

LAURENTIAN PILOTAGE AUTHORITY

SUMMARY OF THE CORPORATE PLAN

2007-2011

SUMMARY OF THE OPERATING BUDGET

2007

SUMMARY OF THE CAPITAL BUDGET

2007

FEBRUARY 2007

Plan summary

The strategic direction of the Laurentian Pilotage Authority (the Authority) has been developed based on its mandate and the *Canada Marine Act* and includes the following components:

- Achieve or maintain financial self-sufficiency
- Optimize the efficiency of the pilotage system
- Implement the Minister of Transport's, Infrastructure and Communities recommendations regarding the review of certain aspects of pilotage
- Follow the recommendations issued by the Office of the Auditor General of Canada further to the latest special examination

The Authority's priority is to achieve or maintain financial self-sufficiency. To achieve this key objective, the Authority must continue to review its expenses and keep its operational, administrative and human resource management systems up to date. A tariff increase will also help to achieve this objective by augmenting revenues. Because variations in marine traffic have a considerable impact on financial results, Transport Canada and the marine industry have been asked to prepare traffic volume forecasts.

In order to improve the effectiveness of the pilotage system and more fully meet client expectations, the Authority will continue to maintain a close relationship with users and pilot groups. Every effort is made to maintain and continuously improve service quality.

The Authority is carrying out the Minister of Transport's, Infrastructure and Communities recommendations with respect to certain aspects of pilotage. A work plan for the implementation of the recommendations has been drawn up. Certain issues are currently under review; others have already been reviewed.

During the last special examination required under the *Financial Administration Act*, the Office of the Auditor General issued certain recommendations, which the Authority intends to adopt.

Mandate of the Authority

The mandate of the Laurentian Pilotage Authority is to:

- ⇒ Operate, maintain and administer, in the interest of navigation safety, an efficient pilotage service in Canadian waters in the Laurentian region.
- ⇒ Continue to charge fair and reasonable pilotage tariffs that reflect the Authority's need to generate revenue which, when combined with revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis.

Profile of the Authority

BACKGROUND

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

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 is made up of a chair and six other members (two pilots, two shipping industry representatives and two members of the general public).

POWERS

To carry out its responsibilities, the Authority has established general regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, for the purpose of

- ⇒ Establishing compulsory pilotage areas.
- ⇒ Prescribing ships or classes of ships subject to compulsory pilotage.
- ⇒ Prescribing classes of pilot licences and pilotage certificates that may be issued.
- ⇒ Prescribing 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 operations.
- ⇒ 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, in order to settle 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.

By regulation, the Authority has established three compulsory pilotage districts: District 1-1 for the Port of Montreal, District 1 for the navigable waters between Montreal and Quebec City, and District 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 265 nautical miles between Montreal and Les Escoumins, and another 70 nautical miles on the Saguenay River.

The Authority has also adopted regulations governing the establishment, operation and management of pilotage services in the region's non-compulsory waters (District 3).

Pilotage services are provided for all ships subject to compulsory pilotage by employee pilots in the Port of Montreal and contract pilots hired by the Authority in Districts 1 and 2. The boarding of pilots is effected using pilot boats belonging to the Authority or to private sector pilots under contract with the Authority. Pilots are assigned to ships by the Authority's dispatchers. All services provided at Les Escoumins, Quebec City and Montreal are managed from the head office located in Montreal.

The Authority must co-ordinate its efforts and operations with a number of other organizations: the Atlantic Pilotage Authority for Pilotage District 3; the St Lawrence Seaway Authority, which operates the St Lambert Lock; and the Canadian Coast Guard, which manages marine activities—navigational aids and dredging and icebreaking services, Marine Communications and Traffic Services; the various ports in the region; and associations representing agents, owners and operators of Canadian and foreign ships.

Pilotage services are provided by pilots represented by one of the following three organizations:

- ⇒ For Port of Montreal pilots, the Canadian Marine Officers Union, (District 1-1).
- ⇒ Pilotes du Saint-Laurent central inc (District 1)
- ⇒ Corporation des pilotes du Bas Saint-Laurent (District 2)

Port of Montreal pilots are employees of the Authority, whereas pilots working for Pilotes du Saint-Laurent central inc and the Corporation des pilotes du Bas Saint-Laurent are hired on a contractual basis.

The pilot dispatch system was designed to provide users with an efficient service. Since July 2004, the Authority has been operating a single dispatch centre in Montreal that is responsible for dispatching pilots to all districts.

Pilot boarding services at the Les Escoumins station are provided by Authority staff by means of two pilot boats belonging to the Authority and a third belonging to Scotiabank. At the other boarding stations, ie, Quebec City, Trois Rivières, Sorel, Lanoraie and Montreal, pilot boat services are contracted out to private companies.

Main objectives, methods, action strategies and performance indicators

The Authority has set the following key objectives in order to carry out its mandate.

Objectives	Means	Action Strategy	Performance Indicators	Schedule
Achieve or maintain financial self-sufficiency	Keep expenditures within budget	Monthly expenditure audits (management)	Monthly graph indicating progress in terms of operating results	Ongoing
		Quarterly audits of revenues and expenditures (Audit Committee)	Committee members' comments	Quarterly
	Manage all aspects of operations cost-effectively	Promote responsibility and encourage innovative decision making	Positive outcome of innovations	Ongoing
	Increase revenues by publishing fair and reasonable tariffs	Plan tariffs for subsequent years, supported by presentations justifying increases, and consult with users.	Achievement or maintenance of a balanced budget while working toward the creation of approximately \$2M in liquidity for 2009	October 2006

Objectives	Means	Action Strategy	Performance Indicators	Schedule
	Reduce costs arising from ownership and operation of assets	Review the use of, and need for, our main assets	Cost reduction	December 2007
Maximize efficiency and safety by being attentive to client 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
	Improve winter service	Negotiate improvements to the PSLC contract	Agreement between LPA and PSLC	Fall 2006 and 2007
	Maintain a low incident rate	Continue providing training for pilots and establish corrective measures	Maintain an incident rate of less than 0.1%	Ongoing
	Modernize capital assets	Review the major assets replacement plan every year	Efficiency and safety of services maintained	Ongoing
	Improve efficiency and reliability of equipment, particularly pilot boats	Maintain the preventive maintenance program for facilities and equipment	Fewer major breakdowns and unforeseen expenditures	Ongoing

Objectives	Means	Action Strategy	Performance Indicators	Schedule
	Maintain employee efficiency	Continuous training	Quality of work	Ongoing
Implement the Minister of Transport's, Infrastructure and Communities recommendations with regard to reviewing some aspects of pilotage	Make regulatory changes in line with the recommendations of the analysis of the risks associated with use of a second pilot and the winter navigation period	Follow up the regulatory process and provide stakeholders with the information they require	Acceptance by the various stakeholders of the proposed regulations	Year 2007
Follow up the recommendations of the Office of the Auditor General in its "Special Examination Report" dated July 20, 2005	Obtain the necessary government support	Ensure that Transport Canada completes the financial strategy and delivers it to government authorities	Acceptance of strategy by the various departments	Fall 2006 and summer 2007
		Review of certain contractual aspects of pilotage service contracts	Results of negotiations	Year 2007
	Continue to improve governance practices	Review membership and appraisal of Board of Directors and Audit Committee	Membership of Board and Audit Committee	Ongoing
		Conduct internal audits	Implementation of the action plan to improve management	Ongoing

Objectives	Means	Action Strategy	Performance Indicators	Schedule
	Improve strategic planning process	Set more specific objectives and introduce better performance indicators	Acceptance of objectives and indicators by Board members	Year 2006
		Revise communications plan	Receptiveness of the various stakeholders	Year 2006
		Revise and update the emergency plan	Functional plan used by stakeholders	Year 2007
	Maintain a safe pilotage service	Assess pilots' performance and the quality of services	Keep files on each pilot up to date	Ongoing
	Provide economical, efficient service	Analyse pool of available pilot candidates	Have enough candidates to provide efficient service	Ongoing
		Better plan and manage the number of pilots and apprentices	Have a sufficient number of pilots to avoid shipping delays	Ongoing
		Establish inspection mechanisms for contract pilot boats	Reduce the number of incidents	Ongoing
Plan for replacement of pilot boats at Les Escoumins		Replacement plan acceptable to stakeholders	Year 2007	

Carrying out the Minister's recommendations will entail additional expense, and the Authority has limited financial resources. Several of the recommendations must be completed within the next few years.

SENSITIVITY ANALYSIS

Revenues from pilotage charges and the cost of pilotage services are directly related to the size and draught of ships as well as hours of pilotage. The number of vessels using the St Lawrence River has a definite impact on revenues and the number of pilot assignments (*Ref: Statement of Operations*).

Revenue and expenses for pilot boats under contract are directly related to the number of services provided for ships, whereas administrative expenses and dispatch centre costs are more or less fixed and do not vary depending on the volume of services provided. Pilotage revenues are largely based on the size of the ships for which services are provided. Under an earlier Canadian Transportation Agency ruling, the maximum billable length is set at 7.5 times the vessel's beam. Any change to this parameter would have an impact on revenue (*Ref: Statement of Operations*).

This budget and those of subsequent years (2008 to 2011) are based on major assumptions, such as estimated consumer price index variations, marine traffic estimates, pilot compensation, and approval of new tariff increases for 2007 and subsequent years (*Ref: Major Planning Assumptions and Action Plan*).

Any change in one or more of these assumptions will have a definite positive or negative impact on the Authority's financial position. For example, each 1% increase or decrease in the tariff represents about \$625,000, while a 1% change in the fees of staff and contract pilots represents about \$580,000.

The collective agreement with Port of Montreal pilots will expire on December 31, 2009. The service contract with Pilotes du Saint-Laurent Central inc expires on June 30, 2007. The increase awarded by an adjudicator, effective July 1, 2002, is 8%. The contract with Pilotes du Bas Saint-Laurent expires on December 31, 2006.

Results for 2007 and subsequent years will be affected by the achievement or non-achievement of the Authority's objectives with respect to pilot fees and salaries.

In the case of contract pilots, if the parties do not reach an agreement, they will submit their offers to an arbitrator, as stipulated in section 148 of the *Canada Marine Act, Statutes of Canada, 1997–98, Chapter 10*, which came into effect on October 1, 1998. The arbitrator shall select one of the offers in its entirety. If the arbitrator chooses the pilot corporation's offer, the projected financial results will probably not be achieved.

The Authority is planning tariff increases of between 4.50% and 0.00% for the years 2007 to 2011. This choice has been made in the light of the Authority's forecast

financial obligations and the objective of achieving and maintaining financial self-sufficiency.

This plan will be implemented provided the assumptions used in its preparation are realized. Should the Canadian Transportation Agency not grant the tariffs requested, or the Minister of Finance not grant borrowing authority, the Authority will be unable to honour its contractual commitments, which could result in an interruption of service.

Financial Statements and Major Planning Assumptions

ACTUAL 2005 DATA, 2006 BUDGET AND 2007-2011 FINANCIAL FORECASTS

8.1 STATEMENT OF OPERATIONS (\$000's)

	ACTUAL	FORECAST	PLAN				
	2005	2006	2007	2008	2009	2010	2011
<u>ASSIGNMENTS</u>	22,197	24,688	26,169	26,169	26,169	26,169	26,169
<u>REVENUES</u>							
Pilotage charges	56,451	69,287	75,553	75,871	77,566	77,917	77,727
Interest and other revenue	54	31	37	38	38	38	38
<u>TOTAL REVENUE</u>	56,505	69,318	75,590	75,909	77,604	77,955	77,765
<u>DIRECT EXPENSES</u>							
Pilot fees, salaries and benefits	50,413	57,973	63,863	64,198	63,421	62,599	63,682
Pilot boat operating costs	5,261	6,072	6,061	6,373	6,329	6,650	6,454
	55,674	64,045	69,924	70,571	69,750	69,249	70,136
<u>NET PROFIT (LOSS)</u>	831	5,273	5,666	5,338	7,854	8,706	7,629
<u>ADMINISTRATIVE AND OPERATIONALEXPENSES</u>							
Administration	2,201	2,324	2,441	2,348	2,350	2,366	2,374
Dispatch Centres	1,920	1,829	2,000	1,985	1,939	1,980	2,021
Financial costs	24	50	80	20	--	--	--
	4,145	4,203	4,521	4,353	4,289	4,346	4,395
<u>NET PROFIT (LOSS)</u>	(3,314)	1,070	1,145	985	3,565	4,360	3,234

BALANCE SHEET
(\$000's)

	ACTUAL	FORECAST	PLAN				
	2005	2006	2007	2008	2009	2010	2011
ASSETS							
Current assets							
Cash and investments	--	--	--	--	1,783	4,444	7,889
Accounts receivable	10,869	10,345	11,224	11,617	11,907	11,907	11,907
	<u>10,869</u>	<u>10,345</u>	<u>11,224</u>	<u>11,617</u>	<u>13,690</u>	<u>16,351</u>	<u>19,796</u>
Trust Account	1,060	1,990	--	--	--	--	--
Capital Assets	5,783	5,883	6,008	6,108	6,208	8,308	8,408
Less: accumulated depreciation	(4,229)	(4,610)	(4,975)	(5,336)	(5,600)	(5,798)	(5,821)
	<u>2,614</u>	<u>3,263</u>	<u>1,033</u>	<u>772</u>	<u>608</u>	<u>2,510</u>	<u>2,587</u>
	<u>13,483</u>	<u>13,608</u>	<u>12,257</u>	<u>12,389</u>	<u>14,298</u>	<u>18,861</u>	<u>22,383</u>
LIABILITIES							
Short-term							
Bank indebtedness	1,110	3,363	2,923	1,862	--	--	--
Account payable	16,988	14,970	12,990	13,282	13,581	13,887	14,199
	<u>18,098</u>	<u>18,333</u>	<u>15,913</u>	<u>15,144</u>	<u>13,581</u>	<u>13,887</u>	<u>14,199</u>
Long-term							
Other liability	1,104	--	--	--	--	--	--
Accrued termination benefits	851	956	1,073	1,195	1,322	1,454	1,591
Charlevoix pilot boat financing	1,196	1,015	822	616	396	161	--
Arbitral decision (Marcheterre) financing	--	--	--	--	--	--	--
	<u>3,151</u>	<u>1,971</u>	<u>1,895</u>	<u>1,811</u>	<u>1,718</u>	<u>1,615</u>	<u>1,591</u>
EQUITY OF CANADA							
Contributed capital	2,479	2,479	2,479	2,479	2,479	2,479	2,479
Retained earnings (deficit)	(10,245)	(9,175)	(8,030)	(7,045)	(3,480)	880	4,114
	<u>(7,766)</u>	<u>(6,696)</u>	<u>(5,551)</u>	<u>(4,566)</u>	<u>(1,001)</u>	<u>3,359</u>	<u>6,593</u>
	<u>13,483</u>	<u>13,608</u>	<u>12,257</u>	<u>12,389</u>	<u>14,298</u>	<u>18,861</u>	<u>22,383</u>
	<u>(7,229)</u>	<u>(7,988)</u>	<u>(4,689)</u>	<u>(3,527)</u>	<u>109</u>	<u>2,151</u>	<u>5,276</u>

Working capital at year end

STATEMENT OF CONTRIBUTED CAPITAL
(\$000's)

	ACTUAL	FORECAST	PLAN				
	2005	2006	2007	2008	2009	2010	2011
Balance at start of fiscal period	2,479	2,479	2,479	2,479	2,479	2,479	2,479
Variation during the year	-	-	-	-	-	-	-
	<u>2,479</u>	<u>2,479</u>	<u>2,479</u>	<u>2,479</u>	<u>2,479</u>	<u>2,479</u>	<u>2,479</u>

STATEMENT OF RETAINED EARNINGS (DEFICIT)
(\$000's)

	ACTUAL	FORECAST	PLAN				
	2005	2006	2007	2008	2009	2010	2011
Balance at start of fiscal period	(6,931)	(10,245)	(9,175)	(8,030)	(7,045)	(3,480)	880
Profit (loss) for the period	(3,314)	1,070	1,145	985	3,565	4,360	3,234
Balance at end of fiscal period	<u>(10,245)</u>	<u>(9,175)</u>	<u>(8,030)</u>	<u>(7,045)</u>	<u>(3,480)</u>	<u>880</u>	<u>4,114</u>

CASH FLOW STATEMENT (\$'000's)

	ACTUAL	FORECAST	PLAN				
	2005	2006	2007	2008	2009	2010	2011
<u>OPERATING ACTIVITIES</u>							
Profit (loss) for the year	(3,314)	1,070	1,145	985	3,565	4,360	3,234
Non-cash items :							
Depreciation	357	381	365	361	264	198	23
(Decrease) increase in termination benefit reserve	48	105	117	122	127	132	137
	<u>(2,909)</u>	<u>1,556</u>	<u>1,627</u>	<u>1,468</u>	<u>3,956</u>	<u>4,690</u>	<u>3,394</u>
Decrease (increase) in accounts receivable	(470)	524	(879)	(393)	(290)	--	--
Increase (decrease) in accounts payable	3,868	(2,018)	(1,980)	292	299	306	312
Increase (decrease) in other liability	1,104	(1,104)	--	--	--	--	--
	<u>1,593</u>	<u>(1,042)</u>	<u>(1,232)</u>	<u>1,367</u>	<u>3,965</u>	<u>4,996</u>	<u>3,706</u>
<u>INVESTMENT ACTIVITIES</u>							
Additions to fixed assets	(46)	(100)	(125)	(100)	(100)	(2 100)	(100)
Decrease (increase) in Trust Account	(1,060)	(930)	1,990	--	--	--	--
<u>FINANCING ACTIVITIES</u>							
Arbitral decision (Marcheterre) financing	--	--	1,200	--	--	--	--
Decrease in financing of pilot boat <i>Charlevoix</i> *	(170)	(181)	(193)	(206)	(220)	(235)	(161)
of arbitral decision (Marcheterre)	--	--	(1,200)	--	--	--	--
<u>NET OF CASH</u>							
Increase (Decrease) of cash	317	(2,253)	440	1,061	3,645	2,661	3,445
Cash (bank loans) at start of year	(1,427)	(1,110)	(3,363)	(2,923)	(1,862)	1,783	4,444
Cash (bank loans) at year end	<u>(1,110)</u>	<u>(3,363)</u>	<u>(2,923)</u>	<u>(1,862)</u>	<u>1,783</u>	<u>4,444</u>	<u>7,889</u>

* Capital only, interest included in profit of loss

Notes to Financial Statements (cont'd)

Capital Acquisitions

STATEMENT OF CAPITAL EXPENDITURES (000's)

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>PLAN</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Pilot boat	5	10	10	10	10	2,010	10
Communication equipment	8	10	10	10	10	10	10
Computer equipment and software	30	45	70	45	45	45	45
Other capital items	3	35	35	35	35	35	35
	<u>46</u>	<u>100</u>	<u>125</u>	<u>100</u>	<u>100</u>	<u>2,100</u>	<u>100</u>

Operating budget 2007

SUMMARY

The Authority's operating budget for the year ending December 31, 2007 is appended. The Authority forecasts a gross profit of \$5,666,000 for the year and a net profit of \$1,145,000 after deducting administrative, financial and operating expenses. Non-cash items are estimated at \$482,000; capital expenditures will account for an estimated \$125,000; and \$193,000 will be used to reimburse the Charlevoix pilot boat financing. The Authority will withdraw a net sum of \$1,990,000 from the trust account to reimburse creditors. The surplus for 2007 will therefore be \$3,299,000.

**OPERATING BUDGET
2007**

(\$000'S)

REVENUES

Pilotage charges	75,553
Other revenues	37
	<u>75,590</u>

EXPENSES

Pilot fees, salaries and benefits	63,863
Pilot boat operating costs	6,061
	<u>69,924</u>

Gross profit (loss)

5,666

Administrative expenses	2,441
Dispatch centres	2,000
Financing costs	80
	<u>4,521</u>

Net profit (loss)

1,145

Capital budget

CAPITAL BUDGET 2007

SUMMARY

The Authority's capital expenditure budget for 2007 is \$125,000. This amount will be used to cover such minor capital expenditures as may be required, for buildings, pilot boats, communications equipment, computers, boarding facilities, the Anse aux Basques wharf, furniture and fixtures.

**CAPITAL BUDGET
2007**

(000's)

OTHER CAPITAL ITEMS

Buildings, communication equipment,
computer hardware, boarding facilities,
Anse aux Basques wharf,
furniture and fixtures

125

TOTAL :

125