Canada

Administration de Pilotage des Laurentides
Laurentian Pilotage Authority

LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF CORPORATE PLAN

2016-2020

SUMMARY OF THE OPERATING BUDGET

2016

SUMMARY OF THE CAPITAL BUDGET

2016

FEBRUARY 2016

Laurentian Pilotage Authority

2016-2020 Summary of Corporate Plan

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1. EXECUTIVE SUMMARY

The strategic direction of the Laurentian Pilotage Authority (the Authority or the LPA or the Corporation) has been developed in accordance with the organization's mandate and the *Pilotage Act*, and includes the following objectives:

- Maintain financial self-sufficiency;
- Maximize the efficiency, quality and safety of pilotage services in order to ensure navigation safety while being attentive to the needs of the marine community; and
- Comply with the policies of the Government of Canada.

Overall, the volume of assignments in the past few years has given the LPA a certain degree of stability and financial health. After the low point reached in 2009 (19,611 assignments) because of the global economic downturn, volumes were maintained between 2010 and 2014 within a range of 21,000 to nearly 22,400 assignments, and fell slightly during the first six months of 2015, compared with the same period in 2014.

The LPA has a promising economic outlook in the short and medium terms (free trade agreements with the European Union and South Korea, reversal of the direction of the Enbridge pipeline from west to east and the widening of the Panama Canal) and can thus foresee attractive commercial opportunities. It will be up to the Authority to ensure that it is prepared to provide safe and efficient pilotage services in order to help realize these opportunities.

For the time being, international economic indicators for 2015 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 LPA has retained the services of a consulting firm with experience conducting numerous economic studies in the marine sector, for the purpose of analyzing future trends regarding the outlook of marine transportation in our jurisdiction. Some of the firm's findings are included in this report.

The LPA must continue to play a leadership role on all issues that could have an impact on pilotage and the Authority's ability to ensure the safe and efficient movement of marine traffic.

Major safety challenges (training and periodic assessment programs for pilots and apprentices, post-accident/incident follow-up and risk assessments for the ports of Sept Îles, Baie Comeau, Port Cartier and Havre St. Pierre) and issues associated with the efficiency of pilotage services (reducing ship delays, restrictions on navigation and four-season buoys) must still be addressed in order to maximize opportunities to enhance services and thus the flow of marine transportation within the Authority's pilotage areas.

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 Corporation plans to freeze its tariffs for 2016.** The LPA must have sufficient cash liquidities to be able to upgrade its assets, maintain its operations and respond in major and unforeseen situations. To achieve these objectives, the Authority has adopted an integrated risk management program to identify, manage and control the risks, including financial risks, faced by the Authority.

The financial forecasts in this plan therefore reflect the Authority's priorities and current economic constraints.

2. AUTHORITY'S BACKGROUND AND MANDATE

The Laurentian Pilotage Authority, established on February 1, 1972, under the *Pilotage Act*, is a Crown corporation as defined in the *Financial Administration Act*, but is not an agent of the Crown.

The mandate of the Laurentian Pilotage Authority 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.

The Authority's vision and mission involve exercising a leadership role in the marine sector and serving the public interest by aiming for excellence and ongoing improvement in the delivery of effective pilotage services that contribute to navigation safety, environmental protection and increased competitiveness in the marine industry.

3. POWERS

Subject to the approval of the Governor in Council, the Authority may establish the regulations needed to achieve its objectives.

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

4. DESCRIPTION OF ACTIVITIES

The Authority operates, 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.

To fulfil its mandate, the Authority has established three compulsory pilotage districts: one for the Port of Montreal (district 1-1), another for the navigable waters between Montreal and Quebec City (district 1) and a third for the navigable waters between Quebec City and Les Escoumins (district 2), including the Saguenay River. These pilotage districts cover a distance of 265 nautical miles between Montreal and Les Escoumins and another 70 nautical miles along the Saguenay.

Pilotage services offered in each of the three districts are provided by contract pilots; these pilots are represented by the Mid St. Lawrence Pilot Corporation for districts 1.1 and 1, and the Lower St. Lawrence Pilot Corporation for District 2. In accordance with the *Pilotage Act*, pilots can decide to be employees of the Authority or provide services as independent contractors. Pilot boarding is performed by the Authority's pilot boats in Les Escoumins or belonging to private contractors for other pilot boarding stations, i.e., Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal. Pilots are dispatched to ships by LPA employees. Dispatch services are rendered and managed from headquarters in Montreal.

The Authority must coordinate its work, activities and management with a number of organizations, including the St. Lawrence Seaway Management Corporation, which operates the St. Lambert lock, the Canadian Coast Guard, which oversees a number of marine services, Transport Canada, the main ports in the region, the Great Lakes Pilotage Authority, the associations representing agents, owners and operators of Canadian and foreign ships, and pilot corporations.

GOVERNANCE

Under the *Pilotage Act*, the Authority has two objectives: ensure navigational safety by providing efficient pilotage services and establish the necessary regulatory framework to ensure the quality of its services. Thus, the Authority has regulatory powers under sections 20 and 33 of the Act, and disciplinary powers under section 27.

The Board of Directors consists of six members who, in equal proportions, come from Canadian society at large, the marine community and the pilotage community. There is also a chairperson, who preferably has knowledge of and experience in the marine industry. The Board of Directors is responsible for the Authority's strategic planning, including its business plan, finances and overall stewardship, which involves 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.

The Audit Committee is responsible for monitoring and supervising the Authority's financial situation and ensuring the efficient operation of its information systems, financial controls and management practices. The Audit Committee consists of Julius B. Spivack, Vice-Chairperson of the Authority, whose term will expire on February 5, 2018, Louis Rhéaume, who will continue as a member until October 4, 2015 and Gilles M.-J. Morin, whose term will end on April 25, 2016.

The Governance and Human Resources Committee is responsible for reviewing the Authority's governance practices and, where necessary, making changes to the employee management strategy, including current policies in effect. Michel Tosini sits on this Committee and his term will end on December 11, 2016. Jacques Vigneault is another member of this Committee, and his term will end on June 18, 2016. Frank Di Tomasso, who chairs the Governance and Human Resources Committee, has reached the end of his term on June 23, 2015. Peter Henrico, Chairman of the Board of Directors is an ex-officio member of this committee as well as the audit committee. His current term will expire on December 14, 2015.

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

LEGISLATIVE ENVIRONMENT

The legal context in which the Authority delivers its services has remained relatively unchanged in the past few years. The only significant recent event was the decision handed down on February 6, 2014, by the Federal Court in connection with liability proceedings alleging wrongdoing by a Pacific Pilotage Authority pilot. The Court had to decide whether or not the pilot, whose certificate of competency issued by Transport Canada had expired, had maintained his qualifications as a "licensed pilot" within the meaning of the *Pilotage Act*. If the answer to this question had been no, the pilot would have lost the limitation of liability benefit provided for in the Act. Instead, the Court found that holding a certificate of competency was a requirement for obtaining the pilot licence, but not for keeping the licence. The pilot therefore still had a licence at the time of the incident. This decision was instructive in regard to the process for issuing and maintaining pilot licences, but it is not clear that the same ruling would have been made under the Authority's regulations.

Furthermore, the LPA is also still concerned about the increasing judicialization, in Canada, the U.S. and Europe, of incidents that occur during pilotage assignments. Legislation also provides for greater criminal liability with heavier fines for organizations and their representatives and administrators, particularly in environmental matters.

In the past few years, organizations have been adopting a new approach to values and ethics. The federal government, which is concerned about this issue, has adopted legislation and policies that have an impact on the LPA's management, such as the Ethical and Political Guidelines for Public Office Holders, the *Federal Accountability Act*, the *Conflict of Interest Act* and the *Public Servants Disclosure Protection Act*. In accordance with the *Public Servants Disclosure Protection Act*, the Values and Ethics Code for the Public Sector applies to all LPA employees. Employees have been given copies of the Code. A code of conduct specific to the Authority and its mandate has also been adopted on December 10, 2014.

RISK MANAGEMENT PROGRAM

With a view to making optimal choices based on assessed and controlled risks, the LPA has set up an integrated risk management (IRM) system that it uses to implement and apply a rigorous methodology process that involves following formal procedures and keeping records relative to the management of the principal risks to which the organization and its managers are exposed. The IRM also allows management to monitor the different impacts that changes have on risks, and to implement the necessary controls.

The following are the principal <u>strategic and operational</u> risks, in order of importance. They take into account the financial impact, the magnitude of the impacts, the probability of the risks materializing and the controls in place to help mitigate their impact.

	Risks
1	Challenges relating to the tariff planning and setting process to ensure tariffs remain competitive while ensuring the LPA's financial self-sufficiency.
2	Lack of thorough monitoring for accident reviews, recurrent training and assessment of pilots.
3	Delays in the installation/removal of priority lighted buoys.
4	Potentially insufficient number of future pilots due to projected annual increases in assignment numbers and the potential impact of risk studies.
5	Impact on navigation efficiency because of delays attributable to pilots, ships and navigation restrictions.
6	Coordination between public organizations for the purposes of providing marine services.
7	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.
8	Implementation of safety measures by suppliers (pilot boarding).
9	Inadequate physical condition for pilots.
10	Accidents during pilot boarding (LPA pilot-boats).

Several measures to mitigate these risks have been implemented throughout the LPA in order to:

- continue providing safe pilotage services;
- preserve the Authority's image and reputation;
- achieve its strategic objectives; and
- maintain its financial self-sufficiency.

The risks identified above will be mitigated by implementing new safety measures and procedures, updating regulations and carrying out required risk assessments.

The following table illustrates the above-mentioned risks while evaluating their inherent risk and residual risk levels. Elements of the LPA's action plan are then presented; these elements aim to better control and manage inherent risks. It should be noted that a yellow-colored residual risk means an adequatelymanaged level of risk (low), an orange-colored residual risk means a moderate level of risk which requires a follow-up by senior management and a red-colored residual risk means a high level of risk which requires immediate action by senior management (none in this table).

	Risks	Inherent risks	Residual risks	LPA'S action plan
1	Challenges relating to the tariff planning and setting process to ensure tariffs remain competitive while ensuring the LPA's financial self sufficiency.			. Define required management information. . Detailed documentation of budget assumptions. . Ongoing study to define marine traffic forecasts and assumptions. . Integrate Klein and Accpac (accounting software). . Early financial update to incorporate actual results.
2	Lack of thorough monitoring procedures for accident reviews, recurrent training and assessment of pilots.			. Maintain post-accident follow-up process. . Regulatory changes. . Implementation of a memorandum of understanding with TC and TSB (2016). . Periodical negotiation of service contracts with pilots.
3	Delays in the installation / withdrawal of priority lighted buoys.			. Periodical negotiation of service contracts with pilots. . Regulatory changes. . Implementation of an Advisory Committee to ensure navigational safety.
4	Potentially insufficient number of future pilots due to projected annual increases in assignment numbers and the potential impact of risk studies.			. Regulatory changes. . Continue leadership initiatives with marine stakeholders. . Salary increase for apprentice-pilots.
5	Impact on navigation efficiency because of delays attributable to pilots and ships, and navigation restrictions.			. Regulatory changes. . Continue coordination efforts with clients and pilots. . Implantation of the recommendations of the Coast Guard's working group.
6	Coordination between public organizations for the purposes of providing marine services.			. LPA's increased involvement within relevant committees. . Improve exchange of information.
7	Human resources – access to human resources with sufficient skills and expertise to carry out the organization's mandate (leadership, safety), achieve its strategic priorities and handle its workload.			. Filling financial analyst and associate-controller position. . Implementation of the HR strategic plan. . Personnel training. . Timely involvement of external consultants. . Formalize contingency plan for each department.
8	Implementation of safety measures by suppliers (pilot boarding).			. No action required.
9	Inadequate physical condition for pilots.			. Regulatory changes.
10	Accidents during pilots boarding (LPA pilot-boats).			. On-going training of personnel.

Finally, the Authority may have to deal with various external factors over which it has no control, including the following:

- weather, upon which marine traffic and the number of assignments are partially dependent;
- international disputes;
- the robustness of international trade (particularly with China), international financial institutions and global economies;
- the state of public finances in industrialized countries (Mexico, Europe and Asia);
- inflation, interest rates and the value of the Canadian dollar;
- work stoppages in the area of intermodal transport and related fields;
- the federal cost recovery policy with regard to dredging, aids to navigation and icebreaking services; and
- water levels in the St. Lawrence River.

Significant changes to these external factors may have an impact on the volume of marine traffic and thus on the LPA's business performance. However, it is very difficult for the LPA to calculate the financial impact that any one of these factors could have on its performance or to control the emergence of such factors.

5. COMMERCIAL ENVIRONMENT AND STRATEGIC ISSUES

COMMERCIAL ENVIRONMENT

The analysis of the commercial environment will begin with a review of the international financial and geopolitical situation, followed by a look at the Canadian economic context and statistics on vessel traffic and pilotage services in the waters under the Authority's jurisdiction.

International context

Financial comments: Based on International Monetary Fund (IMF) forecasts issued in July 2015, industrialized countries should see renewed growth in 2015, whereas growth in countries with "emerging economies" will be slower. In the U.S., the unemployment rate continues to decline, the manufacturing sector is still strong and the gross national product (GNP) is expected to grow by 2.5% in 2015. Economic growth in Europe still seems rather shaky after several lethargic years (except in Germany), and the financial crisis in Greece remains volatile. Recent developments in Ukraine, along with the resulting economic sanctions imposed on Russia, are casting a shadow on the strength of the European economy. In China, the rate of economic growth is waning: according to the IMF, growth of 6.8% and 6.3% is expected in 2015 and 2016, respectively. The impact of recent severe stock market corrections in China (June 2015–July 2015) and the collapse in metal prices remain to be determined.

Comments on marine transportation trends: According to Howe Robinson Shipbrokers of London, the current excess capacity in the bulk and container sectors is expected to continue for some time, which will make it difficult to balance supply and demand. Any potential future growth in the dry bulk sector will be closely linked to development opportunities in China, where previous strong demand for iron-ore has reached a saturation point, thus calling into doubt future investment projects by exporters in this field. In the container ship sector, the drop in oil prices has resulted in a notable rise in demand for key U.S. and European routes. Furthermore, a considerable amount of infrastructure around the world—in the United States, Europe and the Middle East—is being or will be rebuilt, which means strong, long-term demand for some mineral ores (including Quebec iron ore) and the world's population continues to grow, as does urbanization, which is expected to fuel a significant long-term demand for cereals.

Panama Canal: The widening of the Panama Canal should be completed in 2016. The impact that the Canal's widening will have on traffic along navigable waterways will depend on such factors as the draughts of these waterways and of neighbouring ports, and infrastructure (loading and unloading facilities) both at these ports and intermediate ports (such as Caribbean ports) that can serve as hubs (transshipment and/or storage facilities) for larger ships.

Canadian context

Financial comments: Economic analysis sources consulted point to positive growth forecasts for Canada owing to the weakness of the Canadian dollar, the fact that unemployment and inflation rates are under control, and the promising outlook stemming from recent free trade agreements with the European Union and South Korea. According to the Royal Bank of Canada, GDP in Canada is expected to grow by 1.8% in 2015 and 2.6% in 2016 (source: RBC Economic and Financial Market Outlook – March 2015), whereas the National Bank of Canada is projecting GDP growth of 1.8% in 2015 and 2.1% in 2016 (source: BNC Provincial Economic Outlook – June 3, 2015). At the Port of Montreal, the volume of containerized cargo (in metric tons) rose by 6.1% during the first six months of 2015, compared with the same period in 2014 (source: Montreal Port Authority's website – July 29, 2015).

MARKET ANALYSIS

Grain market

Current Canadian wheat harvest forecasts for 2015 reflect a difficult start to the season, with severe frost at the end of May 2015 followed by a period of drought in Alberta and Saskatchewan that lasted until mid-July 2015. Weather conditions in the U.S. Midwest were far from ideal. To date, it seems highly probable that Canadian grain exports will be down (source: report on corn and soya price trends in Quebec published by the *Fédération des producteurs de cultures commerciales du Québec* – July 22, 2015). Furthermore, the abolition of the Canadian Wheat Board’s monopoly in August 2012 allows producers to sell their grain without going through the Board. Grain volumes and prices are therefore determined by the market. For the time being, opinions are still divided about the impact of this structural change.

Oil market

Crude oil prices have dropped sharply year-over-year. A number of factors need to be taken into consideration with respect to this market. First of all, the Ultramar pipeline from Quebec City to Montreal has been in operation since the end of 2012. This pipeline has completely eliminated all marine and rail transport between Ultramar's refinery in Lévis and its Montreal East facilities. It was previously assumed that the pipeline would mainly affect rail transport. In addition, the reversal of direction of the Enbridge pipeline from west to east will move western Canadian oil to refineries in Montreal East and Quebec City, where it will be used locally and exported. As a result, there are positive and negative consequences for the LPA with respect to the marine transportation industry as it relates to the oil market. The trend towards larger ships continued to be observed in 2015, at least up until June 30. As concerns the planned use of pilotage services by Valero Energy Inc. in Lévis, the use of line 9B is expected to begin in December 2015. Two vessels should be operational by the end of 2015 and will make, on average, 14 to 16 trips per month between Montreal and Quebec City, and will transport crude oil from the oil sands in western Canada to the Jean Gaulin refinery in Lévis.

OTHER COMMERCIAL CONSIDERATIONS

The market continues to be sensitive to the size of container ships. The Port of Montreal can accommodate post-Panamax ships with a maximum width of 44.0 metres. Capital investments continue to be made along the northeastern coast of the United States. Ports on the U.S. Eastern Seaboard (in the states of New York and New Jersey and in Norfolk, Virginia, and Charleston, South Carolina) are seeking competitive advantages in order to serve the American Midwest market as quickly and as efficiently as possible. However, the risk of delays seems to be higher in some of these ports, compared with the Port of

Montreal. The increased size of ships is creating logistical challenges and causing congestion in some U.S. ports, including ports along the Northeastern coast (source: Article in the Wall Street Journal on April 29, 2015).

Furthermore, because of the closing of steel mills, the volume of iron ore transported across the Great Lakes is still depressed.

STRATEGIC ISSUES

Despite the uncertain economic conditions, the Authority continues to look at the overall picture of its operations. The following section deals with strategic issues, in light of the commercial conditions and crucial risks that the LPA will face over the next five years and which will have an impact on the direction to be taken to manage those risks. In an update of this analysis, the following strategic issues were identified:

Organization's leadership role: Increasingly, the LPA is expected to take full responsibility for its mandate to manage safe and efficient pilotage services and therefore fulfil its leadership role in the marine community with respect to pilotage and navigation safety issues within the pilotage areas under its jurisdiction. To effectively carry out its mandate, the LPA must become a key player in navigation safety issues.

Optimization of financial projections and tariff planning: although it is still in an enviable financial position, the LPA remains sensitive to cost control. The Authority intends to focus on the gathering and analysis of "market intelligence" that will allow it to better identify and document market trends and prepare more detailed budgetary hypotheses. This will allow the LPA to better analyze variances between actual and budgeted results.

Maintaining navigational safety: Since navigation safety is a core component of its mandate, the LPA is committed to ensuring excellence and continuous improvement in the delivery of pilotage services. Strategic and operational priorities include the implementation of new safety measures, regulatory updates and execution of risk studies.

Ensuring service efficiency and quality: The adequate availability of pilots is an essential component to the continued delivery of efficient pilotage services, meaning detailed multi-year analyses covering growth and marine traffic projections are performed. Another indicator of efficiency is the number of delays attributable to pilots and to ships. Strategic and operational priorities include the implementation of new measures targeting navigation efficiency improvements, regulatory updates and cost control.

Optimized use of human resources: The Authority's human capital is an essential asset to achieving its strategic objectives. A human resource strategy has been drawn up and implemented, identifying human resource requirements in order to ensure that the organization has appropriate human resources with the right skills and training.

ASSESSMENT OF FINANCIAL PERFORMANCE

During the 2015 fiscal year, the LPA expects to post a comprehensive income of approximately $3.1 million, which is $2.7 million more than the originally budgeted comprehensive income. This favourable variance is attributable to a significant increase in the profit margin per pilotage assignment for the first six months of 2015, year-over-year, due among other things to the rise in the average dimensions of ships per mission, non-recurring revenue stemming from the rental and sale of one of our pilot boats, and the carry forward of certain expenditures included in the budget estimates. The comprehensive income as at June 30, 2015 stands at $0.8 million. The number of assignments as at June 30, 2015 (9,356) was down 4.5% compared with the six-month period ending June 30, 2014. However, all of our projections take into account the assumption that the number of units (ship dimensions) will increase by approximately 4% in 2015, compared with the previous year. The Authority is conservative in its financial projections in order to maintain its financial self-sufficiency. Moreover, a significant portion of the Authority’s expenditures, i.e., pilotage expenses, varies in relation to its revenues. The LPA is therefore forecasting a comprehensive income of $0.2 million in 2016 and a planned loss of $1.0 million in 2017.

6. INTERNAL ANALYSIS

The Authority held its annual public meeting on August 13, 2015 which was attended by marine community representatives. The Chair of the Board of Directors and the Director of Finance and administration presented the achievements of the 2014 fiscal year, while the Chief Executive Officer covered the objectives for 2015.

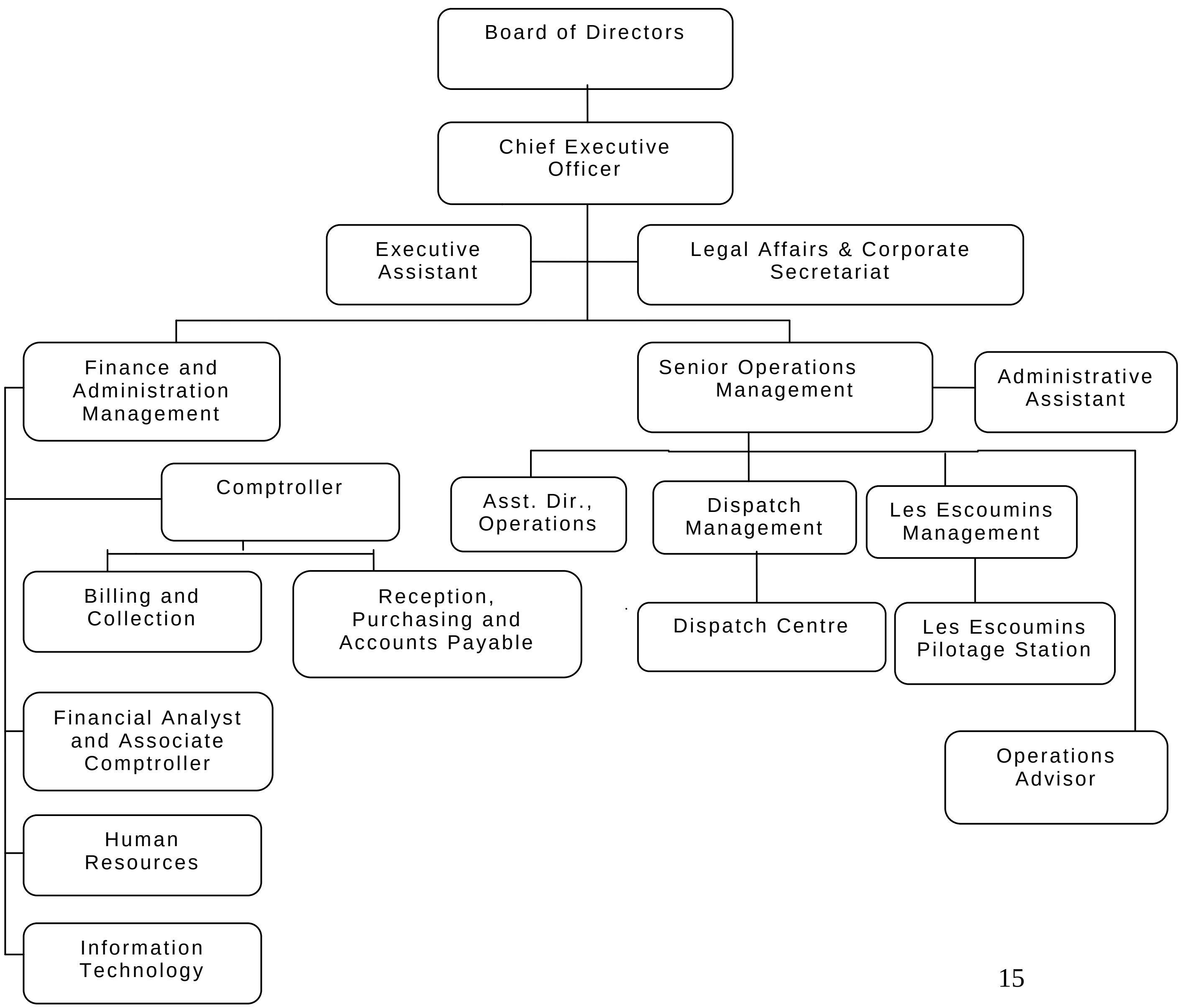
The collective agreement for dispatch and billing employees, represented by the Public Service Alliance of Canada, expired on June 30, 2013. Bargaining began in the spring of 2014 and is continuing this fall. It is currently in the mediation phase, led by the Federal Mediation and Conciliation Service. The parties have agreed to extend the mediation period until early December 2015. In terms of the salary budget, the Authority plans to comply with the Government of Canada’s cost containment measures and Consumer Price Index (CPI) projections for the coming years.

A new 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. The termination of the accumulation of severance pay associated with voluntary departures was confirmed in this new agreement. Salaries will increase by 2.50% the first year and 1.85% for each of the second and third years.

The service contract with the Lower St. Lawrence Pilot Corporation will expire on December 31, 2016. The service contract with the Mid St. Lawrence Pilot Corporation expired on June 30, 2015, and is currently under negotiation.

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 following is the Authority's organization chart (September 2015):



GOVERNMENTAL POLICIES

The Authority is committed to following the spirit and intent of the government's ongoing cost containment and deficit reduction measures, and has incorporated all opportunities for operational efficiencies into the Corporate plan.

As part of its commitment to the *Multiculturalism Act*, the Corporation conducts its activities with due consideration to Canada's multicultural reality, as witnessed by the cultural diversity in its workplaces. It should also be noted that one of the LPA's two pilot boats was named "Taukamaim", meaning "To take to the open sea" in the Innu language.

The Corporation has begun the analysis process stemming from the recent directive dated July 16, 2015, pertaining to travel and hospitality expenses. As a first step, this analysis' goal is to identify differences, if any, between this directive and the policy currently being followed. Generally, practices and policies adhere to the July 16 directive and to its related instruments. The Authority's objective is to finalize its adherence on a comprehensive basis through the update of its policies by its financial year-end of December 31, 2015.

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 reductions in these expenditures could have a negative impact on the Authority's services and revenues, resulting in lower earnings.

7. IMPLEMENTATION STRATEGIES AND PEFORMANCE INDICATORS

The following chart outlines the implementation strategies and performance indicators that the Authority adopted during the annual strategic planning process in order to pursue and achieve its strategic objectives.

Objectives	Means	Action Strategies	Performance Indicators	Timeline
Maintain financial self-sufficiency	Keep expenditures within budget.	Conduct monthly expenditure audits (management).	Financial statements, budget report and monthly graphs showing status of the operating results.	Ongoing
	" "	Conduct quarterly reviews of revenues and expenditures (Audit Committee).	Quarterly financial statements; comments submitted by Committee members and approved by the Board of Directors.	Quarterly
	" "	Publish the Authority's annual report.	Performance indicators included in the annual report.	March 31, 2016
	Monitor employee costs.	Renew collective agreements with the Public Service Alliance of Canada while complying with cost containment measures.	New collective agreement.	2015–2016
	Increase revenues by publishing fair and reasonable tariffs.	**Tariff freeze for 2016**	Achievement of necessary budget surpluses to enable the maintenance and upgrading of assets.	2016
	Optimize costs arising from the ownership and operation of assets.	Maintain and upgrade assets in accordance with financial self-sufficiency criteria.	Achievement of necessary budget surpluses to enable the maintenance and upgrading of assets	Ongoing

Objectives	Means	Action Strategies	Performance Indicators	Timeline
	Avoid bad debts.	Ongoing application of credit strategies	Bad debt expenses	Ongoing
	Analyze upcoming changes to the assignment and billing software program.	Hold a meeting with the software program supplier, conduct a feasibility study and start development.	Improved software performance and efficiency	2016
Maximize efficiency, quality and safety by being attentive to client needs	Ensure the provision of safe and high-quality pilotage services.	Review the training and evaluation program for pilots and apprentice-pilots from the two pilot corporations.	LPA approval of the corporations' training programs, and incident rate kept below 0.10%	2015–2016 and onwards
	" "	Reduce delays and the causes behind the lack of pilot availability via the new service contract with PSLC.	Maintain the proportion of pilot-caused delays at under 0.10% of all assignments.	2015 and onwards
	" "	Reduce client-caused delays via the new service contract with PSLC.	Delay statistics	2015 and onwards
	" "	Maintain the LPA's accident review protocol and negotiate a Memorandum of Understanding with TC and the TSB.	TC/TSB Memorandum of Understanding	2016 and onwards

Objectives	Means	Action Strategies	Performance Indicators	Timeline
	" "	Conduct risk study for District No. 3	Analysis of study report & identification of potential measures	2016
	" "	Implementation of the recommendations of the risk study on the safe duration of a voyage in District No. 1.	Number of delays and number of accidents/incidents	2015–2016
	" "	Negotiate service contracts with the Corporation of Mid St. Lawrence River Pilots (2015) and the Corporation of the Lower St. Lawrence Pilots (2016).	Focus specifically on clauses dealing with the efficiency of services and safety (see the "Strategic issues" section)	2015–2016
	Continue the internal review of the LPA Regulations.	Identify the key provisions and continue consultations.	Proposal for new LPA regulations discussed with stakeholders.	2015–2016
	Use a risk-based management approach to navigation restrictions and security rules.	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 and improved information sharing.	Ongoing
		" "	Relaunch of website	2015 and onwards

Objectives	Means	Action Strategies	Performance Indicators	Timeline
	Maintain an adequate number of pilots	Plan the volume of marine traffic and pilot retirements with the corporations.	Analysis of apprentice-pilot recruitment requirements	Ongoing
	" "	Improve the level of compensation for apprentice-pilots via the new service contract with PSLC.	Number of candidates recruited	2015 and onwards
	Enhance the efficiency and reliability of equipment, primarily pilot boats.	Maintain the facilities' preventive maintenance program (Les Escoumins wharf, and equipment).	Minimize major breakdowns and unforeseen expenditures	Ongoing
	Specify organizational requirements and foster a positive organizational environment.	Pursue the Action Plan.	Action Plan	2015–2016
	" "	Implement the HR strategy and certain policies (training, performance reviews, harassment)	New policies	2015–2016
	" "	Begin introducing measures to support employees with mental health issues	Communicating expectations to employees	2015–2016

Objectives	Means	Action Strategies	Performance Indicators	Timeline
	Ensure the safety and quality of pilot boarding services for employees and passengers.	Update the pilot boat operations manual.	Pilot boat operations manual	Ongoing
Comply with Government of Canada policies.	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.	Follow-up report.	Annually and on an ongoing basis.
	" "	Internal audit of billing and dispatch depts.	Finalization of the internal audit project.	2015
	" "	Internal audit of payroll system.	Start of the internal audit project.	2016
	Comply with Treasury Board cost containment measures.	Monitoring of actual expenditures versus budget.	Dispatch and administrative expenses.	Fiscal year 2012 and onwards
	Ensure compliance with the travel expenses and hospitality directive; update policies.	Meetings and internal analyses to finalize required changes to the policies.	Implementation of the policies.	2015–2016
	Contribute to, and submit position on the study launched by the Department of Transport on the efficiency, safety and governance of the marine transportation system and pilotage (CTA review).	Meetings and internal analyses.	Submission of a report/paper documenting feedback and LPA recommendations to the committee.	2015

8. Financial Statements

ACTUAL 2014, FORECAST 2015 AND 2016-2020 BUDGET PERIOD

STATEMENT OF COMPREHENSIVE INCOME
($000's)

	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
Assignments	22 386	21 938	21 938	21 938	21 938	21 938	21 938
REVENUES							
Pilotage charges	85 000	90 075	90 720	92 607	96 542	99 274	102 139
Interest and other revenues	135	460	102	102	102	102	102
	85 135	90 535	90 822	92 709	96 644	99 376	102 241
DIRECT EXPENSES							
Pilot fees	67 059	70 787	73 448	76 788	79 370	81 376	83 775
Pilot boat operations	10 894	11 150	11 064	11 391	11 641	11 815	12 042
	77 953	81 937	84 512	88 179	91 011	93 191	95 817
GROSS PROFIT	7 182	8 598	6 310	4 530	5 633	6 185	6 424
ADMINSTRATIVE AND OPERATING EXPENSES							
Administration	3 211	3 093	3 243	3 040	3 177	3 077	3 359
Operations & Dispatch	1 880	2 424	2 861	2 571	2 613	2 539	2 590
	5 091	5 517	6 104	5 611	5 790	5 616	5 949
COMPREHENSIVE INCOME	2 091	3 081	206	(1 081)	(157)	569	475

STATEMENT OF FINANCIAL POSITION
($000's)

	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
ASSETS							
Current							
Cash	3 768	7 973	8 826	7 585	8 529	9 812	11 322
Accounts receivables	12 177	10 025	10 101	10 325	10 792	11 116	11 456
Short-term investment	4 250	2 750	2 750	2 750	2 750	2 750	2 750
	20 195	20 748	21 677	20 660	22 071	23 678	25 528
Non-current							
Long-term investment	--	2 250	2 250	2 250	2 250	2 250	2 250
Property and equipment (net)	16 078	15 442	14 811	14 161	13 502	12 887	12 264
Intangible assets (net)	774	744	760	1 602	1 192	1 095	685
Total assets	37 047	39 184	39 498	38 673	39 015	39 910	40 727
LIABILITIES							
Current							
Accounts payable and occured liabilities	12 394	11 341	11 417	11 641	12 108	12 432	12 772
Non-current							
Employee benefits	525	576	636	696	756	786	816
Lease inducement	170	228	200	172	144	116	88
Total liabilities	13 089	12 145	12 253	12 509	13 008	13 334	13 676
EQUITY							
Retained earnings	23 958	27 039	27 245	26 164	26 007	26 576	27 051
Total liabilities and Equity	37 047	39 184	39 498	38 673	39 015	39 910	40 727
Working capital at year end	7 801	9 407	10 260	9 019	9 963	11 246	12 756

STATEMENT OF CHANGES IN EQUITY
($000's)

	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	20176	2018	2019	2020
Retained earnings, beginning of the year	21 868	23 958	27 039	27 245	26 164	26 007	26 576
Comprehensive income for the year	2 090	3 081	206	(1 081)	(157)	569	475
Retained earnings, end of the year	23 958	27 039	27 245	26 164	26 007	26 576	27 051

STATEMENT OF CASH FLOW
($000's)

	ACTUAL	FORECAST	PLAN				
	2014	2015	2016	2017	2018	2019	2020
OPERATING ACTIVITIES							
Comprehensive income for the year	2 091	3 081	206	(1 081)	(157)	569	475
Non-cash items							
Amortization	944	1 021	1 046	1 042	1 080	1 051	1 044
Changes in long-term employee benefits	68	51	60	60	60	30	30
Changes in long-term lease inducement	169	59	(28)	(28)	(28)	(28)	(28)
Loss (gain) on disposal of capital assets	6	(384)	--	--	--	--	--
Decrease (increase) in receivables	(2 592)	2 152	(76)	(224)	(467)	(324)	(340)
Increase (decrease) in accounts payable	2 214	(1 053)	76	224	467	324	340
Cash flows for operating and non-operating activities	2 900	4 927	1 284	(7)	955	1 622	1 521
INVESTING ACTVITIES							
Additions to fixed assets, intangible assets and long-term investment	(2 880)	(722)	(431)	(1 204)	(11)	(339)	(11)
CASH							
Change for the year	20	4 205	853	(1 241)	944	1 283	1 510
Balance, beginning of year	3 748	3 768	7 973	8 826	7 585	8 529	9 812
Balance, end of year	3 768	7 973	8 826	7 585	8 529	9 812	11 322

SIGNIFICANT ACCOUNTING POLICIES

Please refer to the Laurentian Pilotage Authority's audited financial statements included in the most recent Annual Report for a list of these Policies.

SENSIVITY ANALYSIS

Revenue collected from pilotage charges and the cost of pilotage services are directly related to the number of assignments, the number and dimensions of ships, hours of pilotage time and the draughts of ships. The Authority is planning a tariff freeze for 2016 and 2017, and then increases of 2.50% for 2018 and 2.00% for each of 2019 and 2020.

Revenue from and expenditures for pilot boats under contract are directly related to the number of pilot boarding services provided for ships; however, dispatch 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 (2016 to 2020) is based on the following key assumptions: estimated Consumer Price Index, estimated volume of marine traffic, pilotage fees 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 $800,000 in revenue in 2016, whereas any 1% variation in the fees of pilots on contract represents a variation of about $735,000. 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.

Execution of the plan depends on the correctness of assumptions made during its preparation. Should the Canadian Transportation Agency not grant the requested tariffs, the Authority may be unable to meet its contractual commitments, and thus an interruption of service may result.

9. 2016 Capital Budget

Acquisition of Capital Assets and Capital Budget

($ 000' s)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2014	2015	2015	2016	2017	2018	2019	2020
Wharf and road	--	--	7	--	--	--	--	--
Pilot Boat	--	200	--	--	--	--	--	--
Intangible assets	3	1 257	317	390	1 214	--	313	--
Waiting room, boarding station and others	127	105	32	41	20	11	26	20
	130	1 562	356	431	1 234	11	339	20

10. Borrowing Plan

Owing to variations in maritime traffic during the year and because of a higher volume of pilot assignments during the second half of the year, compared with the first half, the Authority may operate with a limited amount of working capital during certain periods.

Based on financial projections, the LPA should have enough cash liquidities to cover its contractual obligations, employee salaries and benefits and all other operating and administrative expenses during the 2016 fiscal year. However, it would be advisable for the Authority to obtain approval to borrow $1.5 million should it be faced with situations in which unexpected substantial expenditures might be incurred.

The terms and conditions under which the Laurentian Pilotage Authority may borrow funds are set out in section 36 of the *Pilotage Act* and subsection 127(3) of the *Financial Administration Act*. Approval from the Minister of Finance is required to borrow $1.5 million for 2016. The terms and conditions for borrowing the funds are as follows:

LENDER:	Any financial institution in Canada that is a member of the Canadian Payments Association
AMOUNT:	Up to $1.5 million
CURRENCY:	Canadian dollars
INTEREST RATE:	Prime
MATURITY:	One year maximum

Appendix A

Representation of Compulsory Pilotage Areas