

LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF THE CORPORATE PLAN

2011-2015

SUMMARY OF THE OPERATING BUDGET

2011

SUMMARY OF THE CAPITAL BUDGET

2011

APRIL 2011

Plan Summary

The strategic direction of the Laurentian Pilotage Authority (the Authority) has been developed in accordance with its mandate and the *Pilotage Act* and includes the following responsibilities:

- Maintain financial self-sufficiency and create a reserve equal to approximately 10% of revenues;
- Maximize efficiency, quality and safety by being attentive to the needs of the maritime community; and
- Comply with Government of Canada policies.

Maintaining financial self-sufficiency continues to be one of the Authority's main priorities. The Authority must also have cash liquidities to enable it to upgrade its assets. To achieve this objective, the Authority, with the help of an outside firm, recently undertook the implementation of an integrated risk management program to identify, manage and control risks, including financial risks, faced by the Authority.

An analysis of economic indicators shows that the economic recovery that began in the spring of 2010 continues to be sluggish and appears to require much more time to strengthen than was initially estimated. The Authority will therefore continue to exercise prudent financial management in 2010 and 2011 until economic indicators are more favourable and foretell sustained, longer-term growth.

In terms of maritime shipping, increased activity was reported in several areas during the first half of 2010, compared with 2009. The St. Lawrence Seaway saw a substantial increase in activity in the steel and grain sectors. However, the market continues to be sensitive to the dimensions of container ships, a situation that puts the St. Lawrence Seaway at a competitive disadvantage, compared with several ports on the eastern seaboard of the United States that also have rail links to the American Midwest.

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

Authority's Mandate

The mandate of the Laurentian Pilotage Authority is to

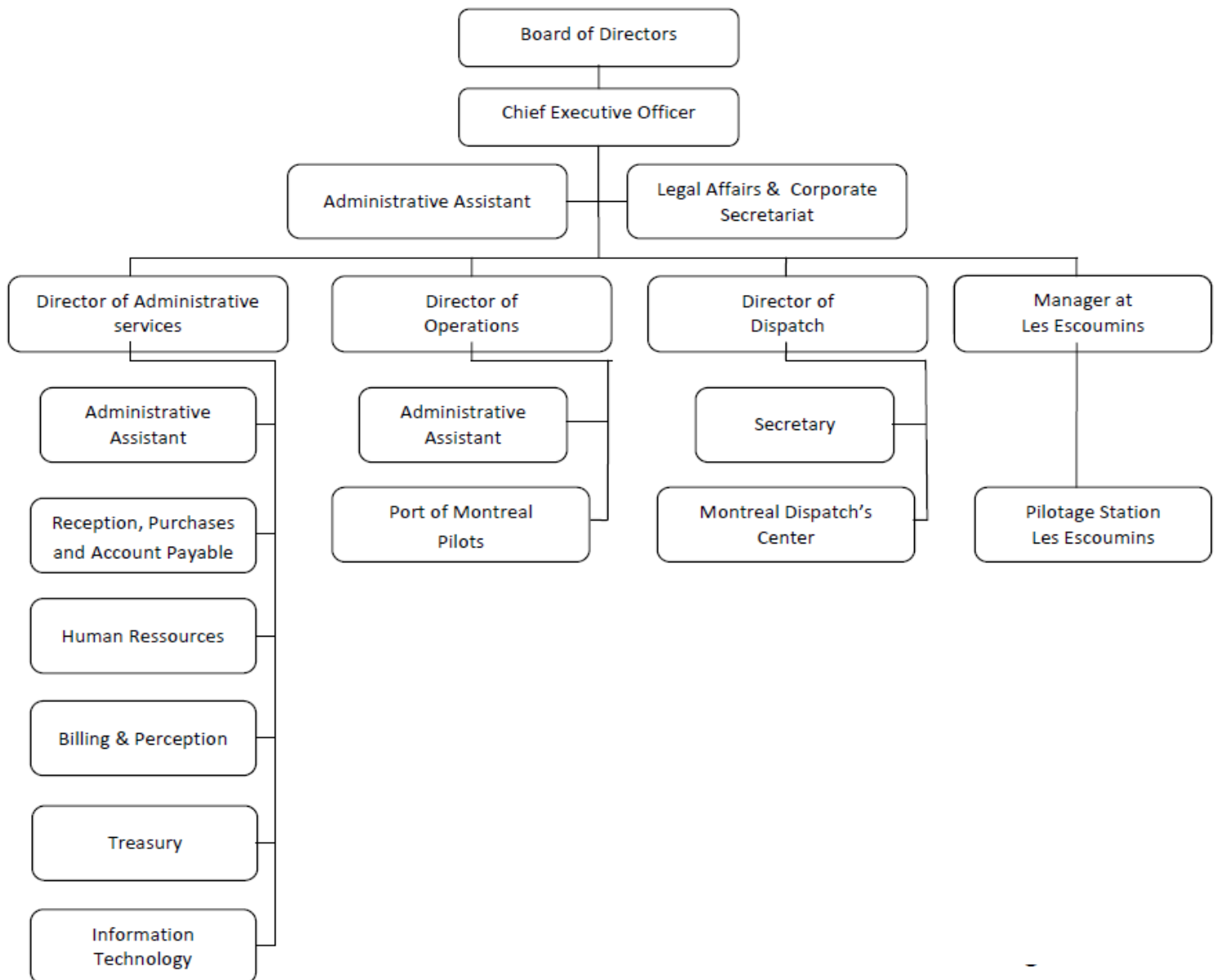
- ⇒ Establish, operate, maintain and administer, in the interest of navigation safety, an efficient pilotage service in Canadian waters within the areas served by the Laurentian Pilotage Authority;
- ⇒ Keep pilotage fees at a fair and reasonable level that reflects the Authority's need to generate revenue which, combined with revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

Authority Profile

ORGANIZATION CHART



LAURENTIAN PILOTAGE AUTHORITY



August 2010

BACKGROUND

The Laurentian Pilotage Authority was established on February 1, 1972 under the *Pilotage Act* to operate an efficient pilotage service in the interest of navigational safety.

The Authority is a Crown corporation, as defined in the *Financial Administration Act*, but is not an agent of the Crown.

The Board of Directors comprises a chairperson and six other members, including two pilots, two shipping industry representatives and two members of the general public. One Board member position is currently vacant.

POWERS

To carry out its responsibilities, the Authority has adopted general regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, in order to

- ⇒ Establish compulsory pilotage areas;
- ⇒ Prescribe ships or classes of ships subject to compulsory pilotage;
- ⇒ Prescribe classes of pilot licences and pilotage certificates that may be issued;
- ⇒ Prescribe pilotage charges payable to the Authority for pilotage services.

In addition, the Authority is empowered under the *Pilotage Act* to

- ⇒ Employ such officers and employees, including licensed pilots and apprentice pilots, as are required for operations;
- ⇒ Contract with pilot corporations for the services of licensed pilots;
- ⇒ Establish internal regulations for managing its operation;
- ⇒ Purchase, lease or otherwise acquire land, buildings, pilot boats and other equipment and assets deemed necessary, and to sell any assets thus acquired;
- ⇒ Borrow, if necessary, to cover the Authority's expenses.

DESCRIPTION OF OPERATIONS

The Authority operates, in the interest of safety, a marine pilotage service in all Canadian waters in and around the province of Quebec north of the northern entrance to the St. Lambert Locks, except the waters of Chaleur Bay south of Cap d'Espoir.

In accordance with its regulations, the Authority has established three districts subject to compulsory pilotage, namely District No. 1-1 for the Port of Montreal, District No. 1 for the navigable waters between Montreal and Quebec City, and District No. 2 for the navigable waters between Quebec City and Les Escoumins, including the Saguenay River. The pilotage districts established by the Authority cover a distance of 494 kilometres between Montreal and Les Escoumins, and another 130 kilometres on the Saguenay River.

Pilotage services are provided for all ships subject to compulsory pilotage by staff pilots in the Port of Montreal (represented by the Canadian Marine Officers Union) and contract pilots hired by the Authority in Districts 1 and 2 (represented by the Corporation of Mid St. Lawrence Pilots and the Corporation of the Lower St. Lawrence Pilots respectively). The boarding of pilots is effected using pilot boats belonging to the Authority in Les Escoumins, or to private-sector pilots under contract to the Authority, in the case of the other boarding stations located in Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal. Pilots are assigned to ships by the Authority's dispatchers. All dispatch services provided at Les Escoumins, Quebec City and Montreal are performed and managed from the head office located in Montreal.

The Authority must co-ordinate its operations, activities and management with a number of organizations, as follows: St. Lawrence Seaway Authority, which operates the St. Lambert Lock; Canadian Coast Guard, which manages marine activities such as navigational aids, dredging and icebreaking; Marine Traffic Services Centre; various port authorities in the region; and associations representing agents, owners and operators of Canadian and foreign ships.

Main Objectives, Methods, Action Strategies and Performance Indicators

The Authority's strategic direction includes the following:

- ❖ Maintain financial self-sufficiency and create a reserve equal to $\pm 10\%$ of revenues;
- ❖ Maximize efficiency, quality and safety by being attentive to the needs of the marine community; and
- ❖ Comply with Government of Canada policies.

The following are the main objectives adopted by the Authority to carry out its operations in accordance with its strategic direction:

Objectives	Means	Action Strategy	Performance indicators	Schedule
Maintain financial self-sufficiency	Keep expenditures within budget	Carry out monthly expenditure audits (management)	Monthly progress graph showing results in operations	Ongoing
	" "	Verification of quarterly financial statements and budget reports (Audit Committee)	Review and approval of quarterly financial statements and budget reports by the Audit Committee	Quarterly
	Monitor employee costs	Renew collective agreements with the Public Service Alliance of Canada (PSAC) and the Canadian Merchant Service Guild (CMSG) while complying with cost containment measures	New collective agreements	2010–2011
	Increase revenues by publishing reasonable and fair tariffs	Prepare tariff documentation for 2011, 2012 and 2013 and hold meetings with users	Build up cash liquidities amounting to 10% of revenues through the achievement of budgetary surpluses	Ongoing
	Optimize costs arising from ownership and operation of assets	Review utilization of main assets and the strategy for replacing the Charlevoix pilot boat	Monitor costs and useful life of assets	Ongoing
		Maintain and upgrade assets (Les Escoumins wharf) in accordance with financial self-sufficiency criteria	Achievement of necessary budget surpluses to enable the upgrading of assets	Ongoing
	Optimize the processing of pilotage cards	Carry out a feasibility study of electronic pilotage cards	Report conclusions	2010–2011

Objectives	Means	Action Strategy	Performance indicators	Schedule
	Establish a risk management policy and program	Identify risks and incorporate risk management into the management model	Table summarizing major risks, including risk quantification (if possible) and action plan Drafting and implementation of the 2011 internal audit program Implementation of the health and safety internal audit program	2010 2010–2011 2010
Maximize efficiency, quality and safety by being attentive to user needs	Maintain the level of communications	Hold regular meetings with users to ensure greater transparency in pilotage operations	Quarterly report to the Board of Directors	Ongoing
	Reduce the accident rate to a minimum	Keep an updated accident/incident policy and implement corrective measures	Reduce the accident rate to less than 1 per 1,000 assignments	2010 and ongoing
	Maintain an adequate number of pilots	With the pilot corporations, estimate the level of maritime traffic and plan pilots' retirements	Accuracy of the forecasts and review of the service level	Ongoing
	Upgrade capital assets	Review the replacement plan for major assets every year	Efficiency and safety of services to be maintained	Ongoing
	Improve efficiency and reliability of equipment, particularly pilot boats	Continue implementing the preventive maintenance program for facilities (Les Escoumins wharf) and equipment	Minimize major breakdowns and unforeseen expenditures	Ongoing

Objectives	Means	Action Strategy	Performance indicators	Schedule
	Maintain employee efficiency	Continuous training	Quality of work	Ongoing
	Provide quality pilotage services	Develop a program for assessing skills and quality of pilotage services	Satisfaction of users and improvement of skills through identification of corrective measures	2011–2012
		Develop a training program for Port of Montreal apprentice pilots	Training program	2011
		Upgrade the system for evaluating applicants for certificates	Production of an examination booklet and cost reductions	2011 and ongoing
	Provide adequate and safe pilot boarding services	Produce and introduce use of an operations handbook for pilot boats	Operations handbook for pilot boats	2010
		Review pilot boarding procedures	Conclusions of the Committee's report	2010–2011
Comply with Government of Canada policies	Set up a system for evaluating Board members	Work of the Governance and Human Resources Committee	Submission of an evaluation system	2010–2011
	Take environmental issues into consideration in operations and relevant decisions	Analyse environmental issues in relevant files	Development and implementation of procedures	Ongoing
	Comply with cost containment measures introduced by the Treasury Board	Monitor actual expenses in relation to budgets for 2011 and subsequent years	Amounts of dispatch and administrative expenses	2011 and subsequent fiscal years
	Update LPA regulations	Continue carrying out internal reviews of LPA regulations	Publication of new LPA regulations	2010–2011

Objectives	Means	Action Strategy	Performance indicators	Schedule
	Ensure that International Financial Reporting Standards (IFRS) are followed during the 2011 fiscal year	Participate to training courses, consultations with KPMG and sharing of information with other Canadian pilotage authorities	Preparation of 2011 financial statements in accordance with IFRS	2010–Q1 2011
	Prepare quarterly financial statements	Adapt the current presentation format	Compliance of quarterly financial statements with Treasury Board directives	April 2011

Financial Statements and Key Planning Assumptions

ACTUAL 2009 DATA, 2010 FORECAST AND 2011–2015 BUDGET PERIOD

STATEMENT OF OPERATIONS (\$000's)

	ACTUAL	FORECAST	PLAN				
	2009	2010	2011	2012	2013	2014	2015
<u>ASSIGNMENTS</u>	19 611	20 003	20 404	20 812	21 228	21 653	22 085
<u>REVENUES</u>							
Pilotage charges	62 520	63 826	66 242	69 409	72 527	74 403	76 124
Interest and other revenues	366	691	74	74	74	74	75
<u>TOTAL REVENUES</u>	62 886	64 517	66 316	69 483	72 601	74 477	76 199
<u>DIRECT EXPENSES</u>							
Pilot fees, salaries and benefits	48 092	50 129	52 318	54 510	56 942	59 439	61 865
Pilot boat operating costs	7 019	6 905	6 845	7 389	7 776	8 338	8 726
	55 111	57 034	59 163	61 899	64 718	67 777	70 591
<u>GROSS PROFIT</u>	7 775	7 483	7 153	7 584	7 883	6 700	5 608
<u>ADMINISTRATIVE AND OPERATIONAL EXPENSES</u>							
Administration	2 894	2 810	2 773	2 717	2 710	2 931	2 910
Dispatch Centre	1 679	1 766	1 814	1 918	1 968	2 052	2 086
Financial cost	7	5	5	5	5	5	5
	4 580	4 581	4 592	4 640	4 683	4 988	5 001
<u>NET INCOME</u>	3 195	2 902	2 561	2 944	3 200	1 712	607

BALANCE SHEET

(\$000's)

	ACTUAL	FORECAST	PLAN				
	2009	2010	2011	2012	2013	2014	2015
<u>ASSETS</u>							
Current assets							
Cash and investments	4 230	6 545	5 937	6 883	8 248	10 975	12 615
Accounts receivable	7 284	7 416	7 677	8 006	8 320	8 508	8 687
	<u>11 514</u>	<u>13 961</u>	<u>13 614</u>	<u>14 889</u>	<u>16 568</u>	<u>19 483</u>	<u>21 302</u>
Capital Assets	9 000	9 824	13 489	16 139	16 359	16 459	16 559
Less: accumulated depreciation	(4 758)	(4 890)	(5 264)	(5 831)	(4 107)	(4 981)	(5 871)
	<u>4 242</u>	<u>4 934</u>	<u>8 225</u>	<u>10 308</u>	<u>12 252</u>	<u>11 478</u>	<u>10 688</u>
Total assets	<u>15 756</u>	<u>18 895</u>	<u>21 839</u>	<u>25 197</u>	<u>28 820</u>	<u>30 961</u>	<u>31 990</u>
<u>LIABILITIES</u>							
Short term							
Accounts payable	<u>7 877</u>	<u>8 114</u>	<u>8 410</u>	<u>8 777</u>	<u>9 140</u>	<u>9 569</u>	<u>9 941</u>
Long-term							
Employee future benefits	<u>811</u>	<u>811</u>	<u>898</u>	<u>945</u>	<u>1 005</u>	<u>1 005</u>	<u>1 055</u>
<u>EQUITY OF CANADA</u>							
Contributed capital	2 479	2 479	2 479	2 479	2 479	2 479	2 479
Retained earnings	<u>4 589</u>	<u>7 491</u>	<u>10 052</u>	<u>12 996</u>	<u>16 196</u>	<u>17 908</u>	<u>18 515</u>
	<u>7 068</u>	<u>9 970</u>	<u>12 531</u>	<u>15 475</u>	<u>18 675</u>	<u>20 387</u>	<u>20 994</u>
Total liabilities and Equity of Canada	<u>15 756</u>	<u>18 895</u>	<u>21 839</u>	<u>25 197</u>	<u>28 820</u>	<u>30 961</u>	<u>31 990</u>
Working capital at year end	<u>3 637</u>	<u>5 847</u>	<u>5 204</u>	<u>6 112</u>	<u>7 428</u>	<u>9 914</u>	<u>11 361</u>

STATEMENT OF CONTRIBUTED CAPITAL (\$000's)

	ACTUAL	FORECAST	PLAN				
	2009	2010	2011	2012	2013	2014	2015
Balance at start of the period	2 479	2 479	2 479	2 479	2 479	2 479	2 479
Variation during the year	-	-	-	-	-	-	-
Balance at the end of the period	2 479	2 479	2 479	2 479	2 479	2 479	2 479

STATEMENT OF RETAINED EARNINGS (\$000's)

	ACTUAL	FORECAST	PLAN				
	2009	2010	2011	2012	2013	2014	2015
Balance at start of the period	1 394	4 589	7 491	10 052	12 996	16 196	17 908
Net income for the period	3 195	2 902	2 561	2 944	3 200	1 712	607
Balance at the end of the period	4 589	7 491	10 052	12 996	16 196	17 908	18 515

CASH FLOW STATEMENT (\$000's)

	ACTUAL	FORECAST	PLAN				
	2009	2010	2011	2012	2013	2014	2015
<u>OPERATING ACTIVITIES</u>							
Net income (loss) for the year	3 195	2 902	2 561	2 944	3 200	1 712	607
Non-cash items :							
Amortization	320	132	374	567	676	874	890
Changes in long-term employee future benefits	92	--	87	47	60	--	50
	<u>3 607</u>	<u>3 034</u>	<u>3 022</u>	<u>3 558</u>	<u>3 936</u>	<u>2 586</u>	<u>1 547</u>
Decrease (increase) in accounts receivable	514	(132)	(261)	(329)	(314)	(188)	(179)
Increase (decrease) in accounts payable	(350)	238	296	367	363	429	372
	<u>3 771</u>	<u>3 140</u>	<u>3 057</u>	<u>3 596</u>	<u>3 985</u>	<u>2 827</u>	<u>1 748</u>
<u>INVESTMENT ACTIVITIES</u>							
Additions to fixed assets	(3 293)	(825)	(3 665)	(2 650)	(2 620)	(100)	(100)
<u>FINANCING ACTIVITIES</u>	--	--	--	--	--	--	--
<u>CASH</u>							
Variation for the year	478	2 315	(608)	946	1 365	2 727	1 640
Balance, beginning of the year	3 752	4 230	6 545	5 937	6 883	8 248	10 975
Balance, end of the year	<u>4 230</u>	<u>6 545</u>	<u>5 937</u>	<u>6 883</u>	<u>8 248</u>	<u>10 975</u>	<u>12 615</u>

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 tariff increases of between 0% and 2.35% for the years from 2010 to 2015 in accordance with the LPA's financial obligations and the objective of maintaining financial self-sufficiency.

While contract pilot boat revenues and expenses are directly related to the number of pilot boarding services provided for ships, dispatch centre and administrative expenses and costs are relatively fixed and do not vary according to the volume of services provided.

The revenue from pilot boats operated by the LPA in Les Escoumins is directly related to the Escoumins base's expenditures, increased by 4.80%. The tariffs charged by the LPA for its pilot boats were revised on January 1, 2010, to reflect the updated Les Escoumins' cost structure.

The drafting of budget estimates (2011 to 2015) is based on the following key assumptions: estimated Consumer Price Index prices, estimated volume of maritime traffic, pay scales of pilots, and approval of new tariff increases for future years.

Any variation in one or more of these assumptions will result in a favorable or unfavorable change in the Authority's financial position. Each 1% variation in the tariff represents about \$550,000 in revenue, whereas any 1% variation in the fees of pilots employed or on contract represents a variation of about \$485,000. This high percentage of variable costs gives the LPA substantial financial flexibility.

Pilots' fees account for the majority of LPA expenses and are the direct result of agreements negotiated by the two pilot corporations and the LPA.

Proper execution of the plan depends on the 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 there could be an interruption of service.

2011 CAPITAL BUDGET

Acquisition of Capital Assets and Capital Budget

(\$ 000's)

	ACTUAL	BUDGET	FORECAST	PLAN				
	2009	2010	2010	2011	2012	2013	2014	2015
Wharf and road	0	2 000	1 000	3 500	0	0	0	0
Pilot boat	2 963	0	0	0	2 500	2 500	0	0
Communication equipment	8	0	0	0	0	0	0	0
Computer equipment and software	54	20	60	40	150	120	0	0
Other capital items	10	90	190	0	0	0	100	100
Waiting-room	259	65	140	125	0	0	0	0
	<u>3 294</u>	<u>2 175</u>	<u>1 390</u>	<u>3 665</u>	<u>2 650</u>	<u>2 620</u>	<u>100</u>	<u>100</u>