

### REVENUE

#### Pilotage Fees

Pilotage fees have been set based on the growth in certain significant parameters of the current and budgeted tariffs. The forecasts on ship sizes and the number of assignments are determined on the basis of internal statistical reports, financial and economic trends published by research organizations (such as the Conference Board of Canada), by the Bank of Canada and by other Canadian institutions, such as chartered banks. In addition, this analysis was supplemented by discussions and analyses with various representatives and consultants involved in the marine industry. The details are found in the section *Key assumptions and forecasts*.

#### Pilot Boarding Services

##### a) Pilot boarding services provided by contractors

Revenue from pilot boarding services provided at the Montreal, Lanoraie, Sorel, Trois-Rivières and Quebec City boarding stations equals forecast expenditures under the various service contracts, plus an additional 4.8% for administrative overhead.

##### b) Pilot boarding services provided by Authority employees

Revenue from pilot boarding services provided at the Les Escoumins boarding station was determined on the basis of forecast expenditures for providing the boarding services plus an additional 4.8% for administrative overhead.

### EXPENSES

#### Pilot Fees

The costs of training for pilots and apprentice pilots, communications and portable units, and the expenses of review panels are included in this category of expenditures. The training of pilots usually includes ship-handling courses where the pilots work with models and simulators. Training courses in the handling of post-Panamax ships are also given at the Maritime Simulation and Resource Centre in Quebec City. This centre offers other courses that pilots must take to obtain a higher certificate.

With respect to the apprentice pilots of the Corporation of Mid St. Lawrence Pilots, the LPA pays an annual amount of \$100,000 for each apprentice pilot. In the case of the apprentice pilots of the Corporation of Lower St. Lawrence Pilots, the Corporation covers the entire amount of compensation for these apprentices.



# NOTES TO FINANCIAL STATEMENTS

However, an adjustment of their pilotage fees was paid to them in 2006 as compensation for these expenditures.

The service contract with the Corporation of Lower St. Lawrence Pilots (covering District No. 2) expires on December 31, 2016, and is currently under negotiation.

## Pilot Boarding Services

### a) Pilot boarding services provided by contractors

The projected expenditures were determined based on the contracts in effect with the various Ocean Group Inc. organizations located in Montreal, Sorel, Trois-Rivières and Quebec City. These contracts were negotiated for a 10-year period and came into effect on January 1, 2014. The costs for 2017 to 2021 have been estimated on the basis of rates agreed upon by the Authority and Groupe Océan.

### b) Pilot boarding services provided by Authority employees

These costs include several types of expenses, and the following assumptions were used:

- Salaries have been forecast based on provisions in the existing collective agreements. For years not covered by the collective agreements, the salaries take an estimated increase in the Consumer Price Index (CPI) into account;
- The costs associated with the operation of pilot boats and their replacements are taken into consideration based on assumptions relative to their service life, mandatory inspections under current regulations and historical data from recent years;
- The majority of other expenditures were estimated by taking CPI increases into consideration.

## Administrative and Operational Expenses

The expenditures from 2017 to 2021 were determined on the basis of actual 2015 expenditures and estimated 2016 expenditures, as well as on the basis of assumptions made by Authority management.

## Employees

The projected salaries were determined according to the terms and conditions set out in the existing collective agreements being negotiated. The salaries of employees not covered by collective agreements were determined by taking estimated Consumer Price Index increases into account. The amounts of employee benefits vary between 23% and 25% of salaries.

# NOTES TO FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES

Please refer to the audited financial statements of the Laurentian Pilotage Authority included in the LPA's 2015 annual report for the description of these methods.

## PILOTAGE TARIFF REGULATIONS

The Authority shall, with the approval of the Governor-in-Council, make regulations prescribing tariffs of pilotage charges to be paid to that Authority. The tariff approval process is set out in the *Pilotage Act*. Consequently, the Authority must first publish the proposed tariff regulation in the Canada Gazette. Any person who has reason to believe that a charge in this proposal is not in the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency within thirty days following publication of the proposed regulation in the Canada Gazette. In such a case, the Agency must investigate the proposed regulation as necessary or desirable in the public interest, including the holding of public hearings. Once its investigation is complete, the Agency must make a recommendation within 120 days following the receipt of notices of objection, and the Authority is required to govern itself accordingly.

The tariffs may come into force 30 days after their publication in the Canada Gazette. However, where the Agency recommends a pilotage charge that is lower than that set by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the Agency, plus interest. The *Pilotage Act* stipulates that the Governor-in-Council may amend or cancel a recommendation of the Canadian Transportation Agency.

The tariffs of pilotage charges must be fair and reasonable, and must enable the Authority to operate on a self-sustaining financial basis. Thus, the tariffs set are intended to allow the Authority to recover its costs and to provide for a reasonable financial reserve necessary to, among other things, replace its capital assets.

## SENSITIVITY ANALYSIS

The revenue collected from pilotage fees and the cost of pilotage services are directly related to the number of assignments, number and dimensions of ships, hours of pilotage time, and the draughts of ships. The Authority is planning a tariff freeze for the year 2017. The tariff freeze will result in a planned loss of about \$400,000 in 2017. Since we have sufficient accumulated cash reserves, we are adopting this position to be able to assure our clients of reasonable costs for our services.

# NOTES TO FINANCIAL STATEMENTS

Revenue from and expenditures for pilot boats under contract are directly related to the number of pilot boarding services provided for ships; however, Dispatch Centre and administrative expenditures and costs are relatively fixed and do not vary according to the volume of services provided.

Revenue from pilot boats operated by the LPA in Les Escoumins is directly linked to projected expenditures at the Les Escoumins station, plus 4.80%.

The drafting of budget estimates (2017 to 2021) is based on the following key assumptions: estimated Consumer Price Indices; estimated volume of marine traffic; pay scales of pilots; sizes and dimensions of ships; and approval of new tariff increases for future years.

Any variation in one or more of these assumptions will result in a favourable or unfavourable change in the Authority's financial position. Each 1% variation in the tariff represents about \$842,500 in 2017, whereas any 1% variation in the fees of pilots on contract represents a variation of about \$786,500. This high percentage of variable costs gives the LPA substantial financial flexibility.

Pilot fees account for the majority of LPA expenditures and are the direct result of agreements negotiated by the two pilot corporations and the LPA.

Implementation of the plan depends on the assumptions made during its preparation. In the event that the Canadian Transportation Agency does not grant the requested tariffs, the Authority could find itself unable to comply with its contractual commitments, and there could be an interruption of service.

## QUARTERLY FINANCIAL STATEMENTS

The LPA posts its unaudited quarterly financial statements on its website.

## Key Assumptions and Forecasts

### REVENUE

- Oil Shuttle between Montreal and Quebec City;
- Tariff freeze for 2017;
- Panama Canal enlargement: no clear indication at the moment, but we are continuing to monitor this factor;
- Northern passage: no impact at the moment;
- Hub at port of Sydney (Nova Scotia): no impact at the moment;
- Grain: Record year for production: we have received confirmation that many vessels were already waiting in the Great Lakes system to be able to take grain out. These are primarily ocean-going ships, while normally, these would be Canadian vessels. A majority of the harvest will leave in 2016 but we took into account a surplus to be shipped in 2017.
- Brexit → opportunity for Canada to export to England, but this is a medium-term prospect (probably in two or three years, once England has renegotiated the terms of its new economic agreements with the European Union); Canada supplied grain to England before the latter entered the European Union over 40 years ago;
- Free trade with Europe: nothing in 2017, insignificant impact, however, considered for subsequent years.

# KEY ASSUMPTIONS AND FORECASTS

## OPERATIONS

- An additional Captain's position in the operations service is potentially anticipated in 2017;
- Les Escoumins centre: negotiation of the collective agreement that expires on June 30, 2017;
- Advisory committee: expenses related to operation of this committee in 2017 and following years.

# KEY ASSUMPTIONS AND FORECASTS

## CASH

"CTA Review": current business practices maintained (this plan does not include any merger, consolidation or change in law amending the regulatory practices).

## OPERATING BUDGET COMPARISON

### Variance between Budget 2015 and Actual 2015

#### Revenues

Pilotage revenues were \$2.9 million dollars under budget for fiscal year 2015. The number of assignments was 6.4% lower over the course of the year compared to the budgeted number of assignments, as a result of the decrease in bulk carriers; however, container ship traffic stayed solid. The pilotage fees forecast in the budget reflected a number of assignments 2.5% higher in 2015 compared to the actual number in 2014.

The other LPA revenues led to a positive variance of \$0.5 million over budget because of the sale of the Charlevoix pilot boat.

#### Expenses

The pilot fees in 2015 were \$4.4 million under budget, in large part because the number of assignments was 6.4% under budget and the increase in fees was under budget. The pilotage fees forecast in the budget for these periods reflected a number of assignments 2.5% higher in 2015 compared to 2014.

The operating costs for the pilot boats were \$0.9 million below budget estimates because the number of assignments was below budget since there were fewer boardings than expected.

The salary expenses and personnel benefits in the operations, dispatching and administration services, totaling \$3.3 million, are slightly under the amounts budgeted for 2015 (\$3.4 million).

The expenses incurred for professional and special services used by the Authority were about \$0.1 million higher for fiscal year 2015 compared to the budget, as a result of the extension of the negotiation periods of certain contracts and agreements.

Other expenses totalled \$749,863, resulting in a positive variance of \$39,137 compared to the budget. This positive variance is largely a result of lower purchases in computer supplies and software.

In the end, the actual results generated a comprehensive income of \$3.6 million, compared to a budgeted comprehensive income of \$450,000, or a variance of \$3.15 million.

# KEY ASSUMPTIONS AND FORECASTS

## Variance between Forecast 2016 and Budget 2016

### Revenues

The pilotage revenues amounted to \$93.1 million, compared to \$90.8 million, primarily as a result of new data collected concerning the Valéro shuttle between Montreal and Lévis, which started up in December 2015. This route had more traffic than expected, and various manoeuvres different from those prevalent in the normal course of activities.

### Expenses

Pilotage fees were also revised for the same reasons as the adjustments made for revenues, but the impact of manoeuvres is smaller on expenses than on revenues, since the profit margin is higher than the average of other pilotage manoeuvres. In addition, the fees were not as high as expected because the increase in the actual CPI was lower than that used to prepare the forecasts, which led to a positive variance for the Authority's revenues. The fees thus total \$84.8 million, compared to the \$84.5 million expected. The other expenses are on budget.

Following these adjustments, the Authority forecasted its comprehensive income to \$2.1 million.

# KEY ASSUMPTIONS AND FORECASTS

## Variance between Budget 2017 and Actual 2016

### Revenues

As mentioned in the working assumptions described above, the revenues were adjusted based on the increase in traffic predicted according to our estimates. The greater impact comes from oil tankers between Montreal and Quebec City. The tariffs remain unchanged.

### Expenses

The fees vary according to the increase in traffic, as well as according to the change in pilotage fees determined in the service contract. Administrative expenses include the creation of a senior position in the operations service (technical expertise) in 2017, the adjustments to be made after the signature of collective agreements of unionized employees, various service contracts and the general cost of living increase. The other expenses remain stable.



# STANDARDIZED FORECAST STATEMENT OF COMPREHENSIVE INCOME

## Standardized Forecast Statement of Comprehensive Income

(in thousands of CND\$)	2015	2016 budget	2016 forecast	2017	2018	2019	2020	2021
<b>Revenue</b>								
Pilotage Tariffs	85,687	90,720	93,026	95,850	98,014	102,106	106,844	111,889
Pilotage Surcharges	-	-	-	-	-	-	-	-
Others (Interest, Supplementary Fees & Charges)	542	102	102	140	140	140	140	140
<b>Total Revenue</b>	<b>86,229</b>	<b>90,822</b>	<b>93,128</b>	<b>95,990</b>	<b>98,154</b>	<b>102,246</b>	<b>106,984</b>	<b>112,029</b>
<b>Direct Pilotage Costs</b>								
<b>Pilot Costs</b>								
Pilotage Fees (if under contract)	66,442	72,493	72,785	77,224	79,385	83,288	87,766	92,191
Pilot Salaries and Benefits	-	-	-	-	-	-	-	-
<b>Total Pilot Costs</b>	<b>66,442</b>	<b>72,493</b>	<b>72,785</b>	<b>77,224</b>	<b>79,385</b>	<b>83,288</b>	<b>87,766</b>	<b>92,191</b>
<b>Pilotage Boat and Pilot Travel</b>								
Pilot Boat Crew (Salaries and Benefits)	1,184	1,327	1,327	1,327	1,347	1,367	1,388	1,408
Pilot Boat Operating Cost (Fuel, Maintenance)	677	536	536	570	573	521	525	527
Pilot Boat Ownership Costs (Depreciation & Finance)	645	644	644	646	645	645	640	636
Pilotage Boat Fees (if under contract)	7,391	8,557	8,580	8,581	8,581	8,584	8,585	8,587
Pilot Travel Expenses	-	-	-	-	-	-	-	-
Other Related Costs	-	-	-	-	-	-	-	-
<b>Total Pilot Boat and Pilot Travel</b>	<b>9,897</b>	<b>11,064</b>	<b>11,087</b>	<b>11,124</b>	<b>11,146</b>	<b>11,117</b>	<b>11,138</b>	<b>11,158</b>
<b>Other Pilotage Expenses</b>								
Pilotage Portable Units	405	424	424	509	541	541	542	453
Pilotage Training	370	531	531	928	1,177	1,252	1,293	1,305
Dispatch Center	2,424	2,812	2,850	2,911	2,879	2,966	2,826	2,762
Other Pilotage Costs	-	-	-	-	-	-	-	-
<b>Total Other Pilotage Expenses</b>	<b>3,199</b>	<b>3,767</b>	<b>3,805</b>	<b>4,348</b>	<b>4,597</b>	<b>4,759</b>	<b>4,661</b>	<b>4,520</b>
<b>Total Direct Pilotage Costs</b>	<b>79,538</b>	<b>87,324</b>	<b>87,677</b>	<b>92,696</b>	<b>95,128</b>	<b>99,164</b>	<b>103,565</b>	<b>107,869</b>
<b>Indirect Pilotage Costs</b>								
<b>Administrative Expenses</b>								
Administration (Salaries and Benefits)	1,475	1,612	1,712	2,019	2,054	2,074	2,105	2,137
Professional Services	1,056	993	966	993	851	635	849	622
Regulatory Fees (TC Service Fee)	-	75	75	40	40	40	40	40
Rent/Utilities/Supplies/Computers	427	515	504	548	539	556	559	567
Other Amortization	41	42	42	52	77	64	63	62
Other Administration Expenses	60	55	55	56	58	57	60	59
<b>Total Administration Expenses</b>	<b>3,059</b>	<b>3,292</b>	<b>3,354</b>	<b>3,708</b>	<b>3,619</b>	<b>3,426</b>	<b>3,676</b>	<b>3,487</b>
Financing Cost	-	-	-	-	-	-	-	-
<b>Total Indirect Pilotage Costs</b>	<b>3,059</b>	<b>3,292</b>	<b>3,354</b>	<b>3,708</b>	<b>3,619</b>	<b>3,426</b>	<b>3,676</b>	<b>3,487</b>
<b>Total Expenses</b>	<b>82,597</b>	<b>90,616</b>	<b>91,031</b>	<b>96,404</b>	<b>98,747</b>	<b>102,590</b>	<b>107,241</b>	<b>111,356</b>
<b>Comprehensive Income</b>	<b>3,632</b>	<b>206</b>	<b>2,097</b>	<b>(414)</b>	<b>(593)</b>	<b>(344)</b>	<b>(257)</b>	<b>673</b>
<b>Capital Reimbursement</b>	-	-	-	-	-	-	-	-
Number of Contract Pilots	186	179	179	180	180	180	180	180
Number of Employee Pilots	-	-	-	-	-	-	-	-
Number of Assignments	21,468	21,938	21,938	22,373	22,356	22,843	23,440	24,068
Average Assignment per Pilot	115	123	123	124	124	127	130	134
Revenue over Assignments Ratio	4,017 \$	4,140 \$	4,245 \$	4,290 \$	4,390 \$	4,476 \$	4,564 \$	4,655 \$

# CAPITAL BUDGET

## Capital Budget

### ACQUISITION OF CAPITAL ASSETS AND CAPITAL BUDGET

(in thousands of CND\$)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2015	2016	2016	2017	2018	2019	2020	2021
Wharfs and route	7	--	--	--	--	--	--	--
Pilot Boat	4	--	--	--	--	--	--	--
Intangible assets	318	390	100	2,126	--	313	--	1,426
Waiting room, boarding station and others	107	41	30	150	81	11	25	15
	436	431	130	2,276	81	324	25	1,441

# CAPITAL BUDGET

## CAPITAL BUDGET COMPARISON

### **Variance between Budget 2015 and Actual 2015**

Capital expenditures in 2015 were more than \$1.1 million lower than the initial budget (\$1.56 million). This variance was largely attributable to a technological platform with lower-cost components with regards to the LPA's funding contribution allocated to the Corporation of Lower St. Lawrence Pilots in order to acquire next-generation portable units (PPUs).

### **Variance between Budget 2016 and Forecast 2016**

The Authority provided for a capital budget of \$0.4 million in 2016. This sum was primarily targeted to start the conversion/upgrade of the LPA'S dispatch/billing software. This project has now been pushed to 2017 and explains the reason why the 2016 forecast is now estimated at \$0.1 million.

### **Budget 2017**

The capital budget in 2017 includes a significant investment in information technology, more specifically for the planned replacement/improvement of the Authority's billing and assignment software. Software produced by the Vancouver firm Klein Systems Group is currently used. A first step of needs identification will have been completed in 2016 and the first contacts with possible suppliers will also have been made.

Furthermore, the LPA's financial contribution to the Corporation of Mid St. Lawrence Pilots is also budgeted for the replacement of their PPUs; these instruments will reach the end of their service life in spring 2017. The LPA plans to contribute 77% of the purchase cost of these units that will be purchased by the CPSLC that will include Rate of turn instrumentation to allow them to make calculations and position the ship, and the ships that the latter will pass in the future, based on real data.

# CAPITAL BUDGET

## FORECASTS FOR 2018 AND SUBSEQUENT YEARS

The capital budget for 2018 and subsequent years will include the following principal investments:

### **PPU**

The portable units used by the Lower St. Lawrence Pilots will have to be replaced and updated in 2019; the Authority's financial contribution to this project is estimated at \$0.3 million for the year 2019.

## Borrowing Plan and Cash Reserves

### CASH RESERVES

The Board of Directors approved cash reserves of \$5 million based on the Authority's obligation to fulfill its mission while maintaining its financial self-sufficiency as the Authority does not receive parliamentary appropriations. These reserves can be used in the following situations:

- Financial contributions to pilot corporations for the purchase of portable units within very short time frames (these contributions have already exceeded \$1 million in the past, notably in 2013);
- Delays during the long process to approve the change in tariff regulations, as was the case in 2014;
- Delays caused by the removal and/or installation of priority buoys by the Canadian Coast Guard within District No. 1. A delay in the installation of these buoys after April 7 of each year or removal performed prior to December 7 of each year produces additional costs payable to the Corporation of Mid St. Lawrence Pilots in the amount of about \$250,000 per week of delay. Recently, the priority buoys were installed five weeks late. These additional pilotage expenses are due to the LPA's obligation to assign a second pilot on board the ship for assignments in these situations.

The Authority has achieved its cash reserves objective and has not had to use the amounts it maintains for any use. On the other hand, this situation enabled the LPA to maintain the pilotage tariffs it charges its clients for the entire fiscal year 2016, to the benefit of its clientele. These reserves also allow the Authority to establish a tariff freeze for the entire year 2017, once again benefiting its clientele.

It is important to note that in its Special examination report dated July 15, 2005, the Office of the Auditor General (OAG) identified a major deficiency in the Authority's financial self-sufficiency. The report mentions a "precarious" financial situation. In addition, other Canadian pilotage authorities have recently experienced financial difficulties. In most cases, these situations led to unexpected and significant increases in tariffs, resulting in increases in unplanned costs for their clientele.

The Authority's financial reserves are therefore strategically important, enabling it to adequately perform its mission of establishing, maintaining and administering an efficient pilotage service in the navigable waters under its jurisdiction in the interest of navigational safety.

Pursuant to section 36 of the *Pilotage Act* and subsection 127(3) of the *Financial Administration Act*, the Authority requires the approval of the Minister of Finance to enter into any transaction to borrow money, including the terms and conditions of the transaction. The Authority considers that it has sufficient liquidities, including its cash reserves, to adequately fulfil its mandate.

# BORROWING PLAN AND CASH RESERVES

## BORROWING PLAN

### Borrowing Approval

In accordance with section 36 of the *Pilotage Act* as well as subsection 127(3) of the *Financial Administration Act*, the LPA is required to obtain approval from the Minister of Finance to borrow funds, including the terms and conditions thereof.

### Context

LPA's management requires the approval of the Minister of Finance with regards to its borrowing plan for the 2017-2021 period for an amount of \$1,500,000; such amount is currently authorized as a credit facility allowing for bank overdrafts. Despite the existing cash reserve, this request is justified in the event that a significant disbursement must be made while expiry dates of investments do not allow for an immediate access of the required funds, or to cover any unexpected situation where disbursements could not have been planned. A borrowing authorization of \$1,500,000 is therefore required to deal with this situation.

### Continuity of Short Term Borrowing

The Laurentian Pilotage Authority requires that the following credit facility be continued:

## OVERDRAFT

<b>Lender :</b>	Any financial institution in Canada that is a member of the Canadian Payments Association
<b>Amount :</b>	Up to \$1.5 million
<b>Currency :</b>	Canadian dollars
<b>Interest Rate :</b>	Prime
<b>Maturity :</b>	One year maximum

# BORROWING PLAN AND CASH RESERVES

## Historical Usage of Short Term Credit Facility

The following table details the history of the past five years in regard to the maximum amount of credit used during a given year and the average monthly credit used during that year.

### HISTORY OF THE UTILIZATION OF SHORT-TERM CREDIT

YEAR	HIGHEST AMOUNT	MONTHLY AVERAGE
2012	\$1,115,000	\$238,000
2013	\$833,000	\$126,000
2014	\$874,000	\$115,000
2015	\$425,000	\$100,000
2016 (Forecast)	\$892,000	\$90,000

## Long Term Borrowings to be undertaken in 2017

Not applicable.

## Contingent Liabilities

No contingent liabilities in the form of guarantees are planned for 2017.

## Total Borrowings – New and Outstanding

The following table illustrates the level at which the maximum borrowing amount must be established in order to meet the financial requirements included in this Plan.

### BORROWINGS UNDERTAKEN DURING THE YEAR (IN MILLIONS OF DOLLARS)

	Actual		Forecasted				
	2015	2016	2017	2018	2019	2020	2021
Bank Overdraft*	0.625	0.892	1.5	1.5	1.5	1.5	1.5
Line of Credit*	--	--	--	--	--	--	--
<b>Short-term Borrowings</b>	0.625	0.892	1.5	1.5	1.5	1.5	1.5
<b>Long-term Borrowings</b>	--	--	--	--	--	--	--
<b>Total</b>	0.625	0.892	1.5	1.5	1.5	1.5	1.5

\* Maximum (or peak) amount at any point during the year

# BORROWING PLAN AND CASH RESERVES

As illustrated in the following table, the Authority does not expect to end any of the following financial years with borrowing residual balances.

## BORROWINGS OUTSTANDING, AS AT DECEMBER 31 (IN MILLIONS OF DOLLARS)

	Actual	Estimated	Forecasted				
	2015	2016	2017	2018	2019	2020	2021
Bank Overdraft							
Line of Credit							
<b>Short-term Borrowings</b>	--	--	--	--	--	--	--
<b>Long-term Borrowings</b>	--	--	--	--	--	--	--
<b>Total</b>	--	--	--	--	--	--	--



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