

Defence Construction Canada



Corporate Plan 2003–2004 to 2007–2008



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Executive Summary

With services revenue forecasted to increase 19% over the previous year, fiscal 2002–03 was another successful year for Defence Construction Canada (DCC). As the sole service provider to the Department of National Defence (DND), DCC expects to encourage full use of its services within the scope of its mandate throughout the next fiscal year and, consequently, expects to see continued growth in its services revenue. As well for fiscal 2003–04, DCC remains committed to building on previous initiatives in the strategic areas of governance, service delivery, stakeholder partnerships and corporate services.

This plan highlights several corporate initiatives for fiscal 2003–04. In keeping with its corporate vision statement, DCC has formally committed resources to encouraging **innovation** by employees, by establishing

an award that recognizes accomplishment in this area. Communications, specifically in the area of **client relations**, will be enhanced to develop further the relationships between DND client groups and the Corporation. As part of its mandate, DCC will continue to be involved with industry associations such as the Association of Consulting Engineers, with which it signed a memorandum of understanding last year, and will continue to be open to opportunities for **partnerships**. Like other businesses in Canada, DCC is preparing for the demographic shift set to happen over the next 10 years and consequently will be taking a strategic look at its **human resources** capability to ensure that it has the skills to service future DND needs. These initiatives build on the work DCC has accomplished over the past 50 years and will prepare the Corporation to face the challenges of the next five years.



Corporate Profile

Vision

Building on 50 years of partnership in delivering defence projects, DCC's vision is to become the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

Mission

To provide high-quality, timely and efficient contract management and related services to support the Department of National Defence in the long-term development and management of its facilities infrastructure.

Mandate

In 1951, DCC was created with a mandate to provide a wide variety of property-related services to support DND in the management of its facilities infrastructure needs. Since that time, DCC has ensured the integrity of its procurement process, developed and managed contracts that balance the interests of both the Crown and the service providers, and delivered timely and cost-effective projects to DND. This service has assisted DND in fulfilling its mission "to defend Canada and Canadian interests and values while contributing to international peace and security."

Operating Principles

DCC conducts its operations in accordance with six important principles. These are as follows:

1. to protect the interests of the Crown;
2. to carry out the work in an efficient and effective manner, and at the minimum administrative cost consistent with primary objectives;
3. to manage contractual relationships in a fair and reasonable manner;
4. to maintain flexibility in operational structure, systems and practices in order to react to changing circumstances and client needs;
5. to conduct operations in a way that contributes to the protection of the natural environment; and
6. to maintain human resources management practices that advocate and advance the well-being of employees.



Legislation

Defence Construction (1951) Limited, created in 1951 by Letters Patent issued pursuant to the *Defence Production Act*, was incorporated under the *Companies Act* of 1934 and was granted continuance under the *Canada Business Corporations Act* of 1978. The mandate, as set out in Letters Patent, and reaffirmed by the Minister of Public Works and Government Services following a mandate review in May 2001, acknowledges the flexibility of services offered by the Corporation. The Corporation, commonly known as Defence Construction Canada (DCC), is accountable to Parliament through the Minister of Public Works and Government Services.

History

DCC continues to do the contracting and contract management for most infrastructure work on Canadian military bases and stations. The Corporation has managed successive generations of projects, such as the construction of the original Distant Early Warning (DEW) Line in Canada's Arctic and the construction of the North American Air Defence Modernization Program, which replaced the DEW Line in the late 1980s and early 1990s. DCC currently manages the demolition and environmental clean-up of redundant DEW Line facilities. In addition, DCC put in place the infrastructure required to meet Canada's NATO commitments in Europe and provides similar services to Canada's NATO allies with establishments in Canada.

DCC's Public

The nature of DCC's day-to-day business does not require the Corporation to interact with the general public. The groups that execute the contracts DCC administers constitute DCC's public—these are the private sector consultants and contractors.

DCC's Client—the Department of National Defence

DCC deals, operationally and administratively, with many organizations within DND. The Infrastructure and Environment Group (IE) of National Defence Headquarters (NDHQ) is the principal point of contact for the centrally managed capital construction program. Since the chiefs of maritime, land and air staffs are each responsible for their own construction and maintenance programs, DCC deals with their organizations, primarily at the base/wing level. DCC contracts for and delivers consulting, construction and environmental services on behalf of the Personnel Support Agency, the Canadian Forces Housing Agency (CFHA), Defence Research and Development Canada, the North Warning System Office (NWSO), the national level joint engineering operations staff (J3 Engineer) and NATO Forces with establishments in Canada. In the course of its day-to-day work, DCC's site staff interacts closely with IE staffs at DND bases and headquarters across the country.



Governance

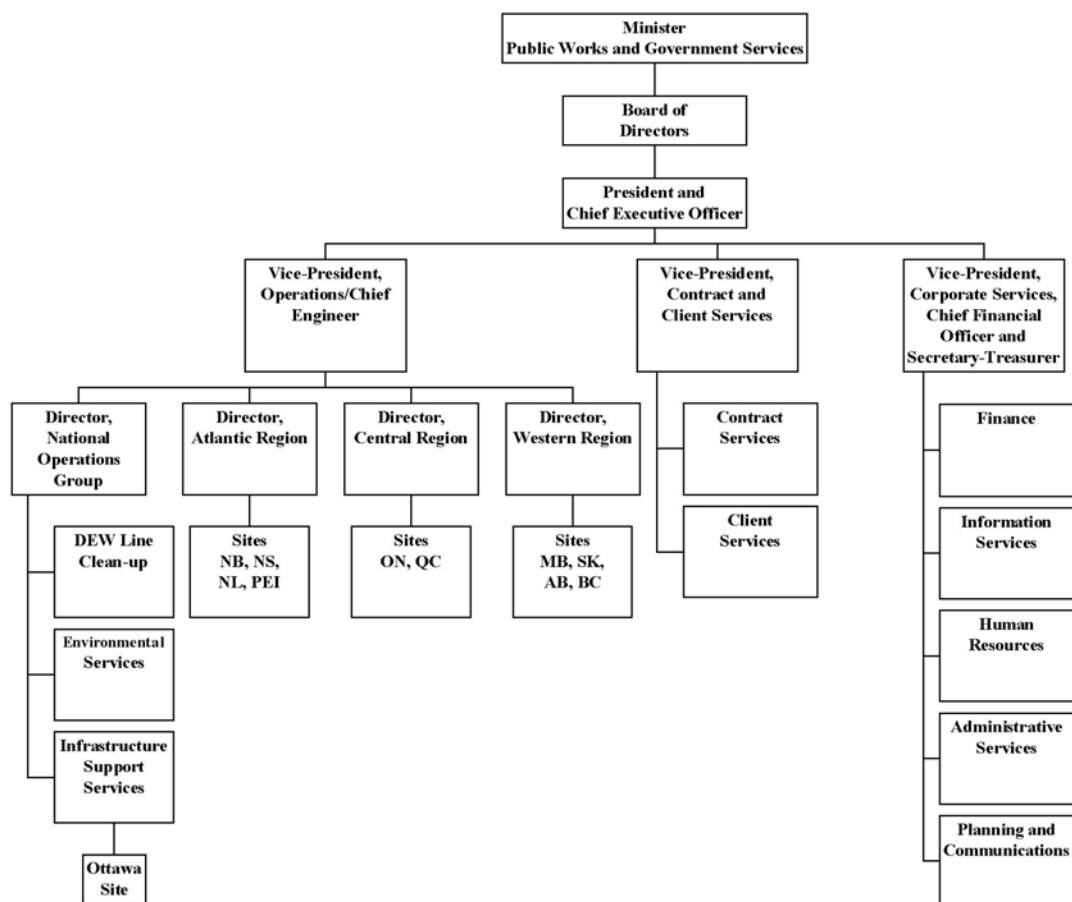
Since DCC is a Crown corporation, a Board of Directors, appointed by the Governor-in-Council on the recommendation of the Minister, governs DCC. The Board's make-up reflects public and private sector experience, including engineering and construction knowledge, law and federal public sector policy expertise.

Corporate Funding and Equity Structure

The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The majority of these (25) are held by the Minister of Public Works and Government Services, and each member of the Board of Directors holds one qualifying share. DCC receives no appropriation from Parliament; all revenues are earned from services provided to DND.

Organizational Structure

DCC's executive consists of the President and Chief Executive Officer; the Vice-President, Operations/Chief Engineer; the Vice-President, Corporate Services, Chief Financial Officer and Secretary-Treasurer; and the Vice-President, Contract and Client Services. There are three main divisions: Contract Services (CSD), Corporate Services and Operations, and all are based in Ottawa. DCC has three regional offices and 28 site offices located where there are Canadian Forces (CF) bases and wings. In addition, DCC maintains remote offices in the Arctic as required for the DEW Line Clean-up Project and one site office in Bosnia- Herzegovina, supporting Operation PALLADIUM. This corporate structure is expected to remain in place throughout fiscal 2003–04.





Strategic Issues

The Client

During the 1990s, DND reduced spending on infrastructure as one of many responses to departmental resource constraints. Internally, for the past several years, DND has been devolving authority down through its hierarchy, and DCC has fine-tuned its services to assist in this regard. Since September 11, 2001, there has been a worldwide need for increased security, with pressure on Canada to perform on a level equal to its allies. The Throne Speech, delivered by the Governor General to open the second session of the 37th Parliament of Canada in September 2002, stated that the government will, before the end of its mandate, develop the long-term direction of defence policy and “...ensure that Canada’s military is equipped to fulfill the demands placed on it.” Over the next few years, DCC must be prepared for a possible need to provide increased support to DND for deployed operations and domestic security, as well as for the effects of an increase or decrease in client infrastructure funding. Administratively, the outcome of the devolution process will have an impact on how DCC conducts its business with the different client groups at DND.

DCC Mandate

In the past 10 years, DCC has expanded its service lines beyond the traditional areas of contracting and construction contract management. These non-traditional lines now comprise one third of DCC’s business. Given the range of DCC’s in-house expertise and experience, and the parameters of DCC’s full mandate, DND has the opportunity to take advantage of a wide range of capabilities at DCC. The Corporation stands ready to use the complete scope of its mandate to respond to the government’s national defence requirements.

DCC Strategic Themes

As a result of the strategic planning session that preceded the creation of this plan, it was concluded that the initiatives that DCC undertakes would be organized under four strategic themes. This structure will create a thread of continuity throughout all future plans, enhancing the means for tracking corporate development. These strategic themes are corporate governance and leadership, service delivery, managing stakeholder

The Industry

According to the Canadian Construction Association, construction activity in both the residential and the commercial sectors will slow in fiscal 2003–04. In the short term, this will mean that there is an available labour supply in the construction industry, and labour issues should not have a significant impact on DCC’s ability to complete projects. However, over the next five years, employment growth in the construction industry is expected to slow down from 3.1% in 2002 to 1.6% in 2005, mainly due to the retirement of the ageing workforce. This fact is not expected to affect DCC’s planning environment significantly.

The Workforce

DCC is cognizant of the national demographic influences that will affect the Corporation’s human resources capability. The baby boomer population is expected to start retiring over the next five years, which will create a shortage of available experienced personnel. According to the Treasury Board report, *Ageing of the Public Service Workforce*, the public service needs to increase hiring by 28% just to maintain its current staff levels over the next 10 years, an indication of the aggressive hiring that will be taking place. DCC needs to prepare for this upcoming knowledge drain and subsequent competition for qualified people, and take measures to ensure that it remains a competitive employer.

relationships, and corporate services and support. The positive outcome of each of these themes reflects the goals of the Corporation’s overall strategy. Consequently, all initiatives within the corporate plan and business plans can easily be defined within one of these areas. As new corporate documents such as the risk management framework are created, they will be defined under this new thematic approach.



Corporate Governance and Leadership

Good corporate governance is an essential foundation of successful business, especially in the public sector, where the notion of public service demands accountability, fairness, trust and transparency of operations. The framework for corporate governance is set at the board level and the established principles are carried out at the management level. Corporate governance is linked to senior management leadership to describe how concepts such as stewardship, risk management and accountability to stakeholders are pushed down from the board to management to employees. The Corporation already has in place a corporate governance framework, which is reviewed each year by the board, and by management in the strategic planning process.

Tracking Past Performance: Governance and Leadership Initiatives, Fiscal 2002–2003

Last year's plan identified several initiatives aimed at improving stewardship.

Firstly, the **strategic planning process** was revised to focus planning activities on meeting client requirements. Furthermore, the planning process was made more comprehensive by including a wider variety of participants in planning working groups.

Secondly, a **risk management framework** was developed in fiscal 2002–03 to enable a systematic review and evaluation of business activities. Although DCC management continues to carry on business using its traditional “hands-on” style, which immediately brings senior expertise to bear on operational issues, the new framework formalizes the practice by identifying risks and documenting the strategy selected to mitigate the potential impacts. Strategic risks to the Corporation have been linked to key strategic planning themes. Risk management decisions will be made in the context of overall corporate planning, and the necessary actions and allocation of resources will be outlined in the corporate plan or in the business plan of the appropriate business unit. A draft version of the framework was used to develop this plan, and the complete system will be implemented in the next planning cycle, starting in September 2003. In addition to the annual review through the corporate planning process, a Risk

Management Committee composed of the President and Vice-Presidents will regularly monitor the risk environment and take interim action, as required.

A third area of concentration in fiscal 2002–03 involved the **communication** of key corporate information to stakeholders—in this case, to DCC's client groups at DND. Corporate communications plays a critical role in demonstrating to stakeholders how DCC is serving their interests. It is important that stakeholders receive relevant and accurate information about corporate activity in a timely and meaningful way. Last year, new tools—including a corporate information kit, a bimonthly external newsletter and plans for an enhanced Web site—were developed to facilitate the sharing of news and service line information.

Lastly, under the corporate governance and leadership theme, DCC advanced its new corporate vision statement by announcing a new corporate award for **innovation**. The award recognizes and rewards innovative practices that improve service to DND by improving internal processes or introducing new service lines. It is hoped that this award, plus encouragement and support from the management team, will make the DCC culture less risk averse and more receptive to innovation.

Building on a Solid Foundation: Governance and Leadership Initiatives, Fiscal 2003–2004

DCC will continue its efforts to improve the **planning process**, started last year, by validating its conclusions about the client's needs and incorporating lessons learned into the 2003 process. Similarly, efforts to improve the flow of corporate information to DND will continue through the **client services** function. Further improvements to the **corporate communications** output will include enhancing the DCC Web page that targets the general public and potential new employees. Throughout fiscal 2003–04, DCC will continue to encourage **innovation** by its employees, and will continue to develop new methods or services to do things better, faster and differently. In addition to the employee award implemented in 2002, DCC will set aside \$125,000 to develop innovative ideas into real service improvements.



Service Delivery

Given DCC's mission to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given DCC in-depth knowledge of client requirements. Even with this niche that DCC has created for itself, the Corporation always strives for continuous improvement. DCC regularly undertakes projects to enhance the maintenance and development of new modes of service delivery.

Tracking Past Performance: Service Delivery Initiatives, Fiscal 2002–2003

Last year's corporate plan identified several initiatives to improve DCC's service delivery for the benefit of DND. These initiatives relate to the continuous improvement of **quality** throughout all of DCC's operations. Work began on a management manual, which provides guidelines for conducting business. This is targeted for completion by the end of fiscal 2002–03. A standard methodology template, comprehensive staff training and a formalized feedback process were developed as quality audit tools for tracking performance in day-to-day operations and for identifying areas for improvement. This new audit process is being incorporated into the DCC system for evaluating the performance of site and regional management.

Finally, to ensure the client receives **best value** under the service billing regime, last year's plan committed DCC to a change in corporate pricing policy aimed at moving DCC from a "low cost" service provider position to the position of "best value" service provider in its niche. This was to be accomplished by ensuring that both cost and revenue are based on competitive market forces rather than simply on the lowest cost option. The first step in implementation involved significantly adjusting employee salary ranges at the start of the fiscal year to address competitive disparity with public service compensation rates. Secondly, the management principle of holding the corporate direct personnel expense mark-up factor to 1.5 was abandoned. The level of business activity allowed the continued use of 1.5 for fiscal 2002–03 budgeting purposes, but future budgets will allow that factor to rise if deemed necessary to maintain an adequate operating contingency fund to manage possible revenue downturns. The inherent level of uncertainty in forecasting the DND program makes this change in policy and practice, as opposed to changes in cost structure and pricing methodology, necessary. The amount of the operating contingency fund, and accumulation or depletion of cash reserves, will vary from year to year, depending on management's evaluation of risk factors.

Performance Indicators, Fiscal 2002–2003

Client Satisfaction

Indicator	Results, Fiscal 2001–2002			Results, Fiscal 2002–2003 to End of 2 nd Quarter		
	Number of surveys	Target	Actual	Number of surveys	Target	Actual
Client satisfaction	862	95.0%	99.6%	331	95.0%	99.3%

DCC regularly tracks client satisfaction as one of its key performance indicators. Client groups within DND provide information through written questionnaires and through face-to-face interviews. At the end of the second quarter of fiscal 2002–03, DCC sent out 331 surveys; 269 were returned. The types of projects surveyed included both contract management and environmental

and specialty services. The survey return rate was 81.3%. Of the surveys returned, 99.3% rated DCC's service as satisfactory. This high rating can be attributed to the proactive measures DCC takes throughout various phases of each project. Such measures include regular meetings with DND client groups at key project milestones to discuss performance issues.



Timeliness of Procurement

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since timeliness of contract award is important both to DND and to the contractors and consultants, this activity is reported as a key performance indicator.

DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. The target represents a reasonable length of time from the point at which the notice of proposed procurement is received from the client, to the time that the contract is awarded to the contractor or consultant. Factors that affect the performance against the targets include changes to the scope and value of the work during the procurement process.

The following two tables demonstrate DCC progress at the end of the second quarter of fiscal 2002–03 in terms of timeliness of construction and consultant procurement. The actual numbers for fiscal 2002–03 reported in this chart are shown as a percentage of how many times the target was met. In the past, DCC has reported the actual average number of days that it has taken to award all of the contracts within each category. However, this method of tracking and reporting was not always a fair representation of performance. DCC believes that tracking and reporting the percentage of contracts that meet the time targets in each category is a more meaningful and objective measure of performance. Thus, the results for fiscal year 2001–02 have been restated to conform with this new method of reporting this performance indicator. For fiscal 2003–04, the performance targets have been updated to reflect this change, with the new target set at 50% (see page 12).

Construction Procurement

Indicator	Results, Fiscal 2001–2002			Results, Fiscal 2002–2003 to End of 2 nd Quarter		
	Number of contracts	Target	Actual % on target	Number of contracts	Target	Actual % on target
Regular tender call	126	35 days	38.0%	55	35 days	32.8%
Tender boards	474	25 days	41.0%	190	25 days	45.5%
Quick response	295	10 days	33.0%	105	14 days	59.0%
Design-build	5	90 days	60.0%	1	90 days	100.0%

Consultant Procurement

Indicator	Results, Fiscal 2001–2002			Results, Fiscal 2002–2003 to End of 2 nd Quarter		
	Number of contracts	Target	Actual % on target	Number of contracts	Target	Actual % on target
Select	204	25 days	41.0%	80	25 days	32.0%
1-step proposal	41	50 days	29.0%	19	50 days	68.3%
2-step proposal	11	80 days	0.0%	6	90 days	0.0%
NAFTA	4	84 days	0.0%	No requests	95 days	N/A



Percentage of Tender Calls Resulting in Awarded Contracts

Results, Fiscal 2001–2002		Results, Fiscal 2002–2003 to End of 2nd Quarter	
Target	Actual	Target	Actual
99.0%	94.0%	99.0%	97.1%

Part of DCC's strength as a Crown corporation is its ability to work efficiently with both its government client and the contractors and consultants who complete the work for the client. DCC realizes that its contract award system must meet client expectations for timeliness and be a user-friendly process for those businesses bidding

on projects. Consequently, before going to tender, DCC rigorously screens all projects (in collaboration with the client) to ensure the tender call is feasible. Because of this well-established preliminary procedure, DCC strives to award contracts for 99.0% of all tender calls.

Timeliness of Construction Contract Completions

	Results, Fiscal 2001–2002	Results, Fiscal 2002–2003 to End of 2nd Quarter
Total completed on time	54.0%	60.6%
Total completed within 1–30 days	72.3%	80.6%
Total completed in over 30 days	27.7%	19.4%

Schedule control is critical to client satisfaction. DCC monitors timeliness of construction contract completions and works with the client to minimize schedule slippage. When it does occur, DCC ensures that DND knows the

reasons. Although formal targets are not set for this indicator, DCC tracks this information to keep the client updated throughout the phases of each project.

Change Order Values

	Results, Fiscal 2001–2002	Results, Fiscal 2002–2003 to End of 2nd Quarter
Site conditions/ errors/omissions	4.3%	5.9%
Design changes	7.4%	5.9%

Changes can have a negative effect on a project schedule and can result in cumulative impact costs. Consequently, DCC manages contracts in a way that attempts to minimize both the number and the cost of contract

changes. Overall, the percentage of changes is low compared to industry standards, due to comprehensive planning prior to the tendering process.



Continuing the Tradition: Service Delivery Initiatives, Fiscal 2003–2004

To develop employee skills and to support **communications** with the client, DCC will establish a business tool kit. This kit will be an information hub containing all the support resources DCC employees need to interact with the client. The guidelines and materials in this kit will formalize DCC's established

service methodology—the necessity of a high degree of professionalism and accountability on the part of DCC employees in all client interactions. At the same time, the materials will encourage DCC employees to recognize new service opportunities and suggest ways to improve their work for the benefit of DND.

Performance Indicator Targets for Fiscal 2003–2004

DCC is committed to tracking business performance with a goal of continuously improving the timeliness, quality and cost of services provided to DND. Each year, DCC sets performance targets to track different components of its business, including service delivery and internal management. Listed in the table below are the performance indicator targets that DCC has set out for fiscal 2003–04. The target length of time to put contracts in place has traditionally been set by management as the ideal duration of the procurement process. This goal was rarely achieved, due to inevitable organizational and situational interference. The measures of timeliness of procurement have been restated this year to reflect the

reality of actual practice. Not only have several target timeframes been extended, but the target timeframe will also no longer be compared to the average length of time actually recorded. Instead, the proportion of contracts that meet or exceed the target will be reported. This change recognizes the relatively small sample size of contracts and the extent to which the statistical average can be skewed by a few exceptional situations.

Contracting exercises that exceed the target timeframes will be analyzed to determine the cause of delays and the corrective action required for the target or for the process.

Service Delivery Performance Indicators	Performance Indicator		Target Period	Target, Fiscal 2003–2004
	Client satisfaction			95.0%
	Timeliness of construction contracting	Regular tender call	35 days	50.0% meeting target
		Tender boards	25 days	
		Quick response tenders	14 days	
		Design-build	120 days	
	Timeliness of consultant procurement	Select	25 days	
		1-step proposals	60 days	
		2-step proposals	120 days	
	Percentage of tender calls resulting in awarded contracts			99.0%



Managing Stakeholder Relationships

DCC needs to maintain positive relationships with government, its client, industry and professional associations to facilitate effective business operations. Note that while specific service delivery issues fall under the previous section, the planning aspects of the broader relationships with the client are considered in this section.

Tracking Past Performance: Managing Stakeholder Relationships Initiatives, Fiscal 2002–2003

Managing the Corporation's relationship with its client was identified last year as being important enough to warrant the creation of a new senior management position. A Vice-President, Contract and **Client Services**, and a Planning and Communications Officer were appointed to help develop a business plan and start implementing client service activities. That initial task was accomplished and the first communications products have been issued. To foster the client relationship, DCC also began to develop credible and realistic means of gauging and reporting **client satisfaction**. This is a somewhat elusive goal, but the Corporation has made significant progress. DCC has realized that it is not simply a question of improving a form, but that the data collection process itself has to be changed. The Corporation has concluded that face-to-face interviews with senior regional and corporate management, once or twice a year, are the best way to ensure meaningful responses.

Building meaningful relationships with other arms of government and industry is an ongoing objective.

Several examples of new activities in fiscal 2002–03 include the involvement of the President on the Federal-Industry Real Property Advisory Committee (representing all federal government departments and industry associations) and on several senior project advisory committees (at the invitation of Public Works and Government Services Canada); a presentation by the President at the annual conference of the Canadian Construction Association; and the signing of a memorandum of understanding with the Association of Consulting Engineers of Canada. DCC maintains regular involvement and communication with other industry organizations, including the Royal Architectural Institute of Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute.

Strengthening Ties: Managing Stakeholder Relationships Initiatives, Fiscal 2003–2004

To further its commitment to building strong external relationships, DCC will continue its involvement with **industry associations**; of particular note is the fact that, in the coming year, the Vice-President, Contract and Client Services, will serve as President of the Canadian Public Procurement Council (which represents the procurement interests of all three tiers of Canadian government). Throughout fiscal 2003–04, DCC will be open to opportunities to further enhance its partnership with DND and will be open to creating new ones within its mandate to deliver defence projects, including elements of DND with which DCC has not traditionally been involved.



Corporate Services and Support

Tracking Past Performance: Corporate Services and Support Initiatives, Fiscal 2002–2003

DCC, having been in business for over 50 years, has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal ability touches all aspects of the business and is the key to success in maintaining a high quality of service to DND.

Consequently, throughout the course of business, DCC strives to keep up to date with new business methods, regulatory practices and technology, which will have a positive impact on the quality of its service delivery.

Last year's plan touched on initiatives relating to the management of information systems. Within its business environment, DCC is continually monitoring trends in **e-commerce**, which it originally identified as a strategic initiative. The Corporation now maintains an ongoing watch-and-wait position to ensure that it does not miss opportunities, but it will not try to lead the field in expensive technology development.

Performance Indicator Results, Fiscal 2002–2003

For tracking the performance of its corporate services and support function, DCC has established three main

indicators: the utilization rate, the direct personnel expense multiplier and the employee retention rate.

Utilization Rate

Results, Fiscal 2001–2002		Results, Fiscal 2002–2003 to End of 2 nd Quarter	
Target	Actual	Target	Actual
70.0%	74.4%	70.0%	73.1%

The utilization rate describes the hours DCC spends on contract-related functions, and demonstrates to DND the amount of time DCC spends on client-related work. The target for the utilization rate in fiscal 2001–02 and fiscal 2002–03 was 70%. As the above results indicate, DCC

exceeded its utilization rate target in fiscal 2001–02 and continued to do so during the first half of fiscal 2002–03, indicating that it continues to provide highly efficient service.



Direct Personnel Expense Multiplier

Results, Fiscal 2001–2002		Results, Fiscal 2002–2003 to End of 2 nd Quarter	
Target	Actual	Target	Actual
1.50–1.60	1.56 ⁽¹⁾	1.50–1.60	1.60 ⁽¹⁾

(1) In the current fiscal year ending March 31, 2003, the Corporation decided to change the method of reporting the actual results. In the past, the performance indicator was referred to as the “payroll multiplier” and represented the ratio of services revenue to project direct labour costs, including benefits, but excluding a mark-up factor to account for compensated absences, such as vacation, sick leave, holidays and professional development time. The direct personnel expense multiplier currently reported as a performance indicator takes the mark-up factor for compensated absences into consideration in determining the project direct personnel expense.

The direct personnel expense multiplier is the factor by which DCC multiplies direct project personnel expense in order to cover overhead costs. Direct project personnel expense includes salary costs and a mark-up factor to account for benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used to establish billing rates for DCC services. The target range for fiscal 2001–02 and fiscal 2002–03 was 1.50 to 1.60. The

results for fiscal 2001–02 and for the first six months of fiscal 2002–03 show that the multipliers remained within the targeted range. Fluctuations in the actual multiplier from period to period are due to the timing of billings on certain fixed-fee projects, as well as to the method of financial planning in accordance with DCC’s financial management policy. This planning allows for adequate operating contingency funds to account for unexpected fluctuations in the client’s construction program.

Employee Retention Rate

Results, Fiscal 2001–2002		Results, Fiscal 2002–2003 to End of 2 nd Quarter	
Target	Actual	Target	Actual
92.5%	90.8%	92.5%	96.0%

The employee retention rate is used as a measure of employee satisfaction with DCC’s working environment. The target for the employee retention rate for fiscal 2001–02 and fiscal 2002–03 was 92.5%. After experiencing a slight decrease in retention in fiscal 2001–02, results for the first six months of fiscal 2002–03 show that the Corporation is back on track with

a retention rate exceeding target. This turnaround is partly attributable to management’s review of and adjustment to the Corporation’s salary structure at the beginning of fiscal 2002–03. This demonstrates that DCC remains committed to providing its employees with a favourable work environment that includes many opportunities for professional and career development.



Better, Faster, Stronger: Corporate Services and Support Initiatives, Fiscal 2003–2004

To ensure up-to-date and accessible electronic **business processes**, the Corporation will continue to re-evaluate the Government On-Line initiative and regularly examine the viability and suitability of e-commerce initiatives. In a continuing effort to make business transactions with DCC easier and more efficient, DCC will work to implement a system for electronic payments to suppliers and will review the viability of issuing electronic payments to contractors.

DCC will take a strategic look at its **human resources management** capability to determine whether it has sufficient resources and authority to recruit, develop, promote and retain staff, given current and future trends in business growth, the demographic profile of employees and labour market conditions.

Performance Indicator Targets for Fiscal 2003–2004

Listed in the table below are the corporate services and support performance indicator targets set for fiscal 2003–04.

Corporate Services and Support Performance Indicators	Performance Indicator	Target, Fiscal 2003–2004
	Utilization rate (percentage of employee hours spent on client contract work)	70.0%
	Direct personnel expense multiplier (ratio of services revenue to direct personnel expense, including salary cost and a mark-up factor to cover benefits and compensated absences)	1.5 to 1.6
	Employee retention rate	92.5%
	Professional development expenditure as a percentage of salary cost	3.0%



Financial Management

Financial Management Policy

The Corporation's financial plan has been prepared with a view to maintaining the Corporation's underlying financial management policy of generating sufficient cash to meet its anticipated operating and capital requirements.

In determining the amount of cash reserves carried for operating needs, the Corporation also takes into consideration the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or

timing of construction project expenditures by DND. In preparing its financial plan, the Corporation has allowed for reasonable levels of contingencies in its financial projections to ensure that it can continue to fulfill its mandate and serve its client in an effective and timely manner. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into consideration in future operating plans and budgets.

Years Ending March 31, 2002, to March 31, 2008

Appendix A: Income Statement

The Corporation is currently forecasting services revenue of approximately \$23.8 million for the current year ending March 31, 2003, which represents an increase of 19% from the previous year. For the year ending March 31, 2004, services revenue is expected to increase by approximately 7% to \$25.6 million. For the remaining plan years, revenue has been projected to increase year over year by rates varying from 1.75% to 3.3%, with a view to maintaining the Corporation's underlying financial management policy and objective discussed above.

Interest income, which is generated from the investment of temporary cash surpluses in accordance with investment policies approved by the Corporation's Board of Directors, is forecasted to total approximately \$104,000 for the current year ending March 31, 2003, representing an increase of approximately 2% from the previous year. For the year ending March 31, 2004, interest income is expected to increase to approximately \$107,000, representing an increase of approximately 3%. For the remaining plan years, interest income has been projected to fluctuate based on anticipated cash levels and on the assumption that interest rates remain at current levels.

As a result of a change in accounting policy, as described in Appendix B, salaries and benefits expense for the year ending March 31, 2002, was restated and reduced by \$59,000.

Salaries and benefits expense is forecasted to total \$18.8 million for the current year ending March 31, 2003,

representing an increase of 13% over the previous year. This increase comprises approximately 6% for wage increases and approximately 7% for staff increases related to increased activity levels. For the year ending March 31, 2004, salaries and benefits expense is projected to total \$20.5 million, representing an increase of approximately 9% over the previous year. This increase comprises approximately 5% for wage increases and approximately 4% for staff increases related to rising activity levels. For the remaining plan years, the Corporation's financial forecasts assume an increase in salary levels and inflation of approximately 3% year over year, with staff strength remaining constant.

Operating and administrative expenses are forecasted to total \$3.8 million for the current year ending March 31, 2003, representing an increase of approximately 28% over the previous year. Approximately 11% of this increase is the result of the fact that in the year ended March 31, 2002, operating and administrative expenses were reduced by a one-time reversal of a provision for potential legal liabilities totalling \$265,000. This provision had been accumulated in prior fiscal years to cover potential legal claims. However, during the year ended March 31, 2002, an annex was negotiated to the memorandum of understanding signed in 2001 with DND. The annex specifies that DND will fund any settlements resulting from the resolution of any existing or future legal claims. As a result of this clarification, the provision was no longer required. Approximately 3% of the increase is attributable to inflation and approximately 14% is



attributable to a combination of increases in the level of business activity and increased spending on certain discretionary items, primarily professional services, recruitment, and training and development.

For the year ending March 31, 2004, operating and administrative expenses are projected to be \$4.1 million, representing an increase of approximately 7% from the previous year. Approximately 3% of this increase is attributable to inflation and the rest is attributable to a combination of higher activity levels and higher spending on certain discretionary items, particularly client services development, and staff training and development. For the remaining plan years, expenses have been projected to increase by approximately 3% year over year to cover primarily inflation increases.

Amortization of capital assets is forecasted to total \$1.3 million in the current year ending March 31, 2003, representing an increase of 187%. During the current year ending March 31, 2003, management reviewed the estimates of useful lives that were being used to amortize certain capital assets. As a result of this review, management decided to change the estimates of useful lives for computer hardware and software, as well as for leasehold improvements. The change resulted in a one-time additional amortization charge in the current year ending March 31, 2003, of approximately \$600,000. For the year ending March 31, 2004, amortization of capital assets is expected to total \$677,000. The fluctuation in amortization over the remaining plan years is affected by the projections made for capital expenditures, highlighted in Appendixes E and F.

Appendix B: Balance Sheet

During the current year ending March 31, 2003, management decided to change its accounting policy regarding the treatment of the transitional obligation, relating to the liability for accrued severance benefits, which was determined when the Corporation first applied the recommendations contained in the Canadian Institute of Chartered Accountants (CICA) handbook, section 3461, Employee Future Benefits. DCC first adopted this recommendation in the year ended March 31, 2001. Initially, the Corporation elected to amortize the transitional obligation over the remaining service period of active employees, which was determined to be 11 years. However, in order to record the liability for accrued severance benefits at the value that approximates the actuarially determined value, management decided to change this policy and apply the recommendations in section 3461 retroactively. As a result of this change, certain prior-year balances have been restated. Specifically, the provision for employee future benefits

balance, as at March 31, 2002, was increased by \$529,000, and the surplus balance at March 31, 2001, was decreased by \$588,000.

As noted earlier, in determining the amount of cash reserves carried for operating needs, the Corporation takes into consideration the planning risk inherent in its operations and thus has allowed for a reasonable level of contingency. The Corporation's liquidity and capital resources position is strong and is anticipated to remain that way throughout the plan years. The Corporation does not have any segregated or restricted funds, and cash in excess of short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

Accounts receivable and due from DND balances are expected to increase during the plan years and are directly tied to the increases in revenue from year to year. Average collection periods are projected to remain constant over the plan years.

Capital assets for the current year ending March 31, 2003, are expected to decrease by approximately 37%. This decrease is largely the result of the additional amortization taken as a result of the change in the estimated useful lives of certain assets as discussed in Appendix A. For the remaining plan years, the fluctuations in capital assets from year to year are directly tied to the levels of capital spending, as discussed in Appendixes E and F.

Accounts payable and accrued liabilities for the current year ending March 31, 2003, are expected to increase by approximately 3% and to increase again by approximately 3% for the year ending March 31, 2004. In subsequent plan years, this amount is expected to increase based on projected increases in the level of operating expenditures, which have been projected to be approximately 3% year over year.

The provision for employee future benefits includes the liability for accrued severance benefits as well as accruals for vacation, overtime and furlough benefits. The accrued severance benefit represents the Corporation's liability for the estimated cost of severance for its employees, as well as health care benefits for its retirees. This amount is actuarially determined. The provision for employee future benefits, including the current portion, is expected to total \$4.5 million at March 31, 2003, representing an increase of 10% over the previous year. For the year ending March 31, 2004, the provision is expected to increase by 9%. For the remaining plan years, the amount is expected to increase year over year by rates varying from 6% to 8%. The liability for accrued severance benefits is considered long



term, as the exact timing of payouts is not determinable. Although DCC has not specifically segregated funds for this obligation, the Corporation possesses sufficient capital resources to meet its severance payment obligations as they become due.

Appendix C: Statement of Changes in Financial Position

The statement of changes in financial position details the sources and uses of cash and the net change in the Corporation's cash balance from year to year. Non-cash expenses included in earnings, such as amortization and the provision for employee benefits, are added back, and cash disbursements not included in earnings, such as payments for capital expenditures and employee future benefits, are subtracted, to arrive at the net change in cash during the course of each fiscal year.

Appendix D: Staff Strength

Staff strength, which is presented on a full-time-equivalent basis, is expected to be approximately 280 for the current year ending March 31, 2003. The increase of 18 from the previous year is largely due to the higher level of activity forecasted for the current year. Staff strength for the year ending March 31, 2004, is projected to be 290, representing an increase of 10 over the previous year. This increase is due to the projected increase in activity. Staff strength has been assumed to remain constant for the remaining plan years.

Appendixes E and F: Capital Budgets

Capital expenditures for the current year ending March 31, 2003, are currently forecasted to be \$791,000, versus a planned amount of \$575,000. This represents a variance of \$216,000 or approximately 38%. This variance is due to actual and forecasted increased spending on computer equipment and software, due primarily to higher than anticipated staff growth; on replacement of older computers and deemed necessary to improve network communications; and on the upgrade of the Corporation's Enterprise Resource Planning (ERP) system (JD Edwards–One World). In addition, to accommodate increases in staff at head office, unanticipated leasehold improvement costs of \$61,000 were incurred, as well as unanticipated additional costs of approximately \$25,000 for office furniture and equipment.

For the year ending March 31, 2004, capital expenditures are projected to decrease, as the ERP systems upgrade should be largely completed by the end of the current

fiscal year ending March 31, 2003. Capital expenditures for the fiscal years ending March 31, 2005, and March 31, 2006, are expected to level off to reflect ongoing requirements to update and replace computer equipment and software. Increased spending is projected in the fiscal years ending March 31, 2007, and March 31, 2008, to reflect the anticipated need to upgrade the Corporation's major computer systems and software applications.

Appendix G: Operating Budget for the Year Ending March 31, 2003

This schedule compares estimated operating results to planned results for the current year ending March 31, 2003. Services revenue is expected to be approximately 10% above plan. The increase is related to higher than anticipated project spending by DND. No major variance is expected in interest revenue.

Salaries and benefits cost is expected to be approximately 11% above plan. The increase is related to a combination of increased services revenue and higher than anticipated salary increases.

Amortization of capital assets is expected to be approximately 134% above plan. The majority of this increase is the result of the one-time additional charge to amortization of approximately \$600,000 as a result of change in estimated useful lives explained in Appendix A. Part of the increase is also due to the higher than expected spending on capital assets, as discussed in Appendixes E and F. Operating and administrative expenses are expected to be approximately 2% over plan. The increase is mainly due to the increased level of support costs as a result of the higher level of activity.

Defence Construction (1951) Limited

Income Statements

For the years ending March 31, 2002 to March 31, 2008

	<u>Actual March 31/02</u>	<u>Estimated March 31/03</u>	<u>Planned March 31/04</u>	<u>Planned March 31/05</u>	<u>Planned March 31/06</u>	<u>Planned March 31/07</u>	<u>Planned March 31/08</u>
Revenue							
Service	\$ 20,051,955	\$ 23,828,163	\$ 25,583,507	\$ 26,031,218	\$ 26,747,076	\$ 27,576,236	\$ 28,483,494
Interest	102,184	103,686	106,895	110,000	121,000	133,100	127,050
	<u>20,154,139</u>	<u>23,931,849</u>	<u>25,690,402</u>	<u>26,141,218</u>	<u>26,868,076</u>	<u>27,709,336</u>	<u>28,610,544</u>
Expenses							
Salaries and Benefits (Note 1)	16,641,586	18,813,226	20,525,763	21,141,536	21,775,782	22,429,056	23,101,928
Amortization of Capital Assets	435,848	1,252,287	676,679	593,070	555,988	677,669	876,910
Operating and Administrative Expenses	3,004,121	3,836,401	4,117,636	4,234,063	4,361,085	4,491,917	4,626,675
	<u>20,081,555</u>	<u>23,901,914</u>	<u>25,320,078</u>	<u>25,968,669</u>	<u>26,692,856</u>	<u>27,598,643</u>	<u>28,605,513</u>
Net Income (Note 1)	\$ 72,584	\$ 29,936	\$ 370,324	\$ 172,548	\$ 175,221	\$ 110,693	\$ 5,031
Surplus, Beginning of the Year (Note 1)	2,002,179	2,074,763	2,104,699	2,475,023	2,647,571	2,822,792	2,933,485
Surplus, End of the Year	<u>\$ 2,074,763</u>	<u>\$ 2,104,699</u>	<u>\$ 2,475,023</u>	<u>\$ 2,647,571</u>	<u>\$ 2,822,792</u>	<u>\$ 2,933,485</u>	<u>\$ 2,938,516</u>

Note 1: As a result of a change in accounting policy regarding the treatment of the transitional obligation relating to the provision for severance benefits, salaries and benefits expense for the year ended March 31, 2002, was restated and reduced by \$58,782 and net income was increased by this same amount. In addition, the surplus balance at the beginning of the year was reduced by \$587,820.

Defence Construction (1951) Limited

Balance Sheet

March 31, 2002 to March 31, 2008

	<u>Actual March 31/02</u>	<u>Estimated March 31/03</u>	<u>Planned March 31/04</u>	<u>Planned March 31/05</u>	<u>Planned March 31/06</u>	<u>Planned March 31/07</u>	<u>Planned March 31/08</u>
Assets							
Current:							
Cash	\$ 2,258,698	\$ 2,495,289	\$ 3,163,303	\$ 3,692,509	\$ 4,113,938	\$ 4,372,827	\$ 4,287,149
Accounts Receivable	215,972	256,644	275,550	280,372	288,083	297,013	306,785
Due from Department of National Defence	3,492,490	4,150,200	4,455,932	4,533,910	4,658,593	4,803,009	4,961,028
Prepays and Advances	199,851	199,851	199,851	199,851	199,851	199,851	199,851
	<u>6,167,011</u>	<u>7,101,984</u>	<u>8,094,636</u>	<u>8,706,643</u>	<u>9,260,464</u>	<u>9,672,700</u>	<u>9,754,814</u>
Capital Assets	<u>1,247,054</u>	<u>786,063</u>	<u>608,935</u>	<u>615,865</u>	<u>684,876</u>	<u>832,207</u>	<u>1,205,297</u>
	<u>\$ 7,414,065</u>	<u>\$ 7,888,047</u>	<u>\$ 8,703,571</u>	<u>\$ 9,322,507</u>	<u>\$ 9,945,341</u>	<u>\$ 10,504,907</u>	<u>\$ 10,960,110</u>
Liabilities							
Current:							
Accounts Payable and Accrued Liabilities	\$ 1,282,038	\$ 1,320,499	\$ 1,360,114	\$ 1,400,918	\$ 1,442,945	\$ 1,486,233	\$ 1,530,820
Current Portion - Provision for Employee Benefits	514,533	529,969	545,868	562,244	579,111	596,485	614,379
	<u>1,796,571</u>	<u>1,850,468</u>	<u>1,905,982</u>	<u>1,963,162</u>	<u>2,022,056</u>	<u>2,082,718</u>	<u>2,145,200</u>
Provision for Employee Future Benefits (Note 1)	<u>3,542,699</u>	<u>3,932,848</u>	<u>4,322,534</u>	<u>4,711,743</u>	<u>5,100,461</u>	<u>5,488,672</u>	<u>5,876,363</u>
	<u>5,339,270</u>	<u>5,783,316</u>	<u>6,228,516</u>	<u>6,674,905</u>	<u>7,122,517</u>	<u>7,571,390</u>	<u>8,021,562</u>
Capital Stock and Surplus							
Capital Stock							
Authorized - 1,000 shares at no par value							
Issued - 32 shares	32	32	32	32	32	32	32
Surplus (Note 1)	<u>2,074,763</u>	<u>2,104,699</u>	<u>2,475,023</u>	<u>2,647,571</u>	<u>2,822,792</u>	<u>2,933,485</u>	<u>2,938,516</u>
	<u>2,074,795</u>	<u>2,104,731</u>	<u>2,475,055</u>	<u>2,647,603</u>	<u>2,822,824</u>	<u>2,933,517</u>	<u>2,938,548</u>
	<u>\$ 7,414,065</u>	<u>\$ 7,888,047</u>	<u>\$ 8,703,571</u>	<u>\$ 9,322,507</u>	<u>\$ 9,945,341</u>	<u>\$ 10,504,907</u>	<u>\$ 10,960,110</u>

Note 1: As a result of a change in accounting policy regarding the treatment of the transitional obligation relating to the provision for severance benefits, the provision for employee future benefits as at March 31, 2002 was restated and increased by \$529,038 and the surplus balance was decreased by the same amount.

Defence Construction (1951) Limited

Statement of Changes in Financial Position

For the years ending March 31, 2002 to March 31, 2008

	<u>Actual March 31/02</u>	<u>Estimated March 31/03</u>	<u>Planned March 31/04</u>	<u>Planned March 31/05</u>	<u>Planned March 31/06</u>	<u>Planned March 31/07</u>	<u>Planned March 31/08</u>
<u>Operating Activities</u>							
Net Income (Note 1)	\$ 72,584	\$ 29,936	\$ 370,324	\$ 172,548	\$ 175,221	\$ 110,693	\$ 5,031
Items not requiring cash							
Provision for Employee Benefits	600,748	604,585	604,585	604,585	604,585	604,585	604,585
Amortization	435,848	1,252,287	676,679	593,070	555,988	677,669	876,910
Loss on Disposal of Assets	2,109						
Net Increase (Decrease) in non-cash Working Capital Balances related to Operations	(1,819,707)	(659,921)	(285,023)	(41,998)	(90,365)	(110,059)	(123,204)
	(708,418)	1,226,887	1,366,564	1,328,206	1,245,429	1,282,889	1,363,323
<u>Financing Activities</u>							
Employee Benefits Paid	(187,054)	(199,000)	(199,000)	(199,000)	(199,000)	(199,000)	(199,000)
	\$ (895,472)	\$ 1,027,887	\$ 1,167,564	\$ 1,129,206	\$ 1,046,429	\$ 1,083,889	\$ 1,164,323
<u>Investing Activities</u>							
Acquisition of Capital Assets	(586,842)	(791,297)	(499,550)	(600,000)	(625,000)	(825,000)	(1,250,000)
Increase (Decrease) in Cash during Year	(1,482,314)	236,591	668,014	529,206	421,429	258,889	(85,677)
Cash at Beginning of Year	3,741,012	2,258,698	2,495,289	3,163,303	3,692,509	4,113,938	4,372,827
Cash at End of Year	\$ 2,258,698	\$ 2,495,289	\$ 3,163,303	\$ 3,692,509	\$ 4,113,938	\$ 4,372,827	\$ 4,287,149

Note 1: As a result of a change in accounting policy regarding the treatment of the transitional obligation relating to the provision for severance benefits, net income for the year ended March 31, 2002, was restated and increased by \$58,782.

Defence Construction (1951) Limited

Staff Strength

For the years ending March 31, 2002 to March 31, 2008

	<u>Actual March 31/02</u>	<u>Estimated March 31/03</u>	<u>Planned March 31/04</u>	<u>Planned March 31/05</u>	<u>Planned March 31/06</u>	<u>Planned March 31/07</u>	<u>Planned March 31/08</u>
Employees based on full-time equivalents	262	280	290	290	290	290	290

Appendix E

Defence Construction (1951) Limited

Capital Budget

For the year ending March 31, 2003

	Estimated Actual March 31/03	Planned March 31/03	Variance
Office Furniture and Equipment	\$ 61,297	\$ 50,000	\$ (11,297)
Computer Systems Hardware and Software	669,266	525,000	(144,266)
Leasehold Improvements	<u>60,734</u>	<u>-</u>	<u>(60,734)</u>
	<u>\$ 791,297</u>	<u>\$ 575,000</u>	<u>\$ (216,297)</u>

Defence Construction (1951) Limited

Capital Budget

For the years ending March 31, 2002 to March 31, 2008

	<u>Actual March 31/02</u>	<u>Estimated March 31/03</u>	<u>Planned March 31/04</u>	<u>Planned March 31/05</u>	<u>Planned March 31/06</u>	<u>Planned March 31/07</u>	<u>Planned March 31/08</u>
Office Furniture and Equipment	\$ 2,845	\$ 61,297	\$ 74,550	\$ 50,000	\$ 75,000	\$ 75,000	\$ 150,000
Computer Systems Hardware and Software	583,997	669,266	375,000	550,000	550,000	750,000	1,100,000
Leasehold Improvements	-	60,734	50,000	-	-	-	-
	<u>\$ 586,842</u>	<u>\$ 791,297</u>	<u>\$ 499,550</u>	<u>\$ 600,000</u>	<u>\$ 625,000</u>	<u>\$ 825,000</u>	<u>\$ 1,250,000</u>

Defence Construction (1951) Limited

Operating Budget

For the year ending March 31, 2003

	Plan March 31/03	Estimated Actual March 31/03	Variance
Revenue (Note 1)			
Services	\$ 21,577,161	\$ 23,828,163	\$ 2,251,003
Interest	102,000	103,686	1,686
	21,679,161	23,931,849	2,252,689
Expenses			
Salaries and Benefits	16,947,773	18,813,226	1,865,453
Amortization of Capital Assets	534,104	1,252,287	718,183
Operating and Administrative Expenses (Note 1)	3,769,798	3,836,401	66,603
	21,251,675	23,901,914	2,650,239
Net Income	\$ 427,486	\$ 29,936	\$ (397,550)

Note 1: Revenue and Operating and Administrative Expenses in the plan results have been restated to conform to the new presentation adopted for reimbursed project expenses. In the past, the reimbursable project expenses were included in Operating and Administrative Expenses and the revenue from reimbursed project expenses was included in Revenue. Commencing in the year ended March 31, 2002, the revenue from reimbursed project expenses are netted against the related expenses incurred. This change reduced both the Revenue and Operating and Administrative Expenses amounts, as previously reported in the prior year Corporate Plan, by \$957,394. This change had no overall effect on net income as previously reported.