



CANADIAN AIR TRANSPORT SECURITY AUTHORITY

Summary of the

2014/15 – 2018/19 Corporate Plan

2014/15 Operating Budget

2014/15 Capital Budget



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EXECUTIVE SUMMARY

MANDATE

The Canadian Air Transport Security (CATSA)'s mission is to protect the public by securing critical elements of the air transportation system as assigned by the Government of Canada. To achieve this, CATSA is mandated to conduct security screening in the following four areas:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers on a random basis; and
- Restricted Area Identity Card (RAIC): the administration of access control to airport restricted areas through biometric identifiers.

In addition, under an agreement it concluded with Transport Canada in 2010, CATSA is authorized to conduct screening, where capacity exists, of cargo at smaller airports.

KEY ISSUES FOR 2014/15

Recent Accomplishments

In support of the International Civil Aviation Organization (ICAO)'s enhanced standard for NPS and security controls, Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program and increase coverage at designated restricted area access points, which was achieved ahead of schedule.

As security is CATSA's top priority, the organization continuously invests in pilot projects and trials in an effort to identify ways to improve the organization's screening efficiency and effectiveness performance. The majority of CATSA's pilot projects and trials are leading to notable process improvements and help to ensure that CATSA's operations continue to evolve.

Looking Ahead

Over the planning period, pilot projects and trials will continue to be identified and implemented in order to meet CATSA's ongoing commitment of improving the efficiency and effectiveness of its screening operations.

1. CORPORATE PROFILE

INTRODUCTION

CATSA is an agent Crown corporation, fully funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. In accordance with the *CATSA Act*, CATSA is responsible for providing effective and efficient screening of persons who access aircraft or restricted areas, the property in their possession or control, and the belongings or baggage that they give to an air carrier for transport. CATSA's goal is to provide a professional, effective and consistent level of security screening across the country, at or above the standards set by Transport Canada. Supported by its screening contractors and their screening officer workforce, CATSA's mandated operations are expected to screen over 54 million passengers and their belongings in 2014/15. CATSA will also continue to implement a risk-based strategy to enhance Canada's NPS program at the highest risk airports.

1.1 MANDATE AND RESPONSIBILITIES

CATSA's mandate consists of four areas of aviation security:

- PBS: the screening of passengers and their belongings prior to their entry into the secure area of an air terminal building;
- HBS: the screening of passengers checked (or hold) baggage to prevent the boarding of prohibited items;
- NPS: the random screening of non-passengers accessing restricted areas at the highest risk airports; and
- RAIC: the program which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

In addition to its mandated activities, CATSA has an agreement with Transport Canada to conduct screening of cargo at smaller airports. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing technology and resources.

For more information on its mandate, please consult the [About Us](#) section of CATSA's website.

MISSION AND VISION

Mission

CATSA's mission is to protect the public by securing critical elements of the air transportation system, as assigned by the Government of Canada.

Vision

CATSA's vision is to excel in air transport security. We will achieve our vision through:

- Our service: We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources;
- Our people: We are engaged, committed and succeed through teamwork; and
- Our partnerships: We work in collaboration with partners to generate mutual benefits and improvements.

1.2 LEGISLATIVE AND REGULATORY FRAMEWORK

Reporting to Parliament

CATSA reports to Parliament through the Minister of Transport.

Legislative, Regulatory and Procedural Framework

Responsibility for civil aviation security in Canada is shared among several federal government departments and agencies, as well as air carriers and airport operators. CATSA, as the civil aviation security screening authority for Canada, is regulated by Transport Canada, Canada's designated national civil aviation security authority, pursuant to the standards established by the ICAO. CATSA is subject to domestic legislation, regulations and procedures in the way that it conducts business and screening including:

- the *CATSA Act*;
- the *Financial Administration Act* (FAA), Part X;
- the *Aeronautics Act*;
- *Canadian Aviation Security Regulations*;
- *Security Screening Orders*; and
- *Standard Operating Procedures* (SOPs).

GOVERNANCE AND ORGANIZATIONAL STRUCTURE

Board of Directors

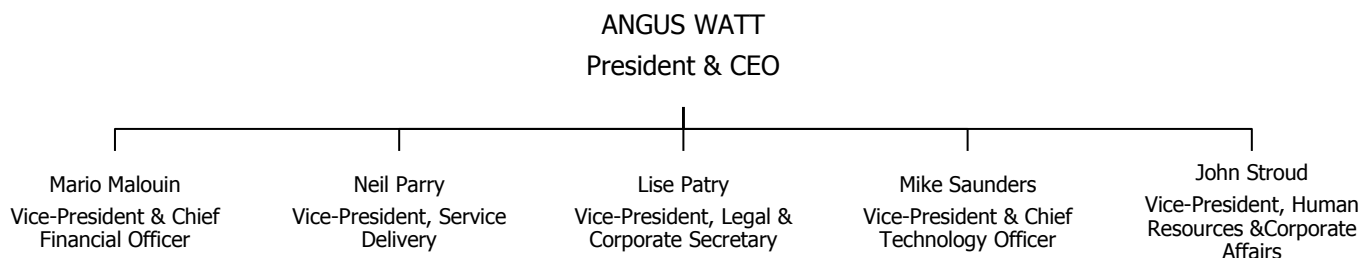
In accordance with the *CATSA Act*, CATSA is structured as an agent Crown corporation with a Board of Directors appointed by the Governor in Council on the recommendation of the Minister of Transport.

The Board is chaired by Lloyd McCoomb, who was appointed to a four-year term in October 2012. The Board is composed of 11 members – one Chair and 10 Directors. There are four positions for industry nominees; two must be nominated by representatives of the airline industry and two must be nominated by representatives of airport operators. All directors are independent of management.

For more information on CATSA's Board of Directors, including Directors' profiles and Board Committees, please visit the [Board of Directors](#) section of CATSA's website.

CATSA's Senior Management Team

CATSA is led by the President and Chief Executive Officer (CEO), Angus Watt, and supported by a Senior Management team, as shown below:



For more information on CATSA's Senior Management team, including profiles, please visit the [Executive Team](#) section of CATSA's website.

CATSA Personnel, Roles and Responsibilities

CATSA's service delivery model is based on four regions (Pacific, Prairies, Central and East). CATSA Operations personnel stationed at Class I airports in each administrative region are responsible for the delivery of screening operations at over 80 airports across Canada. At a high level, these regional Service Delivery teams are responsible for managing and providing direct oversight of CATSA's daily operations and screening contractor management; ensuring compliance with security regulations; supporting the deployment of new security programs or initiatives; managing crisis and emergency situations on the front-line; coordinating all screening technology projects (e.g., HBS recapitalization); representing CATSA's interests with key stakeholders at the airport level including, regulatory and law enforcement agencies, airports, air carriers and service providers; leading CATSA's operations performance management and quality assurance framework; and training, coaching and certifying screening officers.

The Operations personnel at headquarters are responsible for supporting CATSA's front-line operations both in a service delivery and corporate services capacity. Service delivery consists of such responsibilities as: screening contract administration and accounts verification; leading, researching and implementing all screening operations projects, including projects that aim to increase the efficiency and effectiveness of the screening operations; developing all training and certification material for screening officers across Canada; working with Transport Canada, including providing an operational perspective on regulatory issues; and creating and maintaining effective business relationships with key stakeholders such as airport authorities, airlines and other national associations.

As an agent Crown corporation accountable to Parliament, particularly one with a mandate of security, CATSA is governed by a multitude of statutes and policy instruments. CATSA is required to observe, and in some cases regularly report on its performance in accordance with a range of Acts and Standards.¹ CATSA is expected to follow Treasury Board of Canada Secretariat policy and guidelines including those related to Human Resources, Contracting and Travel. The governance, oversight and reporting

¹ Examples include the *Financial Administration Act*, *Access to Information Act*, *Privacy Act*, *Official Languages Act*, *Canada Multiculturalism Act*, *Employment Equity Act*, *Canadian Association of Pension Supervisory Authorities*, *Canada Labour Code* and *International Financial Reporting Standards*.

requirements stemming from these obligations are fulfilled by the various corporate function groups at CATSA.

Furthermore, CATSA has the flexibility of a non-unionized workforce, but unlike departments, it must operate as a stand-alone organization and not pass on corporate services costs to other entities like the Public Service Commission/Treasury Board Secretariat (TBS), Public Works and Government Services Canada and Justice Canada. Nonetheless, the corporation is still required, like any other organization, public or private, to provide these types of internal support services in order to enable its day-to-day operations at airports. These internal services are also managed and performed at headquarters by four branches: Finance, Legal and Corporate Secretary, Technology, and Human Resources and Corporate Affairs.

2. OPERATING ENVIRONMENT

INTRODUCTION

CATSA is a security organization mandated by the *CATSA Act* to operate screening programs that are effective, efficient, consistent, and in the public interest. Each year, in order to successfully execute its mandate and as part of its annual strategic planning process, CATSA analyzes its complex operating environment and identifies key issues, opportunities and challenges that could impact the organization over the planning period.

2.1 PERFORMANCE MEASUREMENT

Operational Performance Overview

Performance data on CATSA's operations is gathered on a quarterly basis and presented to management and the Board of Directors through the Corporate Performance Dashboard. The dashboard serves as a management tool in setting the corporation's strategic direction, in managing the tactical oversight of its front-line operations and in identifying and addressing performance issues as they arise.

This section presents an analysis of the key variables that management and the Board of Directors focus on each quarter to make decisions. Management and the Board of Directors pay particular attention to measures of effectiveness, as security is CATSA's top priority.

Screening Effectiveness

CATSA's screening effectiveness is measured by the ability of screening officers to identify and prevent threat items from entering the sterile area, while consistently applying SOPs to ensure the integrity of security procedures. Given the sensitivity of this performance category, its associated results cannot be included in a public document.

PBS Wait Time Service Level

CATSA's PBS Wait Time Service Level (WTSL) is the percentage of passengers who waited less than a specified number of minutes to be screened at Class I airports. It is used as a planning tool to ensure CATSA's resources are allocated in an efficient and consistent manner. In 2012/13, CATSA was able to screen 96% of passengers waiting 15 minutes or less. CATSA's purchasing power for screening hours decreased in 2013/14 over its 2012/13 levels due to increasing screening contractor billing rates. Coupled with rising passenger volumes, this has resulted in passengers wait times increasing in 2013/14 whereby 92% of passengers waited 15 minutes or less.

CATSA Passenger Throughput

In Canada, CATSA's throughput levels have increased significantly since 2010. Several operational trials for the evaluation of new processes, technologies and tools were developed and introduced to enhance screening operations. Gains in efficiencies through process improvements have allowed CATSA to substantially increase the number of passengers processed per hour. By the end of 2010/11, CATSA was processing 124 passengers per hour and since then, performance has continued to improve.

Efficiency

Operational efficiency is determined by how many passengers can be screened with every dollar paid to CATSA's screening contractors. With everything else being equal, the lower the per-unit cost of screening passengers, the more efficient CATSA's screening activities are.

There is a significant decrease in costs from the third quarter of 2012/13 to the third quarter of 2013/14, which can be mainly attributed to CATSA's reduced purchase of screening hours, coupled with rising passenger volumes. However, this reduction has been achieved at the expense of longer passenger wait times.

Passenger Feedback

CATSA is committed to improving the customer experience at screening checkpoints and continues to emphasize that excellence in security can be enhanced by passenger facilitation. CATSA regularly collects feedback from passengers using on-site random intercept surveys at Class I airports. Recent passenger satisfaction results are near CATSA's high targets.

CATSA has been able to maintain a satisfaction level of approximately 82% over the past four quarters. In addition, the level of confidence passengers have in security screening continues to remain steady and is currently at 74%.

Enhanced NPS for 2013/14

The ICAO recently adopted a strengthened NPS standard, which came into effect on July 15, 2013. In support of the strengthened ICAO standard for NPS and security controls Transport Canada and CATSA developed a risk-based strategy to enhance the NPS program and increase coverage at designated restricted area access points. The Government of Canada approved the proposed program and provided CATSA with funding for implementation, which was achieved ahead of schedule.

2.2 OPPORTUNITIES

Industry Partners

The environment in which CATSA operates is highly integrated, with many different entities – airport authorities, air carriers, law enforcement agencies – assigned specific security responsibilities. From the scheduling of flights, passenger check-in, screening of passengers and baggage, baggage handling, loading of checked baggage, or to boarding of aircraft, all of these processes must operate smoothly and seamlessly to ensure the effective and efficient movement of people and goods.

CATSA recognizes that its relationships with these partners are critical to the overall performance and success of the aviation industry and in the day-to-day success in delivering its mandate. In addition, the organization's governing legislation (the *CATSA Act*) requires screening to be effective, efficient, consistent and in the public interest. As a result, in overseeing its operations, CATSA is committed to maintaining collaborative working and strategic relationships with industry partners by:

- working to staff its PBS checkpoints to match passenger volumes;
- sharing information, including operational data, with all major airports;
- enhancing emergency protocols and contingency plans; and
- engaging on additional measures for enhanced NPS in Canada.

Boarding Pass Security System

CATSA's Boarding Pass Security System (BPSS) is a real-time monitoring system of passenger traffic and wait times, which was first introduced in 2010 to enable the scanning of boarding passes at screening checkpoints to ensure validity. Since that time, BPSS has become an invaluable management tool for the organization in the daily management of its operations across Canada. In addition to verification and validation of boarding passes, the system collects data and information that allows CATSA to closely monitor passenger wait times, enhances breach response, and supports effective scheduling of screening officer resources through the ongoing readjustment and distribution of screening hours.

National PBS Checkpoint Optimization Project

Beginning in 2014/15, as part of its ongoing commitment to maximize the efficiency and effectiveness of its operations, CATSA will conduct a trial for a new checkpoint design. The project will seek to optimize a PBS checkpoint through the deployment of security screening process improvements and proven technology.

Enhanced NPS

The ICAO recently adopted a strengthened NPS standard which came into effect in July 2013. The enhanced standard requires countries to ensure that non-passengers and items they carry are subject to screening and security controls prior to entering security restricted areas serving international civil aviation operations.

In 2013, Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program. This strategy has allowed Canada to meet the enhanced NPS standard.

2.3 CHALLENGES

Economic Action Plan (EAP) 2012 Spending Review

CATSA made several proposals that amounted to \$59.7 million in annual operating savings by 2014/15, as part of the Government of Canada's Economic Action Plan 2012 Spending Review. As announced in the 2012 Federal Budget, these proposals were approved by the government and CATSA's reference levels were reduced accordingly. However, CATSA was subsequently informed that one of its proposals would not proceed, and the associated planned savings of \$27.6M did not materialize. As of March 31, 2013, CATSA had implemented all of its other approved initiatives, and fully realized the associated savings in 2013/14.

HBS Recapitalization

One of CATSA's top corporate priorities for the planning period will continue to be the life-cycle management of its HBS system. This undertaking ensures that CATSA's equipment remains compatible with international partners and employs the best industry practices and standards to deliver a secure experience for air travellers. This initiative also supports the *Canada-US Beyond the Border Declaration for a Shared Vision for Perimeter Security and Economic Competitiveness* and will lead to cost savings from the elimination of duplicate screening as well as facilitate easier transiting of passengers departing Canada and transiting through US airports.

Screening of Liquids, Aerosols and Gels (LAGs)

Effective January 31, 2014, new liquid explosive detection equipment were deployed to screen all permitted LAGs over 100ml (duty-free in official security bags (STEBs) and medically necessary LAGs). The STEB program will be expanded at the same time. Duty-free purchased at airport and airline retailers around the world will be accepted and screened at CATSA's checkpoints. Prior to this change, in Canada, STEBs had only been accepted and screened if passengers were coming from European airports. While volumetric restrictions for LAGs will continue to exist, Transport Canada and CATSA will work with international partners in order to determine to what extent technology will enable restrictions to be lifted in the longer term.

Passenger Volumes

Transport Canada forecasts show that, over the planning period, passenger volumes will rise in each of the next five years, with most of the growth occurring at Class I airports. Economic growth generally leads to increased passenger travel. Most recently, Transport Canada projected that the number of emplaned passengers at Canadian airports would increase by 3.2% in 2014 compared to 2013, and is expected to grow in each of the next five years.

In 2010/11, CATSA screened approximately 47.7 million passengers at designated airports. This figure grew to 49 million in 2011/12, 51 million in 2012/13, and in 2013/14, CATSA screened approximately 53.9 million passengers. By 2018/19, passenger volumes are expected to reach approximately 61.2 million.

Screening Contractors' Billing Rates

Screening contractor billing rates will increase annually over the term of CATSA's Airport Screening Services Agreements (ASSAs). These rate increases are set in accordance with the terms of the contracts and are not directly impacted by the rate of inflation. Nevertheless, this results in an increase in the cost of screening hours, therefore having an impact on CATSA's budget for screening hours.

While the rates will go up, the increase to the screening contractors' hourly billing rates is capped at a threshold beyond which point screening contractors are responsible for absorbing any additional funding pressures resulting from their negotiation with screening officers' unions. This threshold gives CATSA cost certainty with its budget and predictable allocation of screening hours for the duration of the contracts.

CATSA's Reference Levels

Given passenger growth and billing rate increases, the funding previously allocated to CATSA through Budget 2010 does not allow its operations to maintain the service levels it achieved in previous years. As a result, its ability to purchase screening hours has and will continue to decline.

Recognizing that there is no government set service level, CATSA will operate within its approved reference levels and will continue to meet its security mandate. However, with the financial considerations described above, passengers will wait longer to be screened.

Increasing PBS Wait Times in 2013/14

CATSA's PBS Wait Time Service Level (WTSL) is the percentage of passengers who waited less than a specified number of minutes to be screened at Canada's eight busiest airports. However, this is not a government-mandated service guarantee. To ensure CATSA's resources are allocated in an efficient and consistent manner, wait time thresholds are used as a planning tool. In 2012/13, CATSA was able to screen 96% of passengers waiting 15 minutes or less. CATSA's purchasing power for screening hours

decreased in 2013/14 over its 2012/13 levels due to increasing screening contractor billing rates. Coupled with rising passenger volumes, this has resulted in passenger wait times increasing in 2013/14 whereby 92% of passengers waited 15 minutes or less.

Given these circumstances, CATSA may face added pressure from the aviation industry and the travelling public.

2.4 KEY CORPORATE RISKS

CATSA's Corporate Risk Profile

As a key member of the Canadian civil aviation security system, CATSA is exposed to a variety of risks that may impact the organization's ability to fulfill its mandate. Specific responses to aviation security threats and risks are mandated by Transport Canada and implemented by CATSA. In addition to intelligence-related threat information overseen by Transport Canada and risk responses, CATSA also conducts various risks assessments pertaining to its corporate strategies and operations. CATSA's key risks are presented in its annual Corporate Risk Profile (CRP), which is a snapshot of those risks that could impede the organization's ability to reach its strategic objectives.

2.5 HUMAN RESOURCES

A significant contingent of regional employees is located at major airports across Canada, while headquarters employees are located in the National Capital Region. This non-unionized workforce performs program delivery and corporate services functions in support of the front-line operations of over 5,570 screening officers across the country. Third-party benchmarking² of CATSA's compensation shows that the corporation is achieving its stated goal of maintaining a compensation strategy centered around the 50th percentile of the market.

CATSA offers a package of group benefits to its employees, which include health, dental, and disability insurance plans. CATSA recognizes the importance of workplace well-being as an important factor in both the recruitment and retention of employees.

Leave Policy

CATSA recognizes the importance of time away from work for personal or other justifiable reasons and provide paid leaves of absence to employees who meet the eligibility criteria.

Disability coverage

CATSA also offers its indeterminate employees both short-term and long-term disability coverage. This ensures that all eligible employees who, due to disability are unable to perform their duties for a prolonged period, are financially supported during this time.

Defined Benefit Pension Plan

CATSA maintains a defined benefit pension plan to provide retirement benefits to its employees which in many ways mirrors the *Public Service Superannuation Act* Pension Plan. This plan, which was closed to new members as of June 30, 2013, is registered with the Office of the Superintendent of Financial Institutions Canada and with the Canada Revenue Agency. As of December 31, 2013, the plan had 443

² The benchmarking review included non-unionized public and private companies of similar scope and size.

active members and 65 retired members. As first presented in CATSA's 2013/14 Corporate Plan and aligned with Budgets 2013 and 2014, CATSA has reviewed the cost-sharing principles for its Pension Plan, aligning individual CATSA's employee contribution rates with those of the individual public servants under the *Public Service Superannuation Act* Pension Plan.

Defined Contribution Pension Plan

Effective July 1, 2013, the defined benefit pension plan was closed to new entrants and all employees hired after this date are provided pension benefits through a defined contribution pension plan. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working an average of more than 20 hours per week. Under this plan, CATSA and its employees are required to contribute a specified percentage of salaries to fund the benefits. CATSA's financial obligation is limited to matching employee contributions.

Employment Equity

CATSA's Senior Management Committee has committed to identifying and eliminating barriers to equal employment. Policies and programs are implemented where possible to make reasonable accommodations for employees and to ensure the workforce is inclusive.

3. STRATEGIC DIRECTION

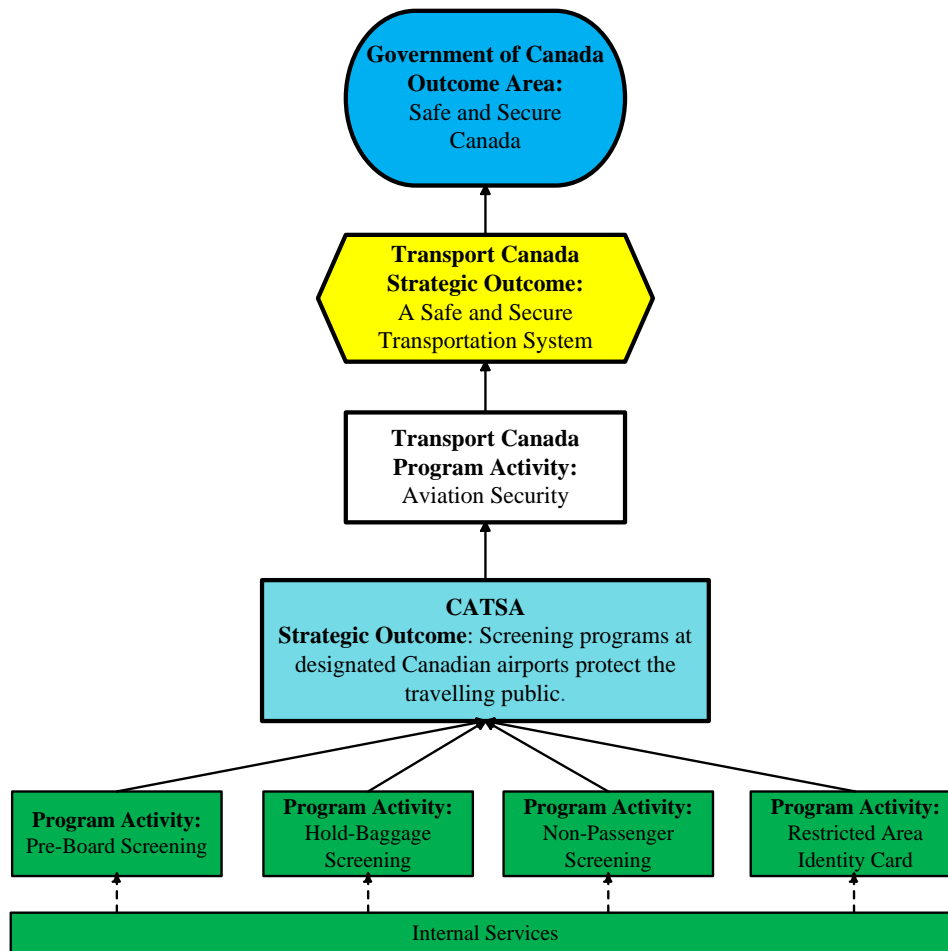
INTRODUCTION

Building on the information presented to CATSA through its analysis of its past operational performance, the anticipated and/or known opportunities and challenges in its operating environment, and the risks facing the organization, this chapter presents CATSA strategic plan and corporate priorities for the five-year planning period, in addition to its performance plan and targets.

Guided by its Program Alignment Architecture (PAA), the strategies and priorities presented in this chapter builds on the foundations set out in CATSA's previous corporate plans and continues to support the organization's overarching strategic outcome of delivering screening programs at designated Canadian airports to protect the travelling public.

3.1 PROGRAM ALIGNMENT ARCHITECTURE

In accordance with the TBS's *Policy on Management, Resources and Results Structure*, CATSA's PAA and Strategic Outcome are aligned with the Government of Canada's Strategic Outcome of a "Safe and Secure Canada," in addition to Transport Canada's Strategic Outcome of a "Safe and Secure Transportation System." CATSA's PAA is presented in the illustration below.



CATSA's PAA allows the organization to continue refining its planning and reporting processes, as well as its performance measurement framework in order to continually improve its operations to attain its legislated outcomes.

3.2 PERFORMANCE PLAN

Performance Priorities

First developed in 2012/13, CATSA's Strategy for Screening Effectiveness (SSE) was designed to improve screening officer performance to ensure prohibited items are not entering sterile areas. As part of the strategy, four main areas of focus were identified, including screening officer competency, screening contractor management and supervision, process and environment, and CATSA oversight and quality assurance.

Overall, CATSA remains committed to improving its performance with respect to testing results. In 2014/15, CATSA will deploy and monitor its initiatives under the SSE and will evolve the strategy into an ongoing program for its screening operations. CATSA will also continue to work with its screening contractors at both a tactical and strategic level in order to close any gaps that exist between expected performance and actual performance. Furthermore, the organization will continue to monitor and report against performance improvements.

Performance Targets for Planning Period

Each year, CATSA's Board of Directors and its Senior Management team review the organization's key performance indicators and performance targets to ensure their continued relevance. As part of this review in 2013/14, CATSA can confirm that its performance targets for the planning period remain consistent with the targets presented in the Corporate Performance Dashboard.

3.3 STRATEGIC PLAN BY PROGRAM ACTIVITY

Overview

CATSA's operations contribute to the Government of Canada's commitment of security for Canadians. Through its flexible service delivery model, CATSA serves Canadians' interests by making its ongoing spending as efficient as possible, while delivering high quality and consistent air transport security services. Furthermore, CATSA directly contributes to the government's ongoing efforts in support of *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness Action Plan*, put in place to enhance Canada's security, prosperity and economic competitiveness.

CATSA's strategic plan is guided by its PAA. The organization has identified a number of specific objectives related to its PBS, HBS, NPS, RAIC and Internal Services for the five-year planning period, which are detailed further below.

PBS

Over the planning period, CATSA will continue to meet its mandate of screening passengers at its PBS checkpoints. However, as presented in Section 2.3, the organization will face significant challenges in accommodating increases in screening contractors' billing rates and rising passenger volumes. Without additional funding, these pressures will continue to compound over time and will lead to a significant increase in passenger wait times.

With its current reference levels, over the planning period, CATSA's PBS activities will focus on:

- continually improving passenger throughput, while maintaining or enhancing security effectiveness;
- continuing to promote the concept of passenger facilitation at the screening checkpoint;
- continuing to increase the efficiency of PBS checkpoints through pilot projects and trials that aim to optimize PBS layouts, such as through the National Checkpoint Optimization Project, as outlined in Chapter 2;
- deployment of liquids, aerosols and gels detection equipment at airports;
- providing screening services for the 2015 Pan American and Parapan American Games; and
- ongoing performance measuring and monitoring.

HBS

With regards to HBS, CATSA's main focus for the five-year planning period will be the continued execution of its HBS life-cycle management program. The implementation of this recapitalization plan began in 2011/12 and will continue over a 10-year period for all Class I, II and select Class III airports. The deployment plan will see all Canadian airports with US pre-clearance facilities provided with the new CT technology by December 2015. This deployment strategy is in support of the *Canada-US Beyond the Border Declaration for a Shared Vision for Perimeter Security and Economic Competitiveness*.

In addition to the above, CATSA's HBS priorities for the planning period will focus on:

- deploying new HBS systems;
- maintaining existing HBS equipment at designated airports;
- testing and evaluation of new equipment and technologies;
- support HBS design activities in later years; and
- ongoing performance measuring and monitoring.

NPS

The ICAO recently adopted a strengthened NPS standard, which came into effect in July 2013. The enhanced standard requires countries to ensure that non-passengers and items they carry are subject to screening and security controls prior to entering security restricted areas serving international civil aviation operations.

In 2013 Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program. This strategy has allowed Canada to meet the enhanced NPS standard.

RAIC

CATSA will continue to deliver and maintain an effective, efficient and reliable biometric credential management system at 29 airports across Canada.

Over the five year planning period, CATSA's RAIC activities will focus on:

- the life-cycle management of the biometric verification hardware and the core IT system infrastructure;
- reviewing the current system's biometric platform to ensure it will meet future business requirements; and
- evaluating novel applications of biometric reader units that can be deployed in a variety of operational environments.

Internal Services

As expressed in the Federal Budget of 2013, the Government of Canada committed to aligning the pension plans of Crown corporations with key features of the Public Service Pension Plan. In support of this commitment, CATSA closed its defined benefit pension plan to new members as of June 30, 2013. A new defined contribution pension plan has been established for new hires as of July 1, 2013.

In addition, in 2012/13, CATSA completed a Total Compensation Review,³ which included benchmarking CATSA's cash compensation, pension and benefits.

Since 2010, CATSA has reduced discretionary spending such as travel and professional services. As CATSA continuously adjusts and strives to enhance its financial agility, the organization will continue to reallocate all available funds towards addressing risk.

³ As part of this review, CATSA's programs were benchmarked against national organizations with 500 or more non-unionized employees ("the market") through Mercer databases. The goal was to analyze CATSA's market positioning and make recommendations for adjustments, if necessary.

4. FINANCIAL ANALYSIS

INTRODUCTION

As outlined in Chapter 1, CATSA, as an agent Crown corporation, is fully funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. Consequently, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

This chapter presents an overview of the organization's funding, as well as CATSA's forecasted financial results and budget for 2013/14, and its financial plan for the five-year period.

4.1 FUNDING OVERVIEW

CATSA's Funding Requirements

Table 1 summarizes CATSA's 2012/13 financial results, its forecasted results for 2013/14, and its financial plan for the period 2014/15 to 2018/19.

	Actual 2012/13	Forecast 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Five Year Total 2014/15 - 2018/19
Operating Expenditures	\$ 473	\$ 477	\$ 545	\$ 543	\$ 608	\$ 491	\$ 491	\$ 2,678
Capital Expenditures	38	83	120	116	118	67	101	522
Total	\$ 511	\$ 560	\$ 665	\$ 659	\$ 726	\$ 558	\$ 592	\$ 3,200

This section provides an overview of the changes to CATSA's funding requirements compared to its approved reference levels.

Enhanced NPS

The ICAO recently adopted an enhanced NPS standard. In support of the strengthened ICAO standard for NPS and security controls, Transport Canada, with the support of CATSA, developed a risk-based strategy to enhance the NPS program and began implementation of this in 2013. The Government of Canada approved the proposed longer-term program and provided funding in the amount of \$282.4M to CATSA over the three-year period 2014/15 to 2016/17⁴. This strategy has allowed Canada to meet the enhanced NPS standard.

HBS Integration Projects

CATSA will seek approval for the re-profile of capital funds over the five-year planning period in order to re-align its annual capital reference levels with its spending profile requirements. The capital adjustments will allow CATSA to address changes to project requirements associated with its multi-year HBS integration projects and to continue supporting the Government of Canada's *Beyond the Border* commitments. The capital adjustments are reflected in CATSA's Financial Plan.

⁴ Access to the 2016/17 funding is subject to demonstrated need in CATSA's Corporate Plan.

In 2013/14, CATSA received Treasury Board approval for a re-profile of capital funds totaling \$7.6M to 2014/15. A majority of the capital re-profile is related to HBS integration projects in order to accommodate project plan changes by airport authorities. CATSA has since identified an additional \$10.9M of HBS capital funds that will require to be re-profiled to 2014/15. CATSA will work with Transport Canada to seek Treasury Board approval for this late re-profile.

4.2 FINANCIAL RESULTS FOR 2013/14 AND THE 2014/15 – 2018/19 FINANCIAL PLAN BY PROGRAM ACTIVITY

Overview

Table 2 summarizes CATSA's financial results for 2012/13, its forecasted financial results and budget for 2013/14, and its 2014/15 – 2018/19 operating and capital plan by program activity.

	Actual 2012/13	Forecast 2013/14	Budget 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Five Year Total 2014/15 – 2018/19
Operating Expenditures									
PBS	\$ 313,672	\$ 296,778	\$ 297,898	\$ 302,993	\$ 289,237	\$ 311,233	\$ 308,902	\$ 306,268	\$ 1,518,633
HBS	94,482	96,141	93,341	108,097	106,228	107,543	109,529	113,540	\$ 544,937
NPS	17,339	37,351	38,122	79,879	99,535	134,603	17,731	17,714	\$ 349,462
RAIC	2,043	2,170	2,234	2,674	1,586	2,147	2,170	2,222	\$ 10,799
Corporate Services	45,751	44,498	45,343	51,844	47,046	52,117	52,297	50,885	\$ 254,189
Total	\$ 473,287	\$ 476,938	\$ 476,938	\$ 545,487	\$ 543,632	\$ 607,643	\$ 490,629	\$ 490,629	\$ 2,678,020
Capital Expenditures									
PBS	\$ 7,135	\$ 9,373	\$ 12,983	\$ 5,840	\$ 3,373	\$ 11,531	\$ 4,015	\$ 17,787	\$ 42,546
HBS	29,218	69,943	83,097	98,182	99,170	105,465	59,642	79,941	\$ 442,400
NPS	-	2,000	2,000	12,312	10,785	-	-	120	\$ 23,217
RAIC	543	33	1,144	1,725	60	60	2,300	2,976	\$ 7,121
Corporate Services	2,381	1,534	2,148	1,465	2,151	1,084	1,520	648	\$ 6,868
Subtotal	\$ 39,277	\$ 82,883	\$ 101,372	\$ 119,524	\$ 115,539	\$ 118,140	\$ 67,477	\$ 101,472	\$ 522,152
Proceeds of Disposal	(879)	(16)	-	-	-	-	-	-	\$ -
Total	\$ 38,398	\$ 82,867	\$ 101,372	\$ 119,524	\$ 115,539	\$ 118,140	\$ 67,477	\$ 101,472	\$ 522,152
Total Expenditures	\$ 511,685	\$ 559,805	\$ 578,310	\$ 665,011	\$ 659,171	\$ 725,783	\$ 558,106	\$ 592,101	\$ 3,200,172

Total forecasted operating expenditures are comparable to budget for 2013/14 while expenditures by program activity vary slightly from plan.

Total forecasted capital expenditures are \$18.5M lower than budget for 2013/14. The variance is largely attributed to delays in HBS integration projects due to changes in airport project plans, and lower Non-Explosives Detection System (EDS) capital spending for PBS. As discussed in Section 4.1, CATSA received Treasury Board approval for a capital re-profile request of \$7.6M to 2014/15. An additional capital re-profile request of \$10.9M related to HBS integration projects will be submitted in the fall of 2014.

The following section provides an overview of the five-year financial plan for each program activity as defined in CATSA's mandate (PBS, HBS, NPS, and RAIC), as well as Internal Services (Corporate Services) as a separate program activity.

PBS

Expenditures for PBS operations account for 56.7% of CATSA's five-year operating plan.

As discussed in Chapter 2, Budget 2010 provided ongoing funding for CATSA. However, due to screening contractor billing rate increases, CATSA's purchasing power will decline over time. Combined with rising passenger volume, this will create pressure on CATSA's PBS screening operations, and passengers will wait longer to be screened. Additionally, the organization will fund changes in HBS procedures through the reallocation of PBS screening hours.

CATSA's capital plan over the five-year period accommodates the ongoing life-cycle management of its PBS equipment. In addition, CATSA will continue to deploy new LAGs technology at PBS checkpoints over the next three fiscal years, which will allow Canada to maintain compatibility with its international partners.

HBS

Expenditures for HBS operations account for 20.4% of CATSA's five-year operating plan.

The operating plan for HBS accommodates the additional screening requirements for changes in HBS procedures. As discussed above, the additional screening hours are funded through the reallocation of PBS budget. The operating plan also provides for ongoing maintenance of CATSA's existing EDS equipment, and supports the deployment of CATSA's new HBS system with CT technology.

CATSA's capital plan continues to focus on the life-cycle management of its HBS system. CATSA's HBS life-cycle management program is a major corporate initiative and represents 84.7% of its capital spending over the five-year planning period. Given the complexity of the life-cycle management of CATSA's HBS system, ongoing changes to the HBS capital plan can be anticipated as airport projects may shift from one year to the next based on an airport's detailed requirements.

NPS

Expenditures for NPS operations account for 13.0% of CATSA's five-year operating plan.

In 2013/14, surplus capital funds were reallocated to the NPS operating and capital budget. The reallocation has allowed CATSA to enhance its NPS screening activity on an interim basis for 2013/14 only, in support of the enhanced ICAO NPS standard. It also enabled CATSA to purchase trace equipment for deployment at the designated restricted area access points at Canada's highest risk airports.

As discussed in section 4.1, CATSA received additional funding over a three-year period to enhance its NPS activities, which will allow Canada to continue to comply with the enhanced ICAO NPS standard.

The operating plan reflects the additional budget requirements to deliver the enhanced NPS program, the majority of which consists of Payments to Screening Contractors.

The capital plan consists primarily of the purchase and deployment of equipment and system infrastructure in support of the enhanced NPS program.

RAIC

Expenditures for RAIC operations account for 0.4% of CATSA's five-year operating plan, and reflect ongoing operational and maintenance requirements for the biometric verification hardware and core IT system infrastructure.

The capital plan for RAIC accommodates the life-cycle management of the RAIC system and equipment deployed at 29 airports across Canada. In addition, the plan provides for the installation of the RAIC system at two additional airports in 2014/15, as part of the enhanced NPS program.

Corporate Services

Expenditures for Corporate Services account for 9.5% of CATSA's five-year operating plan and consist of expenditures associated with support services and systems critical to the efficient and effective delivery of CATSA's core mandate.

The capital plan for Corporate Services consists primarily of investments in CATSA's network and corporate management systems.

4.3 FINANCIAL RESULTS FOR 2013/14 AND THE 2014/15 – 2018/19 FINANCIAL PLAN FOR OPERATING EXPENDITURES

Overview

Table 3 summarizes CATSA's 2012/13 financial results, its forecasted financial results and budget for 2013/14, and its 2014/15 - 2018/19 operating plan by major expenditure category.

	Actual 2012/13	Forecast 2013/14	Budget 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Five Year Total 2014/15 - 2018/19
Operating Expenditures									
SCREENING SERVICES AND OTHER RELATED COSTS	\$ 347,328	\$ 352,994	\$ 352,052	\$ 403,225	\$ 414,794	\$ 468,789	\$ 354,787	\$ 354,913	\$ 1,996,508
Payments to Screening Contractors	342,143	345,132	345,649	394,442	407,632	459,560	348,107	348,107	1,957,848
Uniforms & Other Related Costs	3,386	5,750	4,486	6,314	5,240	6,738	4,654	4,742	27,688
Trace & Consumables	1,799	2,112	1,917	2,469	1,922	2,491	2,026	2,064	10,972
EQUIPMENT OPERATING AND MAINTENANCE	\$ 42,683	\$ 45,409	\$ 44,785	\$ 48,615	\$ 44,610	\$ 45,385	\$ 43,127	\$ 45,317	\$ 227,054
Equipment Maintenance & Spare Parts	41,363	44,037	42,724	46,476	44,020	44,266	42,068	44,381	221,211
Training & Certification	551	603	1,277	742	289	302	226	86	1,645
RAIC	769	769	784	1,397	301	817	833	850	4,198
PROGRAM SUPPORT AND CORPORATE SERVICES	\$ 83,703	\$ 78,548	\$ 80,101	\$ 93,647	\$ 84,228	\$ 93,469	\$ 92,715	\$ 90,399	\$ 454,458
Employee Costs	61,365	56,526	55,801	69,270	59,014	67,849	67,839	66,360	330,332
Professional Services and Other Business Related Costs	5,167	5,710	6,727	7,099	7,259	6,634	6,400	6,000	33,392
Office and Computer Expenses	4,712	4,935	5,361	5,231	5,645	5,656	5,704	5,769	28,005
Communications and Public Awareness	1,077	1,367	1,348	1,300	1,325	1,300	1,300	1,300	6,525
Other Administrative Costs ¹	11,382	10,010	10,864	10,747	10,985	12,030	11,472	10,970	56,204
Subtotal	\$ 473,714	\$ 476,951	\$ 476,938	\$ 545,487	\$ 543,632	\$ 607,643	\$ 490,629	\$ 490,629	\$ 2,678,020
Interest Revenue, Foreign Exchange Gain/Loss, and Net Change in Inventory and prepaids	(427)	(13)	-	-	-	-	-	-	-
Total Operating Expenditures	\$ 473,287	\$ 476,938	\$ 476,938	\$ 545,487	\$ 543,632	\$ 607,643	\$ 490,629	\$ 490,629	\$ 2,678,020

1. Other Administrative costs consist of Insurance, Rent and Facilities, and Network and Telephony.

CATSA's operating plan is comprised of Screening Services and Other Related Costs, Equipment Operating and Maintenance, and Program Support and Corporate Services.

The following section provides a variance analysis of the forecasted financial results compared to budget for 2013/14, and a discussion of the 2014/15 – 2018/19 operating plan for each expenditure category.

4.3.1 SCREENING SERVICES AND OTHER RELATED COSTS

Summary

Screening Services and Other Related Costs consist of the following major cost elements:

- Payments to Screening Contractors;
- Uniforms and Other Related Costs; and
- Trace and Consumables.

Payments to Screening Contractors

Payments to Screening Contractors represent the largest expenditure in CATSA's operating plan. Key cost drivers impacting Payments to Screening Contractors are screening hours and billing rates.

Screening hours are typically impacted by passenger volumes and additional staffing levels resulting from airport expansions. In addition, evolving threats and security incidents can result in new security regulations, which may lead to changes in screening hour requirements.

Billing rates are based on all-inclusive rates paid to screening contractors, as set forth under the terms of CATSA's ASSAs. The ASSAs also include a performance program that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

Uniforms and Other Related Costs

CATSA is responsible for providing uniforms to ensure that screening officers are clearly identified by the public in order to facilitate the effective performance of screening activities. Other Related Costs consist of non-capitalized items deployed at the checkpoints that are used in the screening process and ancillary activities, such as bin and line cleaning.

Trace and Consumables

Trace and consumables consist of items necessary for screening officers to perform their screening activities, and include items such as gloves, swabs and verification filters.

2013/14 Variance Analysis

Screening Services and Other Related Costs are forecasted \$0.9M higher than budget. This is mainly due to higher costs associated with uniforms and other screening related costs, while overall spending on Payments to Screening Contractors is comparable to plan.

Screening hours purchased for HBS were higher than planned in order to meet operational requirements. These additional hours were partly funded by fewer screening hours purchased for PBS through resource scheduling efficiencies that minimized the impact on operations. The remaining HBS hours were funded by fewer NPS screening hours purchased than planned.

Other screening related costs are forecasted higher as follows:

- Uniforms and Other Related Costs are higher than budget due to the purchase and deployment of additional in-feed in-line roller tables at PBS checkpoints to improve operational efficiencies, and the purchase of additional screening officer uniforms to replenish inventory; and
- Trace and Consumables costs are higher than budget reflecting the purchase of consumables inventory, partially offset by favorable vendor pricing and more efficient usage of trace supplies.

2014/15-2018/19 Financial Plan

Payments to Screening Contractors

The five-year budget for Payments to Screening Contractors has been developed based on CATSA's approved reference levels. While Budget 2010 provided ongoing funding for CATSA, due to screening contractor billing rate increases, CATSA's purchasing power will decline over time. Given that the majority of screening activities are carried out at PBS, this is where CATSA has faced the most pressure on its screening operations, and combined with passenger growth, wait times continue to increase. In addition, as discussed in Section 4.2, the additional screening requirements for changes in HBS procedures will be funded through the reallocation of PBS screening hours

The budget for NPS screening hours is developed in consideration of the additional three-year funding received from the Government of Canada for the delivery of the enhanced NPS program. The NPS budget for fiscal years 2017/18 and 2018/19 reverts back to levels prior to the delivery of enhanced NPS.

Uniforms and Other Related Costs

Planned expenditures reflect uniform purchases required to meet operational requirements, including additional requirements for the enhanced NPS program as CATSA ramps up its screening officer workforce. The plan also accommodates the purchase of screening-related items to enhance operational efficiencies and to maintain a common look-and-feel at PBS checkpoints.

The budget spending profile over the next three fiscal years for Uniforms and Other Related Costs mainly reflects the purchase of uniforms for the new screening officer workforce hired to support the enhanced NPS program.

Trace and Consumables

The planned expenditures for Trace and Consumables reflect CATSA's ongoing operational requirements, which include the additional requirements to support the enhanced NPS program. The plan also reflects cost efficiencies generated through more efficient use of trace swabs, as well as favourable pricing from procurement efficiencies.

The budget spending profile over the next three fiscal years mainly reflects the additional budget requirements to support the enhanced NPS program.

4.3.2 EQUIPMENT OPERATING AND MAINTENANCE

Summary

Equipment Operating and Maintenance consists of the following major cost elements:

- Equipment Maintenance and Spare Parts;
- Training and Certification; and
- RAIC Cards.

Equipment Maintenance and Spare Parts

These costs relate to the operation and maintenance of the screening equipment deployed at designated airports, including the purchase and warehousing of spare parts for EDS equipment. Also included in this category are costs relating to the ongoing support and maintenance of RAIC and other Non-EDS equipment.

Training and Certification

These costs relate to the training and certification of maintenance service providers on new EDS technology deployed at the designated airports.

RAIC Cards

RAIC Cards consist of the purchase of cards in support of the existing biometric validation system at Class I and Class II airports, as well as at two additional airports deployed as part of the enhanced NPS program.

2013/14 Variance Analysis

Expenditures for 2013/14 are forecasted \$0.6M higher than budget.

Equipment Maintenance and Spare Parts costs are forecasted \$1.3M higher than budget. This is mainly attributable to an upgrade of the Full Body Scanner Automated Threat Recognition software. This enhancement is expected to reduce false alarm rates and generate efficiencies at Canada's busiest airports. The variance is also attributable to higher spare parts usage due to performance issues on certain EDS equipment.

Training and certification costs are forecasted \$0.7M lower than budget due to reduced training requirements resulting from a revised EDS capital deployment plan.

2014/15-2018/19 Financial Plan

Equipment Maintenance and Spare Parts

Planned expenditures for Equipment Maintenance and Spare Parts take into consideration the costs to support CATSA's existing EDS capital. It also addresses equipment maintenance and support for new EDS deployments planned over the five-year period, including the CT equipment as part of the HBS life-cycle management plan and the new equipment purchased in support of the enhanced NPS program. The budget accommodates annual contractual increases, as per the terms of CATSA's equipment maintenance contracts, as well as an estimated USD exchange rate for US vendor contracts.

The budget also considers costs associated with the ongoing support of Non-EDS capital equipment and systems, including Closed Circuit Television (CCTV), RAIC, and BPSS.

The budget spending profile over the five-year period reflects the additional budget requirements to support the enhanced NPS program. The change in the profile is also impacted by the replacement of legacy EDS equipment with new technology, which is covered under standard warranty terms.

Training and Certification

Planned expenditures reflect training requirements for new EDS technology deployed at airports across Canada. The training plan is aligned with CATSA's EDS capital deployment schedule and is specifically related to:

- new CT equipment as part of the HBS capital life-cycle management plan;
- LAGs technology; and
- ongoing upgrade of trace equipment.

RAIC Cards

Planned expenditures for RAIC reflect the purchase of cards to meet annual operational requirements.

4.3.3 PROGRAM SUPPORT AND CORPORATE SERVICES

Summary

Support services and systems are critical to the efficient and effective delivery of CATSA's mandate and comprise its corporate infrastructure.

Program Support and Corporate Services are categorized as follows:

- Employee Costs;
- Professional Services and Other Business Related Costs;
- Office and Computer Expenses;
- Communications and Public Awareness; and
- Other Costs, which consist of Rent and Facilities, Insurance, and Network and Telephony.

2013/14 Variance Analysis

Program Support and Corporate Services are forecasted \$1.6M lower than budget. The variance is mainly due to reduced spending across various expense categories including Professional Services and Business Related Costs, Office and Computers, and Rent and Facilities. The decrease is partially offset by a higher than planned statutory pension plan solvency deficit payment for CATSA's Registered Pension Plan for calendar year 2014.

Professional Services and Other Business Related Costs are lower than budget due to reduced requirements for external expertise for certain projects resulting from the use of internal resources and project delays. The variance is also due to lower travel costs to support CATSA operations.

Office and Computer costs are lower than planned due to reduced requirements for computer equipment in the fiscal year as part of a revised life-cycle management plan.

The variance is also attributable to lower Rent and Facilities costs mainly due to a prior year credit for operating costs at headquarters, and lower than anticipated costs resulting from the renewal of certain leasing contracts.

2014/15-2018/19 Financial Plan

Employee Costs

The Employee Cost budget accommodates the costs associated with approximately 460 FTE positions, and the addition of 15 new FTE positions by 2016/17 in support of the enhanced NPS program.

The plan provides for annual statutory pension plan solvency deficit payments for CATSA's Registered Pension Plan, which are based on actuarial estimates as at December 31, 2012. The deficit payments amount to \$31.1M over the five-year planning period.

At December 31, 2012, the Registered Pension Plan was in a going concern surplus position of \$2.6M and had a solvency deficit position of \$39.0M. At the time of presenting this corporate plan summary, the 2013 actuarial valuation was being finalized by CATSA's actuaries.

Professional Services and Other Business Related Costs

Planned expenditures for Professional Services focus on specialized technical skills that are not available within the organization. These include external expertise to support CATSA's corporate initiatives including the life-cycle management of CATSA's HBS system, implementation of the enhanced NPS program, as well as initiatives aimed at improving the security screening process at PBS checkpoints.

Planned expenditures for Other Business Related Costs take into consideration travel for operational requirements within the regions, the capital deployment plan, and other operational initiatives, including enhanced NPS. The plan also reflects travel requirements to support the 2015 Pan American/ParaPan American Games in 2015/16.

Office and Computer Expenses

Planned expenditures for Office and Computer reflect ongoing requirements to support CATSA's operations and corporate infrastructure, and accommodate annual increases for software and hardware renewal contracts. The plan also takes into consideration CATSA's life-cycle management plan for computer hardware.

Communications and Public Awareness

Planned expenditures for Communications and Public Awareness are expected to remain constant over the planning period. Media campaigns will continue to leverage data collected through evidence-based activities to target specific groups of passengers.

Other Costs

Planned expenditures for Other Costs take into account CATSA's commercial general liability insurance premiums, and CATSA's office space leases at headquarters and in the regions as per the terms of the leasing contracts. It also accommodates bandwidth requirements to support CATSA's network infrastructure across Canada, including additional bandwidth requirements for the enhanced NPS program over the next three years.

4.3.4 INTEREST REVENUE, FOREIGN EXCHANGE GAIN/LOSS

Overview

Interest revenue represents interest earned on cash deposits. Foreign exchange gains/losses are the result of US dollar expenses and payables being translated at varying exchange rates during the fiscal year. Given that these items are unpredictable in nature, they are not considered in the planning period.

4.4 FINANCIAL RESULTS FOR 2013/14 AND THE 2014/15 – 2018/19 FINANCIAL PLAN FOR CAPITAL EXPENDITURES

Overview

Table 4 summarizes CATSA's financial results for 2012/13, its forecasted financial results and budget for 2013/14, and its 2014/15 – 2018/19 capital plan by major expenditure category.

Summary of the 2014/15 Corporate Plan, Operating and Capital Budgets

TABLE 4

Capital Plan by Major Expenditure Category
(in thousands of dollars)

	Actual 2012/13	Forecast 2013/14	Budget 2013/14	Plan 2014/15	Plan 2015/16	Plan 2016/17	Plan 2017/18	Plan 2018/19	Five Year Total 2014/15 - 2018/19
Capital Expenditures									
EDS CAPITAL									
PBS	\$ 5,692	\$ 7,536	\$ 5,631	\$ 3,051	\$ 2,880	\$ 11,025	\$ 3,500	\$ 16,264	\$ 36,720
HBS	29,218	69,943	83,097	98,182	99,170	105,465	59,642	79,941	442,400
NPS	-	1,788	2,000	8,808	6,151	-	-	120	15,079
Total EDS Capital	\$ 34,910	\$ 79,267	\$ 90,728	\$ 110,041	\$ 108,201	\$ 116,490	\$ 63,142	\$ 96,325	\$ 494,199
NON-EDS CAPITAL									
PBS	\$ 1,443	\$ 1,837	\$ 7,352	\$ 2,789	\$ 493	\$ 506	\$ 515	\$ 1,523	\$ 5,826
NPS	-	212	-	3,504	4,634	-	-	-	8,138
RAIC	543	33	1,144	1,725	60	60	2,300	2,976	7,121
Corporate Services	2,381	1,534	2,148	1,465	2,151	1,084	1,520	648	6,868
Total Non-EDS Capital	\$ 4,367	\$ 3,616	\$ 10,644	\$ 9,483	\$ 7,338	\$ 1,650	\$ 4,335	\$ 5,147	\$ 27,953
Proceeds of Disposal	(879)	(16)	-	-	-	-	-	-	-
Total Capital Expenditures	\$ 38,398	\$ 82,867	\$ 101,372	\$ 119,524	\$ 115,539	\$ 118,140	\$ 67,477	\$ 101,472	\$ 522,152

CATSA's capital plan is comprised of EDS and non-EDS capital expenditures.

EDS capital expenditures consist of the acquisition of explosives detection systems equipment for PBS, HBS and NPS, and its associated installation and integration costs. Non-EDS capital expenditures consist primarily of the acquisition of equipment and other capital costs incurred to support screening operations, the RAIC system, and CATSA's network infrastructure and corporate management systems.

The following section provides a variance analysis of the forecasted financial results compared to budget for 2013/14, and a discussion of the 2014/15 – 2018/19 financial plan for EDS and non-EDS capital.

4.4.1 EDS Capital

Summary

The key considerations in developing the EDS capital plan are as follows:

- keeping up-to-date with advances in technology to maintain compatibility with international partners;
- replacing equipment that is reaching the end of its useful life;
- equipment requirements to support new security regulations; and
- ensuring that required capacity at airports can be met through the integration of additional screening equipment.

2013/14 Variance Analysis

As discussed in Section 4.1, CATSA received Treasury Board approval for the re-profile of capital budget in the amount of \$7.6M from 2013/14 to 2014/15. The majority of the re-profiled funds (\$5.0M) is associated with capital spending for HBS integration projects that are postponed due to changes in airport project plans, beyond CATSA's control. The balance of the re-profiled funds (\$2.6M) relates to non-EDS projects.

Subsequently, CATSA identified further delays in capital spending of \$10.9M associated with HBS integration projects which will be submitted for re-profile to 2014/15.

After taking into consideration the above capital re-profiles, EDS capital expenditures are forecasted \$4.5M higher than budget. The additional funds were made available through the reallocation of Non-EDS capital budget and were invested as follows:

- purchase of additional LAGs equipment at PBS checkpoints resulting from the expansion of the LAGs program developed in collaboration with Transport Canada and CATSA's international partners;
- deployment of capital equipment to enhance passenger divestiture and throughput; and
- purchase of EDS equipment initially planned for 2014/15 to support HBS integration projects.

In line with its capital budget for NPS, CATSA purchased new trace equipment at the NPS checkpoints at Canada's highest risk airports

2014/15-2018/19 Financial Plan

EDS capital expenditures represent 94.6% of CATSA's capital budget over the planning period.

The EDS capital plan is primarily focused on the life-cycle management of CATSA's HBS system. The deployment plan for the new HBS system was developed based on a ten-year implementation schedule and has been revised to align with changes in airport project plans. The capital plan will allow CATSA to maintain HBS equivalency with its international partners.

The deployment of the new HBS system at Transborder checkpoints was accelerated in support of the *Canada-US Beyond the Border Declaration for a Shared Vision for Perimeter Security and Economic Competitiveness*. This initiative will eliminate the need for the US Transportation Security Administration to re-screen connecting baggage originating from Canadian airports with US pre-clearance facilities by December 2015.

The capital plan also supports the ongoing life-cycle management of its PBS screening equipment and the continued deployment of LAGs equipment at PBS checkpoints. In 2018/19, CATSA will begin the life-cycle management of PBS equipment nationwide.

Finally, the capital plan reflects the deployment of new equipment at NPS access points as part of the enhanced NPS program.

4.4.2 Non-EDS Capital

Summary

The Non-EDS capital plan supports CATSA's operations at headquarters and in the regions. These capital expenditures consist primarily of the purchase of Non-EDS equipment and associated costs to support:

- CATSA's screening operations;
- the RAIC system;
- corporate management systems; and
- CATSA's network infrastructure.

2013/14 Variance Analysis

After taking into consideration the capital re-profile of \$2.6M to 2014/15, Non-EDS capital expenditures for 2013/14 are forecasted \$4.5M lower than budget.

The capital re-profile of \$2.6M consists of \$1.1M for RAIC handheld readers due to an extended procurement process, and \$1.5M resulting from delays in operational trials which impacted the launch of a pilot project aimed at improving the security screening process.

The variance of \$4.5M is mainly attributable to lower spending related to the security screening process improvement project. The surplus funds were reallocated to other EDS corporate initiatives.

During fiscal 2013/14, CATSA completed the following non-EDS capital projects:

- completion of the deployment of BPSS at a select number of Class II airports in order to permit PBS data collection, including passenger throughput and customer wait time metrics;
- continued investment in the life-cycle management of CCTV cameras; and
- enhancements to key corporate management systems.

2014/15-2018/19 Financial Plan

The plan for non-EDS capital will continue to address CATSA's operational and security enhancements directed towards improving efficiency and effectiveness. In particular, CATSA will be implementing a pilot project that combines several security screening concepts into one integrated solution at PBS checkpoints.

The plan also accommodates the replacement of RAIC handheld readers and the life-cycle management of the RAIC biometric platform. It also supports the installation of the RAIC system at the two additional airports in support of the enhanced NPS program.

Additional non-EDS capital projects planned over the five-year period include, but are not limited to:

- deployment of network and system infrastructure at NPS access points as part of the enhanced NPS program;
- continued upgrades and replacement of podiums and kiosks for BPSS, which provide CATSA with improved passenger data to optimize resource utilization; and
- ongoing life-cycle management of CATSA's network infrastructure and the CCTV program.

4.4.3 DISPOSAL OF CAPITAL ASSETS

OVERVIEW

CATSA manages its assets, including asset disposal, as part of a life-cycle management regime. The disposal of assets is governed by corporate policy and procedures that ensure compliance with applicable legislation and regulations concerning the disposal of Crown assets. In some cases, the organization will incur costs to dispose of assets in compliance with environmental laws and regulations. A decommissioning liability will be recorded to address these costs.

Proceeds from disposals during the planning period are not expected to be material. Accordingly, such amounts have not been included in the planning period. Disposal proceeds will be fully accounted for in accordance with International Financial Reporting Standards.