

Minister of Transport



Ministre des Transports

Ottawa, Canada K1A 0N5

The Honourable Kevin Sorenson  
Chair  
Standing Committee on Public Accounts  
House of Commons  
Ottawa, ON K1A 0A6

Dear Colleague:

Pursuant to Section 109 of the Standing Orders of the House of Commons, I am pleased to provide the Government of Canada's response to the 20<sup>th</sup> Report of the House Standing Committee on Public Accounts, "Special Examination Report – Atlantic Pilotage Authority, of the Fall 2016 Reports of the Auditor General of Canada" tabled in the House of Commons on February 13, 2017.

I appreciate and value the important work undertaken by this Standing Committee in conducting a review of the performance audit of the Auditor General of Canada, which examined whether the systems and practices selected for examination at the Atlantic Pilotage Authority provide the corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

The Government is pleased to report back to the Standing Committee on its two recommendations. To this end, the actions annexed to this letter detail the specific activities that the Atlantic Pilotage Authority has undertaken, or will undertake, in response to the findings identified by the Auditor General, building on current progress.

I would like to thank you and the members of the Standing Committee for this important work.

Yours sincerely,

A handwritten signature in blue ink that reads "Marc Garneau".

The Honourable Marc Garneau, P.C., M.P.  
Minister of Transport

Enclosure

Canada

**Annex to the Government Response: Atlantic Pilotage Authority**

<b>Standing Committee on Public Accounts (PACP) Recommendation:</b>	
<b>Recommendation 1:</b> The <i>Atlantic Pilotage Authority</i> needs to provide the Committee with a report outlining the criteria and the processes that it has put in place to ensure that its tariffs enable financial self-sufficiency.	
Response from the Atlantic Pilotage Authority (Authority) to the PACP recommendation	<p>The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of a port’s operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.</p> <p>A focus for the Authority in 2016, was to reduce administration and dispatch costs. Operating costs are more difficult to cut without negatively affecting fulfillment of the Authority’s mandate. The Authority was able to reduce its administration and dispatch costs by 13.8% from 2015 levels, leading to a reduction in total expenses of 1.6% from 2015, and finishing 2016 with expenses 2.9% under budget.</p> <p>The tariffs that were in effect for 2016, combined with cost containment actions, resulted in the Authority finishing the year with a profit of \$1.2 million. This 2016 profit offsets the \$1.21 million of losses accumulated over the four-year period that was the focus in the special examination. This has allowed the Authority to replenish its capital reserves and would allow the Authority to meet its obligations, if there were another short-term economic downturn.</p> <p>During the Authority’s 2016 strategic management sessions held with the Board of Directors, the Authority developed a set of objectives and criteria for capital management. These objectives were designed to ensure long-term financial self-sufficiency and include:</p> <ul style="list-style-type: none"> <li>a) Maintaining a reserve fund to allow the Authority to remain financially sound during economic downturns.</li> <li>b) Maintaining sufficient reserves for an unfunded liability pertaining mainly to severance payments.</li> <li>c) Maintaining the financial capacity to borrow or fund the cost of acquiring new pilot boats.</li> </ul>

With these objectives in place, criteria were set as annual measures. These measures include:

- a) At each year-end, the Authority will have current assets equal to at least twice the current liabilities. This would provide reserves to remain financially sound during economic downturns or unforeseen changes in traffic.
- b) The Authority will contribute a minimum of \$200,000 (less annual payouts) annually to a savings account targeted for the currently unfunded severance liability. These savings would continue until the savings reach the current value of the liability.
- c) The Authority will contribute a minimum of \$200,000 annually to a pilot boat replacement fund.

Meeting these criteria on an annual basis will demonstrate the Authority's financial self-sufficiency. These targets have also been included in the annual performance goals and objectives of the appropriate senior executives and managers.

To reach these annual goals consistently, the targeted profit margins were set at between \$800,000 and \$1.2 million, or between 3.5% and 5.0% of revenue, with 5.0% being the longer term annual goal. This would allow for \$400,000 in minimum savings and provide between \$400,000 and \$800,000 for variances from the plan or lost activity as a result of lower traffic volumes.

In September 2016, a corporate plan for 2017-2021 was submitted which contained these objectives and goals. The plan continues the cost containment measures and includes a two-year tariff proposal. The annual margins in the plan meet the Authority's goals while also allowing for investments in additional pilot boats, advanced technology, and match the users desired service levels.

Stakeholders have supported the Authority's planned investments and tariff increases and the tariff proposal passed without objection. The 2017 increases were effective on March 23, 2017, and the 2018 rates will be effective on January 1, 2018.

Future Actions:

	<ul style="list-style-type: none"> <li>• The Authority’s results as compared to plan are reported to the Board of Directors on a monthly basis, with more detailed reporting and analysis provided on a quarterly basis.</li> <li>• Financial self-sufficiency has been rated as a higher risk on the Authority’s Enterprise Risk Framework. The status of each risk and mitigation is reported directly to the risk committee twice annually.</li> <li>• At the annual strategic sessions, the effectiveness and achievement of these goals will be reviewed, and adjustments made, if necessary.</li> <li>• The Authority will continue to reach out to stakeholders, including port authorities, during consultation meetings and direct communications, to solicit feedback on projected changes to future volumes or activity.</li> <li>• Corporate plans will include cost containment to assure the Authority is operated efficiently. A performance goal was set for administration overhead to be no higher than 9% of revenues.</li> <li>• Multi-year tariffs will continue to be proposed that meet the Authority’s targeted rate of return. The multi-year tariff mitigates the possibility of lost revenues as a result of the tariff approval process.</li> </ul>
<b>PACP Recommendation:</b>	
<b>Recommendation 2:</b> The <i>Atlantic Pilotage Authority</i> needs to ensure that it has in place proper contracts with entrepreneurial pilots that clearly specify key terms and conditions, and to provide the Committee with a report detailing what progress has been made in this area.	
Response from the Authority to the PACP recommendation	<p>The Authority currently has a total of nine entrepreneurial pilots in six separate locations in four provinces. The breakdown is as follows:</p> <p>Restigouche, New Brunswick – One pilot  Miramichi, New Brunswick – One pilot  Pugwash, Nova Scotia – One pilot</p>

	<p>Charlottetown, Prince Edward Island and Confederation Bridge, Prince Edward Island – Two pilots Voisey’s Bay, Newfoundland – Four pilots.</p> <p>In some of the above areas, traffic is very light. For example, in 2016 there were only two ships calling in Restigouche, New Brunswick, five ships calling in Miramichi, New Brunswick, and seven ships calling at Voisey’s Bay, Newfoundland. In total, the six locations provided 3.5% of the total revenue for the year.</p> <p>Licensed pilots in these areas derive only a portion of their income from piloting, with most having other interests that provide their primary income. These other interests include stevedoring, tug operations, fishing, teaching at a nautical school, and other means of livelihood. In some cases, the entrepreneur pilots are former employee pilots who have retired and are receiving a pension. The entrepreneurial pilots receive a portion of the tariff received for the pilotage service.</p> <p>The Authority has sought legal advice with respect to establishing contracts with entrepreneurial pilots and the Authority will continue to meet with counsel to discuss potential options for contracts. Following these discussions, the Authority is planning to meet with the entrepreneurial pilots to discuss the current situation and would present draft contracts for their consideration. It is expected that the pilots may wish to obtain legal advice, and depending on the complexity of the discussions, it is possible that these steps may delay the Authority’s timelines. The Authority will strive to have contracts in place by summer 2017.</p>
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